

Challenges for Economic Growth in the Alleghany Highlands

Prepared for the Alleghany Foundation



K. W. Poore & Associates, Inc.

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EXECUTIVE SUMMARY

In recent years a number of studies have been conducted and reports generated that have attempted to address the various pressing community concerns and needs in the Allegheny Highlands. Those studies have looked at topics ranging from school efficiency to economic development.

While each of these reports has been very helpful, they may have created “data overload.” Too much data can often mask the real import of the most important data. Also, attempting to use data to inform decision-making processes can create a “silo” mentality unless the various data is examined to discover where one factor or trend affects another. Researching and making decisions in a silo can lead to missed opportunities due to unseen, unexamined, or misunderstood data, or worse, a collision of causes competing for the same resources utilizing “their” data to make their case.

The Allegheny Foundation determined that reviewing the various data included in these reports and in particular, examining the points at which the data from the reports intersect, would be a necessary part of making good decisions for the future. In the process of this study, the Foundation also determined that this examination would not only be helpful to its decision-making, but might also provide useful information for the community as well.

Of particular concern to the Foundation at this point in the history and development of the Allegheny Highlands is the lack of sustained economic growth and the potential ripple effects of the downward economic trend that has plagued the community in recent years. Even as the

TREND #1: DECLINING POPULATION

Findings:

- The population of the Allegheny Highlands is projected to continue declining over the next 30 years.
- The workforce age population is projected to decline at a faster pace than the overall population over the next 30 years.
- The number of older adults is projected to grow significantly over the next 30 years.
- The number of children will decrease only slightly over the next 30 years.
- Income levels for the Allegheny Highlands lag behind the region and the Commonwealth.

Implications:

- Because of the declining workforce age population, it will be increasingly difficult to recruit new businesses to the Allegheny Highlands.
- Because of the growing elderly population and the low income levels, local governments in the Allegheny Highlands will have an increasingly difficult time raising needed funds.
- Because of a fairly stable number of school age children, even with a declining population overall, the cost of operating the schools will likely be the most difficult service for the local governments to maintain.

TREND #2: DECLINING EMPLOYMENT

Findings:

- The workforce of the Allegheny Highlands is continuing to shrink due to the decline in persons age 16 and over, the overall decline of the Civilian Labor Force and the low Labor Force Participation Rate.

Foundation has invested millions of dollars in the community, the economy of the area has continued to slide. Therefore, the Foundation leadership concluded that this new report should seek to weave the various data streams together around a focus on their impact on economic development and the ability of the community to put itself on a stronger economic footing.

Of utmost concern to the Foundation is discovering ways it can utilize its resources to help the Allegheny Highlands move toward becoming the community local leadership envisions in ten, twenty, or thirty years rather than moving haphazardly into the future. What trends today will have to be overcome to create the community leadership envisions for tomorrow? What are the trends today that can be built on in order to create a brighter future? What direction and decisions being implemented today will make for a brighter future tomorrow? What direction and decisions might not? And ultimately, what new directions and actions need to be undertaken in order to establish the desired future?

In July 2007 the Allegheny Foundation secured the services of K. W. Poore & Associates, Inc. to assist in compiling, reviewing and analyzing the data from the previous reports and to research additional relevant data for use by the Foundation in allocating its resources. K. W. Poore staff spent many hours analyzing the data provided through the previous reports, gathered additional data about the area and its various localities and interviewed local government staff and other community leaders.

This report uses the 22nd *Annual Corporate Survey, 2007* from Area Development magazine which outlines the factors that lead a company to locate in an area as a

- The Allegheny Highlands is suffering from both unemployment and underemployment.
- The manufacturing industry in the Allegheny Highlands is over-represented and will likely continue to decline.
- Other business and industrial sectors are underrepresented in the local economy.
- The Allegheny Highlands is relatively isolated from other local economies.

Implications:

- Because of the declining workforce, it will be increasingly difficult to recruit new businesses to the Allegheny Highlands.
- As employment opportunities in the Allegheny Highlands become more limited, a growing percentage of the workforce will either have to relocate or commute greater distances to find work.
- The unemployed and underemployed and their families will be increasingly stressed resulting in a higher rate of social problems in the community and a greater need for intervention and assistance.

CHALLENGE #1: CREATING ECONOMIC OPPORTUNITY

Findings:

- Recruiting new industry is a very competitive process with many “losers” for every “winner.”
- The Allegheny Highlands Regional Commerce Park is lacking key infrastructure needed for successfully recruiting new industry. Its lack of construction-ready sites is an additional hindrance.
- The Allegheny Highlands Comprehensive Economic Development Strategy presents a very balanced approach of “home grown” and recruited business and industry, but at a cost of \$64 million.
- The Allegheny Highlands lags behind neighboring counties in tourism related revenue due to the lack of income-producing tourism assets.

jumping off place. From this jumping off place, an examination is conducted of the toughest trends that must be turned around and the greatest challenges that must be tackled in order to make the Allegheny Highlands a more desirable place to start and/or relocate a business. This report is not written in a vacuum. In fact, it is informed from the very beginning by the previously gathered data, insight provided by interviews with community leaders, and K. W. Poore's initial analysis of the community.

Each section of this report ends with a one page outline of "findings" and "implications." One way to think of the findings is that they are the "what?"—What is the data telling us? The implications are the "so what?"—What does this data mean for the future? The findings and implications should provide guidance to determining "now what"—In light of the data and the analysis of the data, what ought we plan for and seek to do in the future?

The findings and implications of this report have been running in a column adjacent to this text and continued on the following pages. This Executive Summary does not allow for a review of the data behind these findings and implication. The reader is encouraged to read the full report to get a full understanding of the data from which they were birthed.

The Allegheny Foundation's primary purpose in commissioning a study by K. W. Poore & Associates, Inc. was to have current and meaningful data and information to assist in making the best possible decisions about direction and funding. This report sets forth the findings and their implications as the first phase of the study. As the report came together, the Foundation's Board of Directors felt that the findings and implications of the

Implications:

- Unless improvements are made to the Allegheny Highlands Regional Commerce Center, industrial prospects will continue to bypass the Center for other, more competitive industrial parks and communities.
- The Allegheny Highlands will face a significant challenge in securing grants and raising the local revenue needed to put in place the strategies, key infrastructure and enhanced public utilities needed for sustained economic development.
- Pending Commonwealth of Virginia sponsored projects and "home grown" tourism efforts have the potential of increasing the tourism industry in the Allegheny Highlands.

CHALLENGE #2: OFFERING A STRONG HOUSING MIX

Findings:

- Housing units in the Allegheny Highlands have shown modest growth in the past 25 years, after showing losses in Clifton Forge and Covington between the 1990 and 2000 censuses.
- There is relatively little new housing in the area. The majority of housing was built before 1980. Much of the housing is in poor condition.
- Housing is predominately single-family, with relatively little multi-unit housing available in the area.
- Homeownership rates are about average with the exception of Allegheny County with an exceptionally high homeownership rate of 85%.
- Housing affordability is not a huge problem in the Allegheny Highlands, though data suggests owning a home is less affordable than renting.

Implications:

- The predominately single-family housing stock may inhibit retention of younger and older residents who have different housing preferences not available in the area.

report were so significant that the report should be made available to the community.

This report identifies challenges facing the Allegheny Highlands, including financial challenges. K. W. Poore is currently preparing an additional report as a second phase of its study to identify potential efficiencies that might be accomplished to help meet these challenges. That report will also be presented to the community.

- It is likely that a number of people commuting to the Allegheny Highlands for work, but living in neighboring counties are doing so because of an inadequate local housing mix.
- The lack of multi-unit housing, new or rehabilitated housing and higher end housing is likely inhibiting the economic growth of the Allegheny Highlands.
- Housing units in poor, dilapidated, or blighted condition damage the quality-of-life of residents and area a drag on the local economy because of the negative impression they create for the community.

CHALLENGE #3: PROVIDING QUALITY PUBLIC SCHOOLS

Findings:

- Standards of Learning assessment scores show Allegheny County Public Schools (ACPS) and Covington City Public Schools (CCPS) to be about average compared to similar school districts and the Commonwealth.
- Attainment of bachelor's and master's degrees is significantly lower in the Allegheny Highlands than the statewide average.
- Continuing education opportunities in the region are limited to associate's degrees and reflect the local manufacturing economy.
- Analysis of expenditures per student suggests potential savings in shared services between ACPS, CCPS, Allegheny County and Covington.
- Outdated school facilities need replacement in both ACPS and CCPS, but will prove to be expensive to build.

Implications:

- Even though certain school facilities are dated and need replacement, ACPS and CCPS are offering good, basic educational opportunities that are attractive to families and industry.
- At the same time, limited post secondary educational opportunities are likely to discourage companies and younger workers from locating in the Allegheny Highlands.

- Increased cooperation among ACPS, CCPS, Alleghany County and Covington would potentially provide savings that could be used to service debt associated with the construction of new schools or to provide additional educational opportunities in the Alleghany Highlands.

CHALLENGE #4: KEEPING TAXES LOW

Findings:

- Alleghany and Covington currently have tax rates that are competitive and are equal to or close to those of similar communities.
- The current debts and debt service for Alleghany County and Covington are reasonable and in keeping with similar communities and suggested policy.
- New and pending capital projects and their associated debt service in both Alleghany County and Covington will lead to future debt loads significantly higher than suggested policy and norms for similar locations.
- New and pending capital projects and their associated debt service will increase the pressure on both Alleghany County and Covington to increase tax rates.

Implications:

- While new and pending capital projects are necessary to provide better schools, improve utilities and enhance the competitiveness of the Alleghany Highlands, the likely increases in taxes required to service their associated debt will likely decrease the competitiveness of the area.
- Both Alleghany County and Covington will likely be forced to reduce staff, operating budgets and services in order to handle the additional debts being incurred for new and pending capital projects.
- Alleghany County and Covington may elect to find additional means of cooperating and sharing services in order to avoid cuts in services and to free up resources for debt service.

INTRODUCTION

The Genesis of This Study

In recent years a number of studies have been conducted and reports generated that have attempted to address the various pressing community concerns and needs in the Alleghany Highlands. Those studies have looked at topics ranging from school efficiency to economic development. Included among the reports generated by these studies are:

- *Recreation, Image & Economic Development Priorities for the Alleghany Highlands*, Brian Wishneff & Assoc., October 2001
- *Alleghany Highlands Regional Telecommunications Plan*, Roanoke Valley-Alleghany Regional Commission, September 2004
- *Alleghany Highlands Comprehensive Economic Development Strategy (CEDS)*, Roanoke Valley-Alleghany Regional Commission, June 2006 with a 2007 Annual Report
- *School Efficiency Review in Alleghany County Public Schools*, Evergreen Solutions, LLC, February 2007
- *School Efficiency Review in Covington City Public Schools*, Evergreen Solutions, LLC, February 2007
- *Joint Covington & Alleghany High School Study*, OWPR Architects & Engineers, February 2007
- *Facility Evaluation for Alleghany High School*, RRMM Architects, September, 2005 updated in October 2007
- *Proposed New Alleghany High School Site/Facility*, Moseley Architects, October 2007

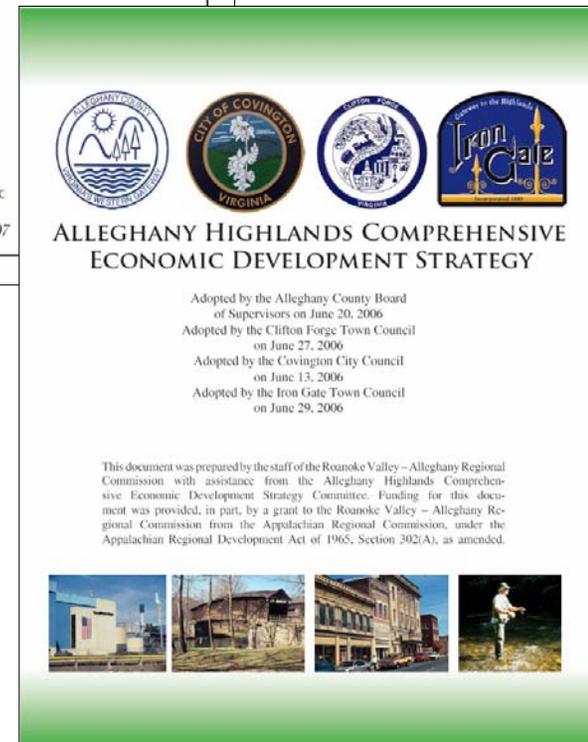
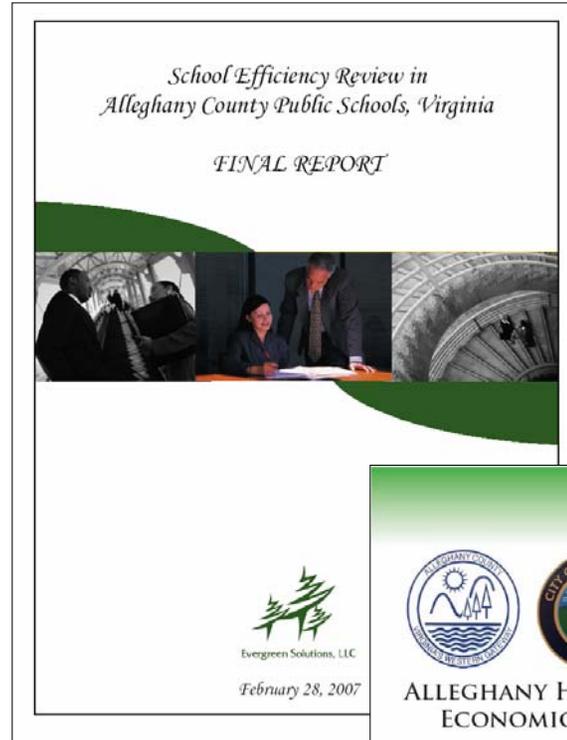


- *Financial Analysis and Debt Capacity of Alleghany County, A Preliminary Review, Morgan Keegan & Company, Inc. , October 2007*

While each of these reports has been very helpful, they may have created “data overload.” Too much data can often mask the real import of the most important data. Also, attempting to use data to inform decision-making processes can create a “silo” mentality unless the various data is examined to discover where one factor or trend affects another. Researching and making decisions in a silo can lead to missed opportunities due to unseen, unexamined, or misunderstood data, or worse, a collision of causes competing for the same resources utilizing “their” data to make their case.

The Alleghany Foundation determined that reviewing the various data included in these reports and, in particular, examining the points at which the data from the reports intersect, would be a necessary part of making good decisions for the future. In the process of this study, the Foundation also determined that this examination would not only be helpful to its decision-making, but might also provide useful information for the community as well.

Of particular concern to the Foundation at this point in the history and development of the Alleghany Highlands is the lack of sustained economic growth and the potential ripple effects of the downward economic trend that has plagued the community in recent years. Even as the Foundation has invested millions of dollars in the community, the economy of the area has continued to slide. Therefore, the Foundation leadership concluded that this new report should seek to weave the various data streams together around a focus on their impact on



economic development and the ability of the community to put itself on a stronger economic footing.

Of utmost concern to the Foundation is discovering ways it can utilize its expertise and resources to help the Allegheny Highlands move toward becoming the community local leadership envisions in ten, twenty, or thirty years rather than moving haphazardly into the future. What trends today will have to be overcome to create the community leadership envisions for tomorrow? What are the trends today that can be built on in order to create a brighter future? What direction and decisions being implemented today will make for a brighter future tomorrow? What direction and decisions might not? And ultimately, what new directions and actions need to be undertaken in order to establish the desired future?

The Methodology of this Study

In July 2007 the Allegheny Foundation secured the services of K. W. Poore & Associates, Inc. to assist in compiling, reviewing and analyzing the data from the previous reports and to research additional relevant data for use by the Foundation in allocating its resources. Founded in 1978, K. W. Poore is a planning firm located in Richmond whose staff has a combined seventy-five years of experience in community planning, economic development planning, and the implementing of grant-funded community development projects.

K. W. Poore staff spent many hours analyzing the data provided through the previous reports and gathered additional data about the area and its various localities. Staff reviewed the budgets and capital improvement plans of Allegheny County, Covington, and Clifton Forge and reviewed the budgets of the two school systems as well



as their construction plans. The comprehensive plans for Alleghany County and Covington were examined as well. Additional research was conducted to gather additional local, regional, and statewide data that might be helpful to understanding the community.

K. W. Poore staff interviewed the managers/administrators from the several localities that make up the Alleghany Highlands, the two school superintendents and the Executive Director of the Chamber of Commerce. Interviews were conducted with economic development leaders including the new Executive Director of the Alleghany Highlands Economic Development Corporation, the Economic Resources Planner for the Roanoke Valley-Alleghany Regional Commission and staff of the Virginia Economic Development Partnership. Also, staff spent time in the area getting to know its unique assets and problems.

Beginning in December 2007, K. W. Poore & Associates began sharing the data and intersections points with the leadership of the Foundation for their input and feedback. The Foundation has been active in overseeing the preparation of this report.

The “Jumping Off Place” for this Report

On the next page can be found the results of Area Development magazine’s 22nd Annual Corporate Survey, 2007 that outlines the factors that are most important to business and industry when considering moving or starting a business in a given area. As can be seen in the table, Site Selection Factors and Quality-of-Life Factors all play a role in such decisions, though the authors of the report indicated that the Site Selection Factors trump the Quality-of-Life Factors. The authors also indicated that



the speed with which a new site/facility can be made operational and the cost of operations are ultimately most important. As can be seen from the table, many of the higher ranked Site Selection Factors are directly or indirectly cost-related.

Some of the factors are what they are for the Allegheny Highlands and likely will not change. Examples include the limited amount of available land (Site Selection Factor #6) because of the topography of the area, the “high” presence of union representation versus the “Low union profile” (Site Selection Factor #12), or the climate (Quality-of-Life Factor #6). Other factors can be changed, such as tax rates and financial incentives (Site Selection Factors #7, #8, #10), availability of the appropriate labor pool (Site Selection Factors #4, #17, #20), housing (Quality-of-Life Factors #3 & #4), or schools (Quality-of-Life Factor #2).

This report will use the “22nd Annual Corporate Survey, 2007” as a jumping off place to examine the toughest trends that must be turned around and the greatest challenges that must be tackled in order to make the Allegheny Highlands a more desirable place to start and/or relocate a business. This report is not written in a vacuum. In fact, it is informed from the very beginning by the previously gathered data, insight provided by interviews with community leaders, and K. W. Poore’s initial analysis of the community.

The Format of this Report

This report is laid out to be easily read with as many visual representations of the data as possible. It therefore concentrates as much space as possible to graphs, maps, and other graphic presentations of data with as little use

Ranking of Site Selection & Quality-of-Life Factors, 2007

| Ranking | Factor |
|--------------------------------|------------------------------------------------------------|
| Site Selection Factors | |
| 1. | Highway accessibility |
| 2. | Labor costs |
| 3. | Energy availability and costs |
| 4. | Availability of skilled labor |
| 5. | Occupancy or construction costs |
| 6. | Available land |
| 7. | Corporate tax rate |
| 8. | State and local incentives |
| 9. | Environmental regulations |
| 10. | Tax exemptions |
| 10T. | Proximity to major markets |
| 11. | Available advanced information & communications technology |
| 12. | Low union profile |
| 13. | Availability of buildings |
| 14. | Right-to-work state |
| 15. | Proximity to suppliers |
| 16. | Expedited or "fast-track" permitting |
| 17. | Availability of unskilled labor |
| 18. | Availability of long-term financing |
| 19. | Raw materials availability |
| 20. | Training programs |
| 21. | Accessibility to major airport |
| 22. | Railroad service |
| 23. | Proximity to technical university |
| 24. | Waterway or ocean port accessibility |
| Quality-of-Life Factors | |
| 1. | Low crime rate |
| 2. | Ratings of public schools |
| 3. | Housing availability |
| 4. | Housing costs |
| 5. | Health facilities |
| 6. | Climate |
| 7. | Cultural opportunities |
| 8. | Colleges and universities in area |
| 9. | Recreational opportunities |

of data tables as possible. Also, it is laid out with the text to the left and corresponding data to the right for ease of viewing both the commentary and the data at the same time with as little confusion as possible. Other than the Executive Summary, each section of this report ends with a one page outline of the “findings” and “implications.” The intent of this format is to make the final analysis in each section as quickly accessible as possible. One way to think of the findings is that they are the “what?”—What is the data telling us? The implications are the “so what?”—What does this data mean for the future? The findings and implications should provide guidance to determining “now what?”—In light of the data and the analysis of the data, what ought we plan for and seek to do in the future?

Outlined to the right and in the table of contents is how this report is organized. Hopefully this layout will aid the reader in thinking critically and strategically about the challenges to economic development that the Allegheny Highlands is facing and begin to frame some solutions to those challenges.

Executive Summary

Introduction



Toughest Trends

Trend #1: Declining Population

Trend #2: Declining Employment



Greatest Challenges

Challenge #1: Creating Economic Opportunity

Challenge #2: Offering a Strong Housing Mix

Challenge #3: Providing Quality Public Schools

Challenge #4: Keeping Taxes Low



TREND # I: DECLINING POPULATION

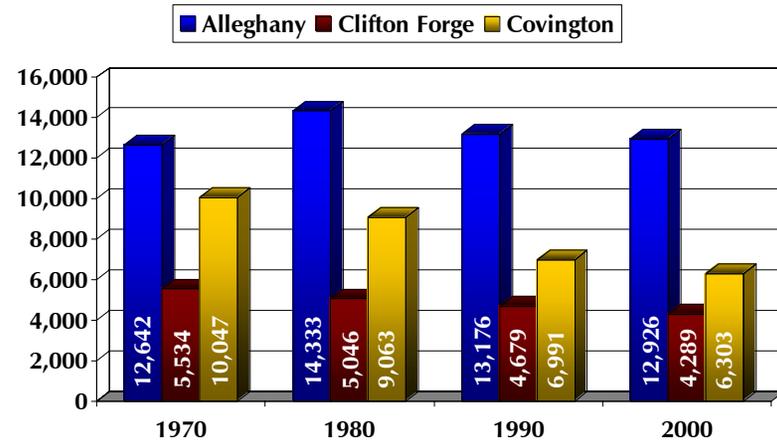
Among the basic data that needs to be considered in any analysis of a community's situation are the characteristics of the general population, current and future, along with some understanding of past trends. Additionally, the data needs to be examined in comparison to regional and statewide trends in order to fully understand it within a broader context. While not an exhaustive demographic study, the following examination will explore those data points that might best illuminate the most important demographic factors that will impact the community and economic development needs of the Allegheny Highlands in the future. In all data after 2000 and in data outlining future trends with a base year of 2000, the population for Allegheny County includes the population of Clifton Forge in light of the reversion of Clifton Forge to town status in 2001.

General Population Trends

The population trends from 1970 through 2000 showed declining population for both Clifton Forge and Covington. Over those thirty (30) years Covington's population decreased by 3,744 persons, a decline of 37.3% (an average decline of 12.4% per decade). Clifton Forge's population decreased by 1,245 persons, a decline of 22.5% (an average decline of 7.5% per decade). Allegheny County's population increased 4.2% from 1970 to 1990, but then declined 1.9% in the 1990's leading to a population increase of only 284 persons (+2.2%) from 1970 to 2000. In contrast the population of Virginia grew 52.2% during the same time period.

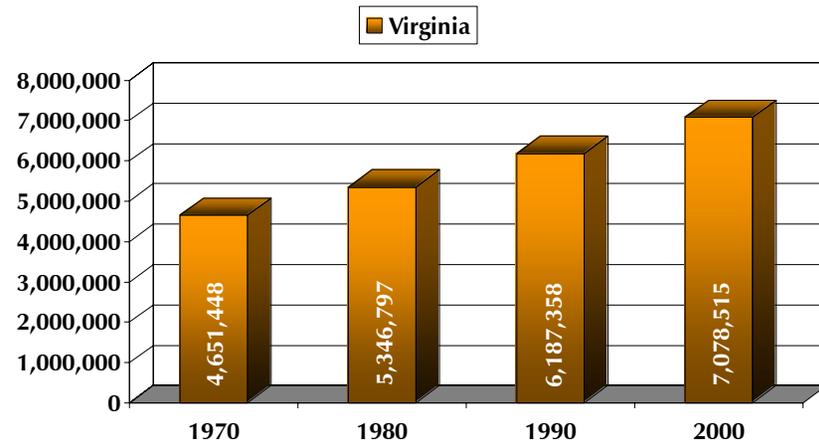
Since 2000, population estimates provided through the Weldon Cooper Center at the University of Virginia and

Allegheny Highlands
Population, 1970 - 2000



Source: 1970 - 2000 U.S. Censuses

Virginia
Population, 1970 - 2000



Source: 1970 - 2000 U.S. Censuses



the U. S. Census Bureau differ. Very recently, leaders in the City of Covington have worked with the Weldon Cooper Center to adjust the current population count because of local births not apportioned to the City. This change will raise the population count from 5,784 in 2006 to 5,865 in 2007 which will lead to a slight increase in state aid for the Covington Public Schools. The Weldon Cooper Center is closer to the field and, given its responsiveness to Covington's concerns, this report will use its numbers for 2007.

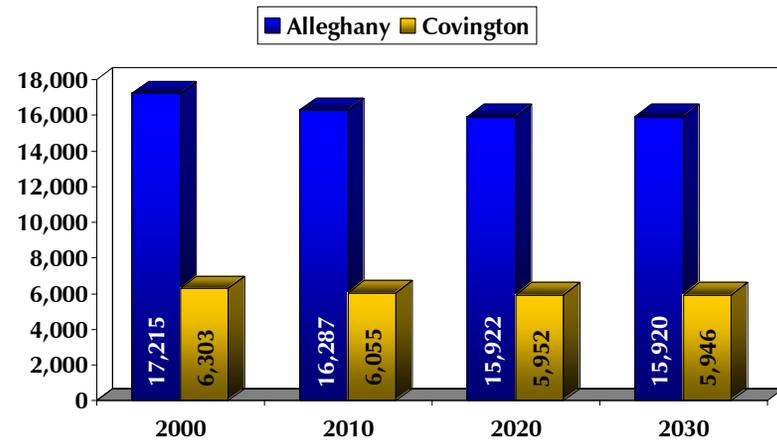
Utilizing the new count of 5,865 for 2007, the population changes for Alleghany County and Covington from 2000 to 2007 are as follows with the decadal trend indicated:

| Population Change, 2000-2007 | | | | | |
|------------------------------|--------|--------|--------|----------|---------------|
| Locality | 2000 | 2007 | Change | 7 Year % | Decadal Trend |
| Covington | 6,303 | 5,865 | -438 | -6.9% | -9.9% |
| Alleghany | 17,215 | 17,160 | -55 | -0.3% | -0.4% |

Source: Weldon Cooper Center

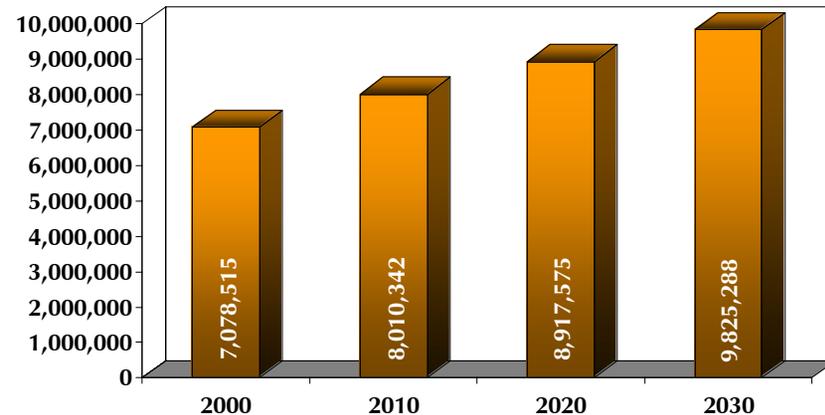
The Virginia Employment Commission (VEC) provides population projections because of its role in tracking employment trends in Virginia. Population is closely tied with employment trends. Localities with a growing employment base tend to show positive population growth over time and those with eroding employment exhibit declining population. Interestingly, VEC's projection for Covington for 2010 through 2030 is much more positive than the actual decline already realized in 2007. In contrast, its projection for Alleghany County

Alleghany Highlands Population Projections



Source: 2007 Virginia Employment Commission Population Projections

Virginia Population Projections



Source: 2007 Virginia Employment Commission Population Projections



shows a decline of 1,295 persons over thirty (30) years, a decrease of 7.5%, a pace not in keeping with the small decrease in population from 2000 to 2007 of only 55 persons (-0.3%). If VEC's projection proves true, this will be significant change in the population trend for Allegheny County from a relatively flat trend from 1970 to 2000 to a negative trend from 2000 to 2030. In contrast, Virginia's population is anticipated to grow 38.8% during the same timeframe.

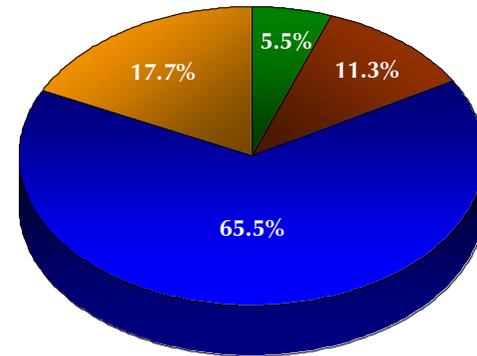
Population by Age

In addition to the general population trends, it is important to understand any generational shifts in the population that may be at play. The pie charts at right for Allegheny County are divided into the age ranges indicated because they help highlight three important trends. First, is the projected increase in persons age 65 and over (the typical age of retirement) from 3,040 to 3,853 persons, an increase of 26.7%. These persons typically demand less of a locality's services such as schools and can have substantial incomes in retirement. However, many senior adults have a limited, fixed income and as their incomes diminish in retirement, they generate less in sales tax. Their housing needs change as they continue to age. They therefore generate less in real estate tax revenue as they leave their homes for alternative housing, unless their homes are quickly recycled to the next generation or family.

Second, is the decline in persons 15 to 64 years of age (the typical years of employment) from 11,018 to 9,107, a decline of 17.3%. This decrease in the workforce age population is a troubling trend and likely reflects the loss of jobs in the area.

Allegheny County Population by Age Category, 2000

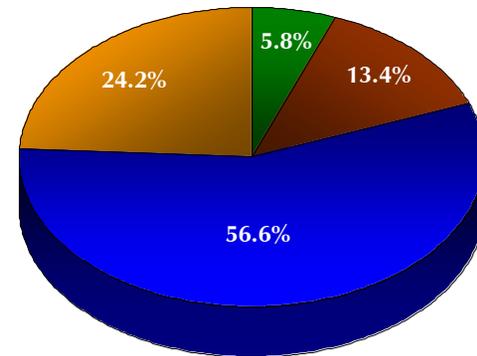
■ Under 5 years ■ 5 to 14 years ■ 15 to 64 years ■ 65 and Over



Source: 2000 U.S. Census
*Numbers include the City of Clifton Forge in Allegheny County

Allegheny County Population by Age Category, 2030

■ Under 5 years ■ 5 to 14 years ■ 15 to 64 years ■ 65 and Over



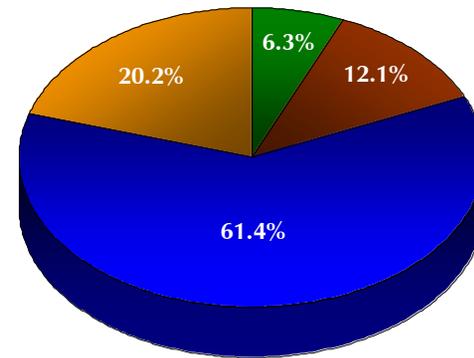
Source: 2007 Virginia Employment Commission Population Projections

Third, and most interesting given the decline in workforce age population, the number of children age 5 and younger is projected to decrease only slightly from 948 to 923 persons. Those ages 5 to 14 years will decrease more significantly from 2,209 to 2,045, a decline of 7.4%, a much slower rate of decline than the workforce age population. This may be an indication that Allegheny County loses a fair amount of its younger workforce during their single and young married years, only to see them return as they start families and want their children to be near grandparents. The return and presence of these families is very important to the County and its economy, but with them comes the cost of educating their children. Singles and young married couples are typically a boon to an area because they bring income to an area, pay rent, buy homes and pay taxes, but they are not yet making a demand on local schools. In reviewing the 2000 population pyramid by age cohort and projected pyramids for 2010 through 2030, the age cohorts from 20 to 29 are consistently smaller than the other age cohorts except for the very elderly, thus confirming this trend.

The City of Covington shows a similar pattern, with the number of children increasing only slightly (+2.0%) over the thirty (30) years. The elderly population will increase from 1,274 to 1,513 persons, an increase of 18.5 % from 2000 to 2030. The workforce age population will decrease from 3,890 persons to 3,272 persons, a decline of 15.9% over the same time span. The 2000 through 2030 population pyramids for Covington, however, indicate a key difference between Covington and Allegheny County. The population is more evenly distributed across the age cohorts with the “bulge” created by the Baby Boom generation moving its way up the age cohorts. The male population ages 20-29 in fact

City of Covington Population by Age Category, 2000

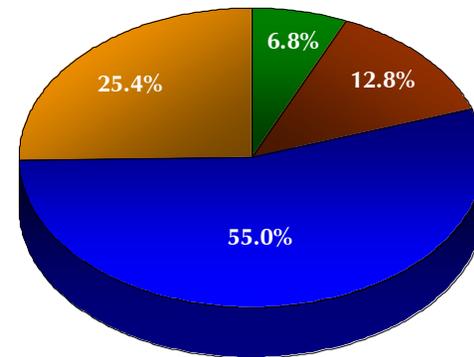
■ Under 5 years ■ 5 to 14 years ■ 15 to 64 years ■ 65 and Over



Source: 2000 U.S. Census

City of Covington Population by Age Category, 2030

■ Under 5 years ■ 5 to 14 years ■ 15 to 64 years ■ 65 and Over



Source: 2007 Virginia Employment Commission Population Projections

represents the largest age cohorts in certain years, perhaps an indication of a manufacturing workforce, inmates in the County jail, or a homeless population, all of which tend to be predominately male.

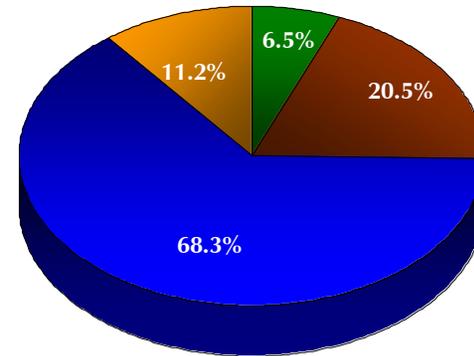
The impact in the trends in population and age distribution outlined above can be understood more clearly when compared to Virginia as a whole. Alleghany County, Covington, and the Commonwealth are all being impacted by the aging of the Baby Boom population. Virginia's elderly population is projected to more than double from 2000 to 2030. At the same time the workforce age population of Virginia will grow by 25.5% from 4,833,161 to 6,064,534 persons even as its relative size diminished from 68.3% of the population to 61.7%. Even as the aging of the Baby Boom takes people out of the workforce, the population growth in Virginia will continue to provide a workforce capable of meeting the needs of Virginia's business and industry. As the data above outlines, the Alleghany Highlands does not have the luxury of population growth to balance out the projected increase in elderly residents. Therefore, both its total population and its workforce age population will decline to the detriment of the economy and the ability of its localities to raise additional revenue.

Income and Poverty

The quickest reference for income levels in a community is the median household income, with half of the households (family and non-family) falling above that number, and half below. According to a 2004 U. S. Census Bureau Estimate, Alleghany County and Covington's income levels lag behind the state as a whole as shown on the next page:

Commonwealth of Virginia Population by Age Category, 2000

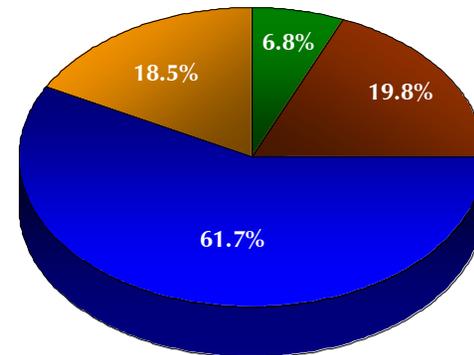
■ Under 5 years ■ 5 to 14 years ■ 15 to 64 years ■ 65 and Over



Source: 2000 U.S. Census

Commonwealth of Virginia Population by Age Category, 2030

■ Under 5 years ■ 5 to 14 years ■ 15 to 64 years ■ 65 and Over



Source: 2007 Virginia Employment Population Projections

| Median Household Income, 2004 | |
|-------------------------------|----------|
| Virginia | \$51,103 |
| Alleghany County | \$38,489 |
| Covington | \$32,622 |

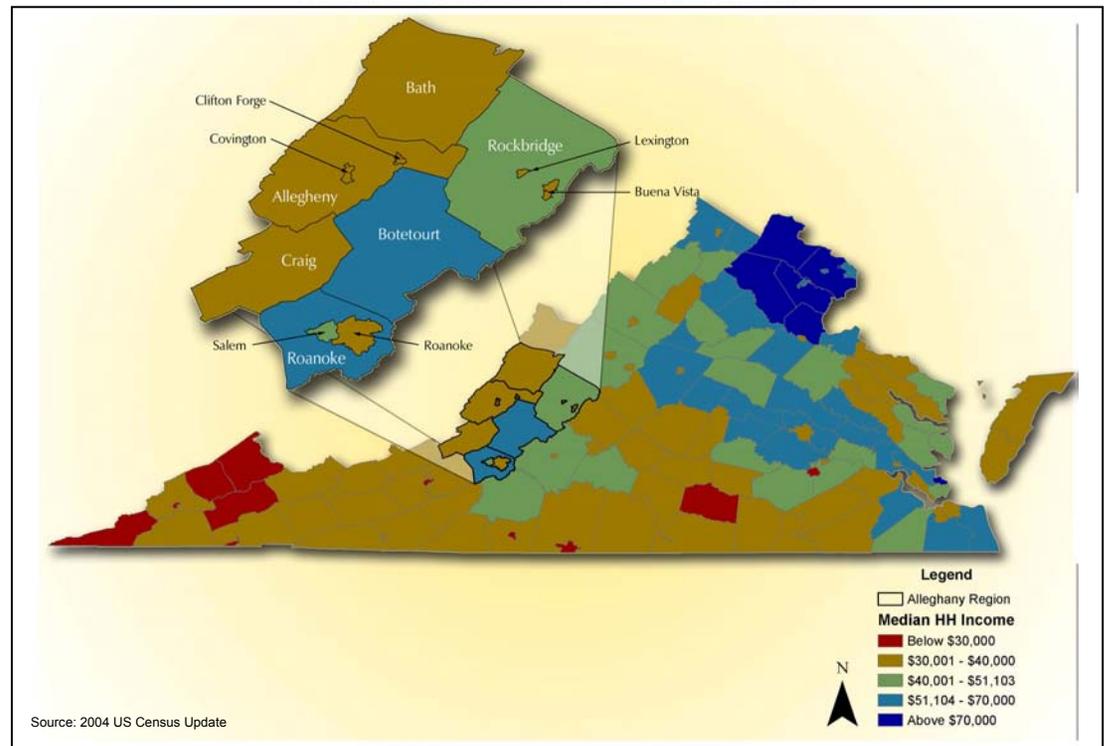
Source: U. S. Census Bureau Estimate, 2004

Alleghany County's median household income is only 75.3% of the statewide median and Covington's is only 63.8%.

A broader comparison of the income levels in the Alleghany Highlands relative to the Commonwealth is represented by the map to the right. Within the region, Alleghany, Bath and Craig Counties and the urban communities, except for Salem, all have similar median incomes in contrast to the three counties further east, Botetourt, Roanoke, and Rockbridge, whose economies are influenced by the presence of I-81 and the Roanoke metro area. In fact, the entire northern half of the I-81 corridor is relatively prosperous as is the urban crescent from Northern Virginia to Richmond along I-95 and to Hampton Roads along I-64. Based on income levels, the Alleghany Highlands probably has much more in common with Southwest Virginia and Southside Virginia, areas of the state that have struggled economically in recent years, than it does with other communities intersected by I-64.

As shown on the next page the poverty rate for the Alleghany Highlands compares favorably with Virginia as a whole according to a 2003 U. S. Census Bureau Estimate:

2004 Median Household Income Estimates



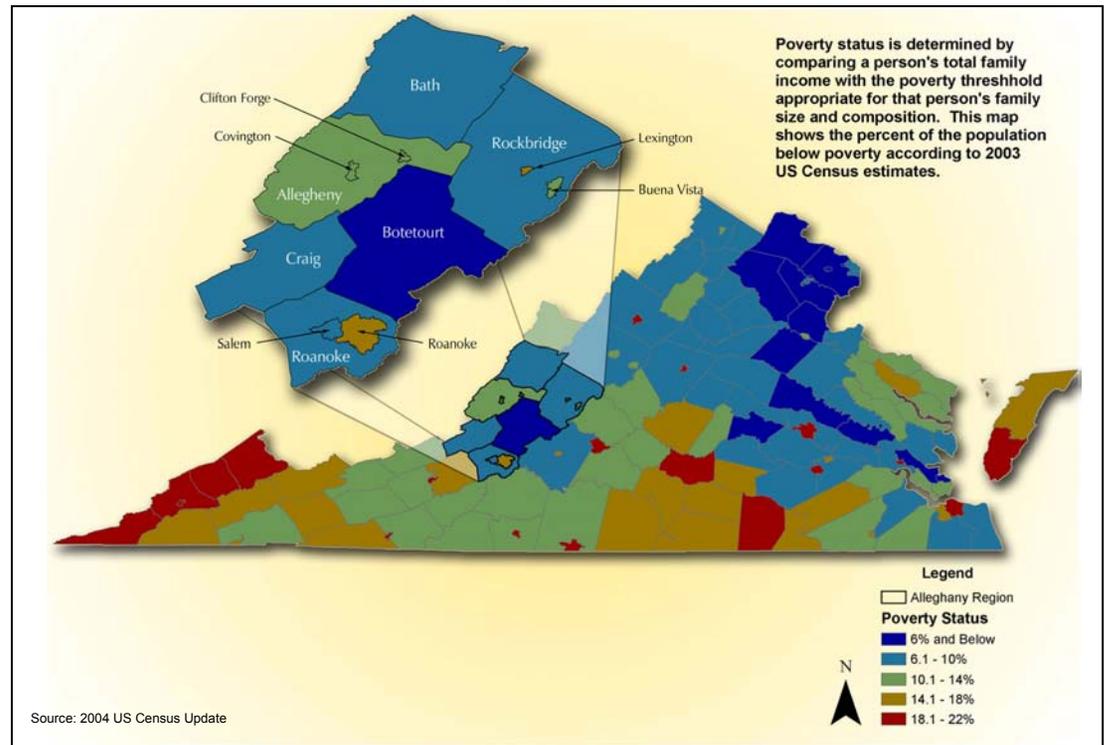
| Poverty Rates, 2003 | |
|---------------------|-------|
| Virginia | 10.0% |
| Alleghany County | 11.1% |
| Covington | 12.7% |

Source: U. S. Census Bureau Estimate, 2003

However, when looking at the map to the right, the poverty rate for the Alleghany Highlands falls in the mid-range of rates for the Commonwealth. The highest poverty rates in Virginia are in the urban cores of the Commonwealth, scattered rural communities and far Southwest Virginia. The very lowest poverty rates are consistently in Northern Virginia. Within the region, except for the City of Roanoke, the Alleghany Highlands stands alone with the poverty rate being above that of the other regional communities.

A lower level of income and a high poverty rate are representative of a community where its citizens are struggling to make ends meet. Often this is due to a changing local economy that depended on a narrow business/industrial sector that is now in decline. Such communities typically have a difficult time diversifying their economies and adjusting to the new, emerging industries. Residents in need of retraining for an emerging economy become unemployed or underemployed until they have an opportunity to update their job skills and new business and industry arrives on the scene or emerges through local efforts.

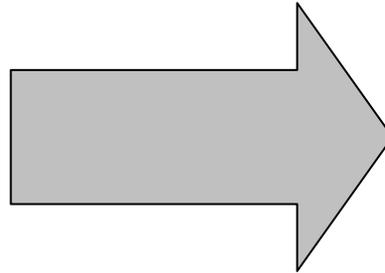
2003 Poverty Status Estimates



Finding & Implications

Findings:

- The population of the Alleghany Highlands is projected to continue declining over the next 30 years.
- The workforce age population is projected to decline at a faster pace than the overall population over the next 30 years.
- The number of older adults is projected to grow significantly over the next 30 years.
- The number of children will decrease only slightly over the next 30 years.
- Income levels for the Alleghany Highlands lag behind the region & the Commonwealth.



Implications:

- Because of the declining workforce age population, it will be increasingly difficult to recruit new businesses to the Alleghany Highlands.
- Because of the growing elderly population and the low income levels, local governments in the Alleghany Highlands will have an increasingly difficult time raising needed funds.
- Because of a fairly stable number of school age children, even with a declining population overall, the cost of operating the schools will likely be the most difficult service for the local governments to maintain.



TREND #2: DECLINING EMPLOYMENT

Employment by Industry

As with population data, a central tool in understanding the community and economic development needs of a community are the employment trends. As a beginning point, employment in the Alleghany Highlands can be detailed by the table to the right and the two pie charts that follow.

As the two pie charts indicate, the employment pattern in the Alleghany Highlands is very different from the Commonwealth as a whole. Before discussing these differences it should be noted that the data is from the second quarter, 2007, the most recent available. With the closing of the Applied Extrusion Technologies and Parker Hannifin plants just being announced at that time, the data would probably look different today. That being said, several differences need to be highlighted.

First, the manufacturing sector is proportionally a much larger part of the economy in the Alleghany Highlands (26.1% of employment) than it is in the Commonwealth (7.6% of employment). While that may be a statement of the obvious, it is important to note the size of the manufacturing economy relative to the overall economy of the area in light of the decline in manufacturing across the Commonwealth and the United States in recent years. According to the U. S. Bureau of Labor Statistics, manufacturing employment across the United States has declined from 17.80 million jobs in January, 1990 to 13.77 million jobs in December, 2007, a decrease of 22.6%. In Virginia the number shrank from 390,800 jobs to 285,500 jobs over the same timeframe, a decrease of 26.9%. For the Alleghany Highlands the decrease was from 2,901

| Employment by Industry, 2007 | | | |
|----------------------------------------------|------------------|--------------|--------------|
| Sector | Alleghany County | Covington | Totals |
| Agriculture, Forestry & Mining | 18 | 5 | 23 |
| Construction | 290 | 221 | 511 |
| Manufacturing | 834 | 1,479 | 2,313 |
| Transportation & Utilities | 194 | 67 | 261 |
| Wholesale & Retail Trade | 452 | 759 | 1,211 |
| Information | 0 | 98 | 98 |
| Finance, Insurance, & Real Estate | 38 | 150 | 188 |
| Professional, Business, & Technical Services | 25 | 45 | 70 |
| Administrative & Waste Services | 36 | 242 | 278 |
| Health Care | 895 | 163 | 1,058 |
| Arts, Entertainment, & Recreation | 61 | 0 | 61 |
| Accommodation & Food Services | 315 | 309 | 624 |
| Miscellaneous Services | 138 | 160 | 298 |
| Government & Public Education | 1,275 | 541 | 1,816 |
| Unclassified | 11 | 33 | 44 |
| Totals | 4,582 | 4,272 | 8,854 |

Source: Quarterly Census of Employment & Wages, Virginia Employment Commission, 2nd Quarter, 2007



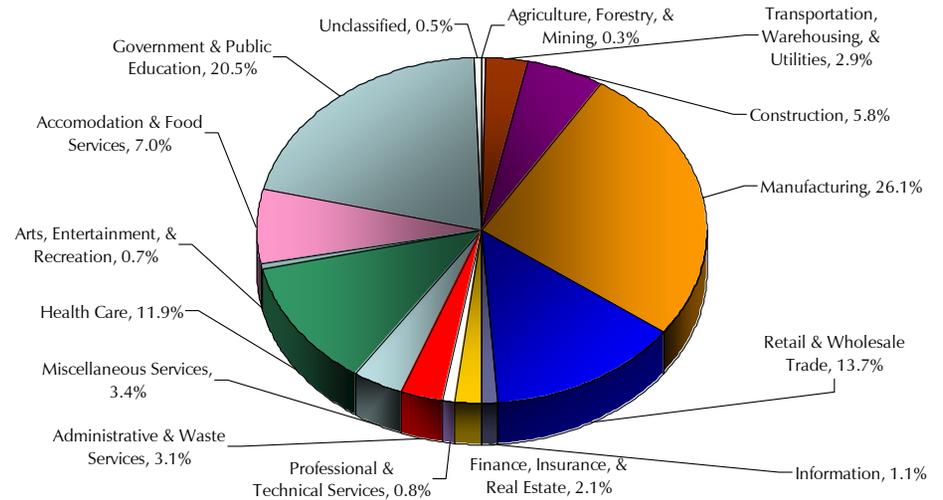
jobs to 2,313 jobs over the same timeframe, a decrease of 20.3%. With the recent plant closings, the number of manufacturing jobs is likely to continue declining.

Second, as an additionally needed item of data necessary to fully understanding the manufacturing employment picture—one manufacturer, MeadWestvaco, employs 1,541 persons at its two facilities in the area. This represents 66.6% of all manufacturing jobs in the Allegheny Highlands. While MeadWestvaco is a good corporate neighbor in Covington and Allegheny County, the dependence on this one employer is less than an ideal situation for the community.

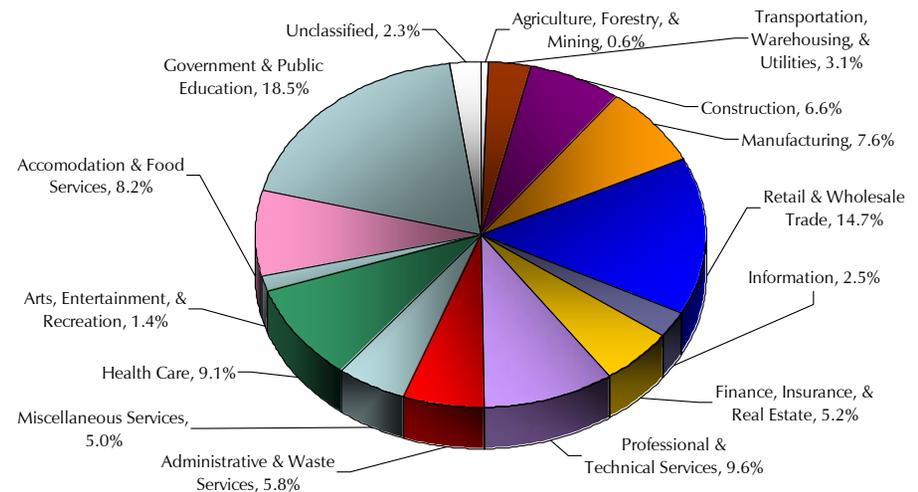
The third difference is the very small presence of jobs in professional, business, and technical services—architects, engineers, lawyers, accountants, management consultants, veterinarians, research & development, advertising & marketing, etc. Typically service jobs are thought to be low paying jobs, but within this portion of the service economy the wages tend to run quite high. In the Allegheny Highlands, this sector represents less than 1% of employment, where across the Commonwealth it represents 9.6% of employment. Many of these jobs are the jobs the area’s young people are training for when they go away to college. Their absence makes it difficult to attract those young people back once they complete their education.

Fourth, there is a complete lack of jobs in agriculture, forestry and mining, particularly in forestry. With the demand for pulp lumber for the MeadWestvaco plant in Covington, this lack of forestry employment is surprising at first glance. However, once it is understood how much of Allegheny County has steep slopes and how much of its forested land (237,026 of 281,816 acres) is in National

Employment by Industry Allegheny Highlands, 2007



Commonwealth of Virginia, 2007



Source: Virginia Employment Commission, Quarterly Census of Employment and Wages. 2nd Quarter 2007

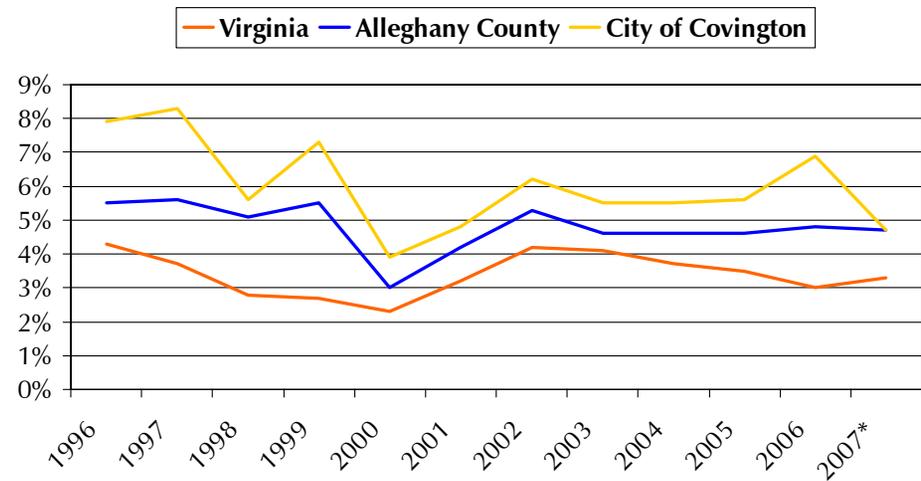
Forests (51%), this shortage is more understandable. Nevertheless, it is important to note that even with the need for raw material for MeadWestvaco operations, Alleghany County ranks 41st among the 98 communities whose forest production is tracked by the Virginia Department of Forestry with less than \$2 million in harvested timber per year.

Unemployment/Underemployment

While varying significantly in the second half of the 1990's, as can be seen at the right, the unemployment rates for Alleghany County have consistently been about 1.0% to 1.5 % higher than the rates for Virginia since the year 2000, except for 2006 when the gap widened momentarily. Covington's unemployment rate shows a similar pattern, except its rate has been about 1.5% to 2.0% higher than the Commonwealth's. Both Alleghany County and Covington closed out 2007 with an unemployment rate of 4.7%, 1.4% above that for Virginia at 3.3%. As before, many of those who are being affected by recent plant closings have not yet joined the ranks of the unemployed; therefore, the unemployment rates for the Alleghany Highlands is likely to go higher in coming months.

One of the employment/unemployment factors that is hard to clearly understand is the presence of the "underemployed"—persons who are employed, but working at lower paying jobs requiring lesser skills than they are capable of employing, persons working part-time, but desiring full-time work, persons holding multiple part-time jobs, etc. An example would be a skilled factory worker with many years of experience being laid off due to a plant closing and having to take a job as a short order cook just to make ends meet. The Virginia Economic

Unemployment Rate



Source: Virginia Employment Commission
 * 2007 figures are for the month of October, the most recent available data

Development Partnership estimated that 984 persons were underemployed in the Allegheny Highlands as of the 4th quarter of 2006, a number approximately 80% higher than the number of unemployed persons at that time, 548. This data is born out by the low median household wages and moderately high poverty rates for the area and also by the fact that, with the plant closings of recent years, one would expect there to be a larger difference between the area unemployment rates and the statewide rate. **Labor Force /Labor Force Participation**

Labor Force/Labor Force Participation

Additional employment statistics that need to be examined are the size of the Civilian Labor Force and the Labor Force Participation Rate. The Civilian Labor Force is made up of those persons of working age (16 or older) that are employed or unemployed, but looking for work. The employed portion of the Civilian Labor Force are considered to be "In the Labor Force." The Labor Force Participation Rate is determined by dividing the number of persons in the Civilian Labor Force by the total number of persons of working age (16 or older). Persons who are no longer looking for work, are students, are "stay-at-home" parents, etc. are considered "Not in the Labor Force"

The 1990 and 2000 Civilian Labor Force calculations are included in the table to the right. As can be seen, much like the workforce age population described in the previous section, the total number of persons in the Civilian Labor Force declined over the decade. This shrinking Civilian Labor Force makes it very difficult to recruit new businesses to the area.

| Allegheny County Civilian Labor Force | | | |
|----------------------------------------------|-------------|-------------|-----------------|
| Labor Force Status | 1990 | 2000 | % Change |
| Persons 16 & Over | 10,438 | 10,322 | -11.1% |
| In Labor Force | 6,491 | 5,894 | -9.2% |
| Employed | 6,060 | 5,582 | -7.9% |
| Unemployed | 420 | 312 | -25.7% |
| Not in Labor Force | 3,947 | 4,428 | +12.2% |

| Covington Civilian Labor Force | | | |
|---------------------------------------|-------------|-------------|-----------------|
| Labor Force Status | 1990 | 2000 | % Change |
| Persons 16 & Over | 5,771 | 5,088 | -11.8% |
| In Labor Force | 3,094 | 2,831 | -8.5% |
| Employed | 2,869 | 2,696 | -6.0% |
| Unemployed | 218 | 135 | -38.0% |
| Not in Labor Force | 2,677 | 2,257 | -15.7% |

| Clifton Forge Civilian Labor Force | | | |
|-------------------------------------------|-------------|-------------|-----------------|
| Labor Force Status | 1990 | 2000 | % Change |
| Persons 16 & Over | 3,754 | 3,510 | -6.5% |
| In Labor Force | 1,853 | 1,832 | -1.1% |
| Employed | 1,685 | 1,693 | +0.4% |
| Unemployed | 168 | 134 | -20.2% |
| Not in Labor Force | 1,901 | 1,678 | -11.7% |

Source: 2000 U. S. Census



The Labor Force Participation Rate is important because unemployment rates are calculated for the Civilian Labor Force only. Therefore, the unemployment rate does not take into account those persons who may have been discouraged from looking for work due to a failing local economy or because of some impediment to employment, either personal, such as the lack of job skills or training, or structural, such as the lack of public transportation.

Since there can be regional differences in the Labor Force Participation Rate due to cultural factors, it is important to compare the local rate to that of the region and that of the Commonwealth. The region used by the Commonwealth of Virginia is the Extended Labor Market Area that includes Bath, Botetourt, Craig, Roanoke and Rockbridge Counties and the cities and towns within them and Greenbrier and Monroe Counties in West Virginia. The comparison of the Alleghany Highlands Civilian Labor Force and Labor Force Participation Rates is shown to the right.

As can be seen, the Labor Force Participation Rates for Alleghany County, Covington, and Clifton Forge are lower than that for the Extended Labor Market Area and significantly lower than that for the Commonwealth. Coupled with a declining workforce age population and a declining Civilian Labor Force, the Alleghany Highlands has a significant challenge ahead in growing an economy that might encourage those able persons currently not working to return to work and in providing the support and training they need to be successful in their work.

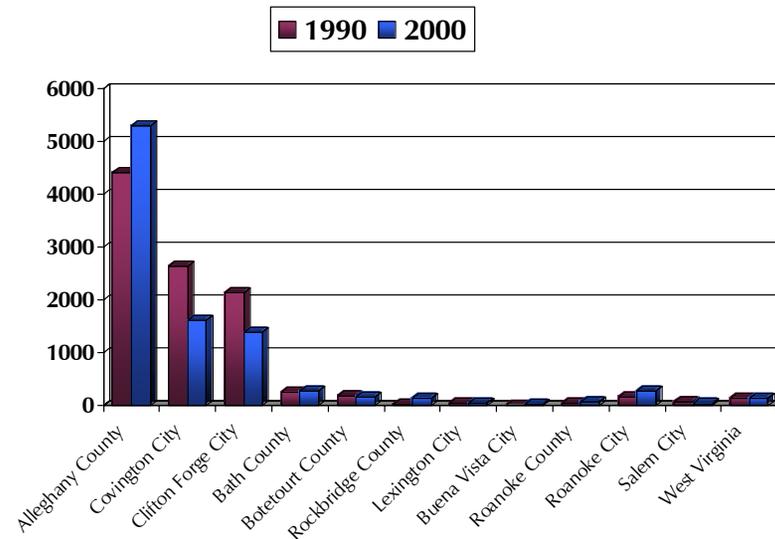
Commuting Patterns

The U. S. Census reports where residents are commuting to for their employment and for community purposes,

| Labor Force Participation Rate, 2000 | |
|--------------------------------------|-------|
| Virginia | 69.0% |
| Extended Labor Market Area | 61.6% |
| Alleghany County | 57.1% |
| Covington | 55.6% |
| Clifton Forge | 52.2% |

Source: 2000 U. S. Census

Commuting Patterns, 1990 & 2000 Where Residents of the Alleghany Highlands Work



Source: 1990 & 2000 U.S. Census

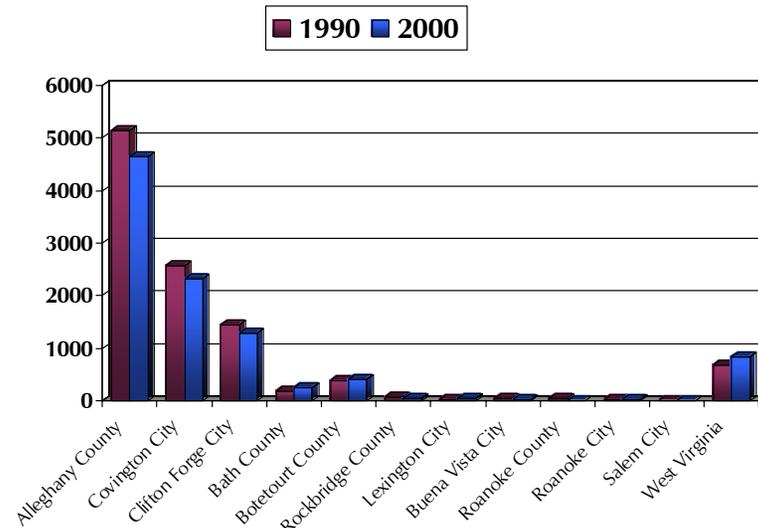
from where are those working in that community coming. Because people regularly commute between the communities that make up the Alleghany Highlands, it is not necessary to look at the commuting patterns within the Alleghany Highlands. It is, however, important to look at the exchange of employees across county and state lines. The graph on the preceding page and the graph to the right illustrate these patterns.

The first graph indicates that the majority of the residents of the Alleghany Highlands both live and work in the Alleghany Highlands. It also indicates that during the decade local residents tended to move from jobs in Covington and Clifton Forge to jobs in Alleghany County.

The second graph indicates that the Alleghany Highlands has very few workers coming in from other communities, but of those that do, most live fairly close. The largest numbers of Virginia in-commuters are from Bath County (258) and Botetourt County (403) with a sizable number of in-commuters coming in from West Virginia (831).

These graphs paint the picture of a fairly isolated community when it comes to employment. Since people tend to travel for other needs in the same direction of their commute to work, this isolation likely extends to other areas as well. It is said locally that people are reluctant to cross over the mountain from Lexington even with the relative ease of making the trip via I-64. This data would tend to confirm that. It is also said that the Alleghany Highlands has more in common with the West Virginia counties to the west than the Virginia counties to the east. Again, this data would support that assumption.

Commuting Patterns, 1990 & 2000 Where Those Employed in the Alleghany Highlands Live

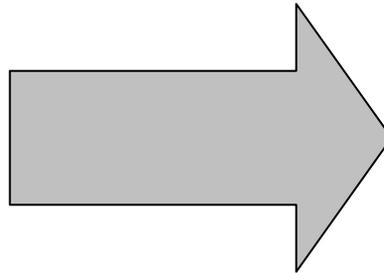


Source: 1990 & 2000 U.S. Census

Findings & Implications

Findings:

- The workforce of the Alleghany Highlands is continuing to shrink due to the decline in persons age 16 & over, the overall decline of the Civilian Labor Force and the low Labor Force Participation Rate.
- The Alleghany Highlands is suffering from both unemployment & underemployment problems.
- The manufacturing industry in the Alleghany Highlands is overrepresented & will likely continue to decline.
- Other business & industrial sectors are underrepresented in the local economy.
- The Alleghany Highlands is relatively isolated from other local economies.



Implications:

- Because of the declining workforce, it will be increasingly difficult to recruit new businesses to the Alleghany Highlands.
- As employment opportunities in the Alleghany Highlands become more limited, a growing percentage of the workforce will either have to relocate or commute greater distances to find work.
- The unemployed & underemployed and their families will be increasingly stressed, resulting in a higher rate of social problems in the community and a greater need for intervention & assistance.



CHALLENGE #1: CREATING ECONOMIC OPPORTUNITY

“Home Grown” or Recruited Business & Industry?

Bacova, a small town in Bath County was founded in the early 1920's as a company owned logging town. The operation grew to be the largest lumberyard on the East Coast during the 1920's, but went bankrupt during the Great Depression. In 1957, the entire town was bought by Mr. Malcolm Hirsh of New Jersey, who in 1965 founded the Bacova Guild to provide an economic life for the residents occupying the town's forty-two homes.

In 1981 the Bacova Guild was bought by Pat Haynes and Ben Johns, two former tennis pros looking for a way to live and work in the Allegheny Highlands. Bacova's first products focused on nature art laminated onto fiberglass items including the firm's famous fiberglass covered mailboxes. Currently owned by Ronile, Inc. of Rocky Mount, the firm's best selling products include door mats and other small rugs and carpets.

Though no longer a locally owned firm, the story of the Bacova Guild offers at least three lessons in economic development. First, not every economic development project has to start big. The Bacova Guild was started in order to provide jobs to a community of only forty-two homes. Second, the role of entrepreneurs is key. Hirsh, Haynes, and Johns all played an early role in making the Bacova Guild a success. Third, go after industries that are a good fit and industrial leaders who have an appreciation for the region and what it has to offer. Haynes and Johns' involvement with the Bacova Guild first began with a love of the area.



The Allegheny Highlands has experienced a lot of ups and downs in recent years in economic development. The arrival of the Lear Corporation was heralded as a huge success story in 1989. Its departure early in 2006 with a loss of 220 jobs was a large blow to the area. A building was constructed in the Allegheny Highlands Regional Commerce Center for LKM Industries which pulled out of the deal one week before it was to arrive. With closings announced in 2007, the Applied Extrusion Technologies and Parker Hannafin plants were both shuttered in March 2008 with a total loss of 272 jobs. A bright spot for Clifton Forge was the development of the Smart Tag/E-Z Pass customer service and data center in 2006 with its 60 jobs. A ongoing bright spot for Covington and Allegheny County is the continued presence of MeadWestvaco with its 1,541 jobs.

The experience in the Allegheny Highlands is a strong reminder that economic development is not easy and is often a “zero sum” game. What one community gains, another loses. The industry that is brought into an area can just as quickly leave. In fact, doing a web search about the closing of the Covington AET plant will also find announcements about the new jobs and equipment coming to their Terre Haute, Indiana plant because of that closing and because of grants and tax credits offered by the State of Indiana. The Bacova Guild story illustrates that often the most long-lasting economic development starts locally. While economic developers will always need to be recruiting industries to come to an area, particularly a distressed community, they need to find ways to support “home grown” industries as well. This section has been written from that dual perspective.



The Comprehensive Economic Development Strategy

The Alleghany Highlands Economic Development Corporation (AHEDC), the Roanoke Valley-Alleghany Regional Commission, and the citizens of the Alleghany Highlands are to be applauded for their hard work involved in putting together the Alleghany Highlands Comprehensive Economic Development Strategy (CEDS). Completed in 2006, with an annual update in 2007, the CEDS lays out plans and funding needs through the year 2011. A larger, more regional CEDS will soon be put together that examines the links between the Roanoke economy and the Alleghany Highlands economy in order to tackle economic development issues from a broader base.

The more ambitious economic development projects included in the CEDS are listed to the right. Also included in the CEDS is a listing of the needed improvements to the water and wastewater utilities for the Alleghany Highlands. A total of \$33.4 million in utility improvements is outlined in the plan. These items are listed on the Capital Improvement Plans for Alleghany County and Covington as well. The cost of these improvements is likely to be higher than that projected in 2006 and not all have to be implemented at once, but key improvements such as upgrades to the Covington and Clifton Forge wastewater treatment plants and the construction of the new eastern regional wastewater treatment plant are essential items looming on the horizon.

Many of the items on both lists will be eligible for state and federal grants and low interest loans with some being eligible for private grants as well. Others are to be paid through state resources, such as improvements to

| Comprehensive Economic Development Strategy | |
|--------------------------------------------------------|-----------------------|
| Project | Projected Cost |
| Improvements to the Regional Commerce Center | \$10,000,000 |
| Redevelopment of the Clifton Forge Rail Yard | \$3,880,000 |
| A Business Incubator | \$3,750,000 |
| Downtown revitalization in Covington/Clifton Forge | \$3,200,000 |
| Historic building renovations (depots/Masonic Theater) | \$3,000,000 |
| Clifton Forge Housing Strategy & Implementation | \$1,500,000 |
| Broadband Infrastructure Improvements | \$1,000,000 |
| Regional Enterprise Incentive Program | \$1,000,000 |
| Small Business Revolving Loan Fund | \$1,000,000 |
| Enhancements to Douthat State Park | \$590,000 |
| Jackson River Scenic Trail | \$375,000 |
| Regional Research Center | \$365,000 |
| AET Site Redevelopment | \$350,000 |
| Other Economic Development Projects | \$675,000 |
| Total of Economic Development Projects | \$30,685,000 |
| Water & Wastewater Utilities Improvements | \$33,393,215 |
| Grand Total of All Projects | \$64,078,215 |

Source: Alleghany Highlands Comprehensive Economic Development Strategy, 2006

Douthat State Park. Each item is worthy of fuller consideration by local and state leaders, but implementing many of them will be challenging because of the costs involved and the tightness of local, state and federal budgets. However, because of the great need for a reinvigorated local economy in the Allegheny Highlands, all possible effort should be made at developing these needed infrastructure and services in order to be competitive in today's business climate.

As an example of how difficult it can be to put to put this type of infrastructure in place, the AHEDC is currently studying the possible routing of a natural gas line from Covington to the Allegheny Highlands Regional Commerce Center. One route has been identified, but has extensive limitations that increase the cost significantly. A second, hopefully more inexpensive route, is just now being examined. The potential cost of installing this gas line ranges from \$4.8 million to \$6.0 million, but as will be outlined under the next heading, it is a cost that must be borne to recruit and retain needed industry.

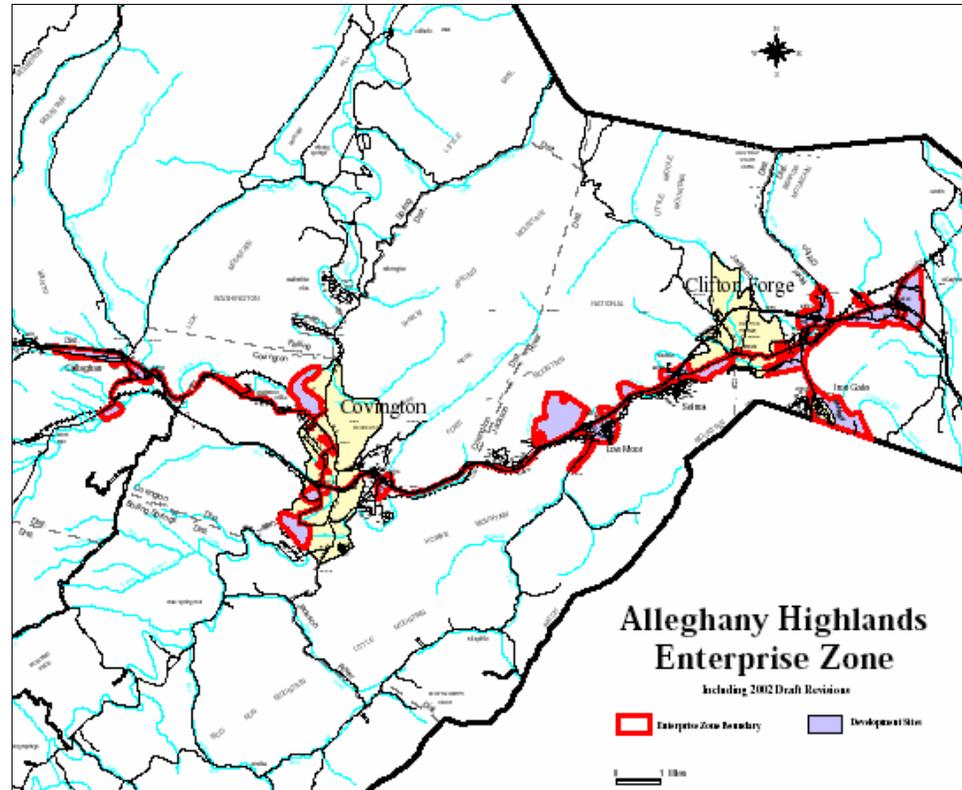
The Challenge of Industrial Recruitment

The Allegheny Highlands Economic Development Corporation has the major responsibility in the Allegheny Highlands for recruiting new business and industry to the area. It currently has its plate full seeking new industry to fill the shuttered AET, Halmode Apparel, Lear, and Parker Hannifin plants and the Bacova II building in the Allegheny Highlands Regional Commerce Center that it owns, seeking industrial developers of lots in the Commerce Center and at the Innovation Site, and recruiting new tenants for several retail buildings.



The AHEDC has many of the right tools for industrial recruitment including an enterprise zone pictured to the right which allows it to offer local and state financial incentives that have become a necessary part of recruiting industrial concerns. It is moving proactively to reshape the local economy through funding and supporting studies and efforts that seek to utilize assets currently in place and expand the infrastructure needed for economic development. A feasibility study is about to get underway for the AET site to explore its possible use as a secure computer data storage facility because of some of its unique features including its own water supply, a redundant internal electrical grid and the pending availability of redundant internet service providers. Study continues on creating a business incubator that will provide start-up space and support to new “home grown” business endeavors. The AHEDC is in the process of forming and providing support to a Clifton Forge Downtown Hotel Exploratory Committee. Research is also being conducted on available grants for the expansion of the area’s broadband network.

The Allegheny Highlands Regional Commerce Center is in place, but includes land with significant slopes and lacks key infrastructure. As mentioned previously, bringing a natural gas line to the Center is still being studied. This lack of a natural gas infrastructure has hindered landing industrial prospects. The new AHEDC Executive Director, David Kleppinger, has been in his position less than one year, but he indicated in an interview that at least three strong prospects passed on the Center because of the lack of natural gas service. One of those prospects recently announced that it will invest \$100 million and create 150 new jobs through the opening of a plant in an industrial park of a Southside Virginia locality. Mr.



Kleppinger further explained that the lack of natural gas at the Center and in Low Moor is not only a hindrance to industrial recruitment, but may hurt business retention efforts in this day of high energy prices. His research indicated that existing businesses in the Center and Low Moor could save the following if natural gas were available:

- MeadWestvaco Converting Plant - \$19,017/month
- Bacova Guild - \$8,443/month
- Allegheny Regional Hospital - \$4,800/month

A timely opportunity may be on the horizon because a new cap will soon be placed on the Kim-Stan Landfill paid for through Federal funds. That project will require a large amount of fill material that could be taken from the Commerce Center therefore providing an opportunity to level and grade the remaining vacant land at the Commerce Center. This could be the first step in providing the utilities, roads, and other amenities to make the back portions of the Commerce Center more attractive to an industrial prospect.

One of the toughest challenges in the industrial recruitment process today is the competition between localities. As indicated in the introduction to this report, companies want to be able to get up and running quickly with the lowest set-up costs and operating costs as possible. The Allegheny Highlands has numerous facilities that are vacant and ready for use, though not without their challenges, but so do other communities. Many localities, both in Virginia and in neighboring states, have industrial parks with new shell buildings, industrial pads, utilities, roads, and amenities already in place. The community that can provide the best package the quickest is the one that is able to land the prospect. The



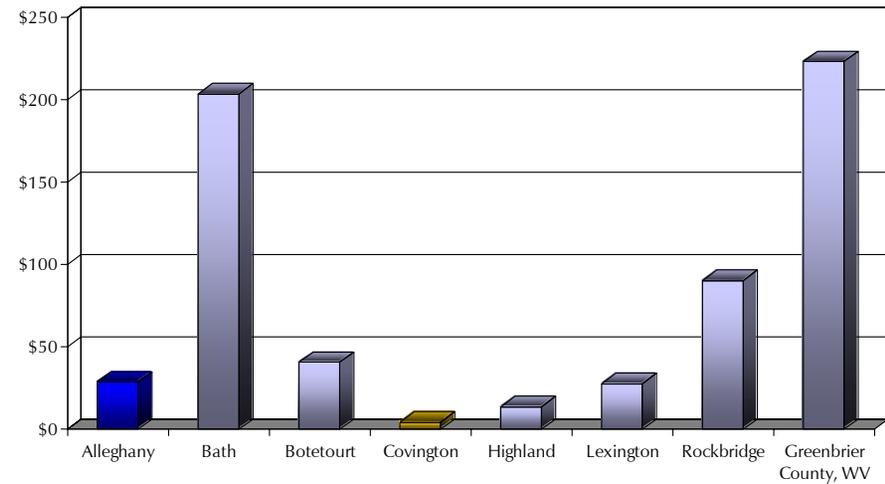
Alleghany Highlands has some distance to go to be a top tier community in the tough game of industrial recruitment.

Is Tourism the Answer?

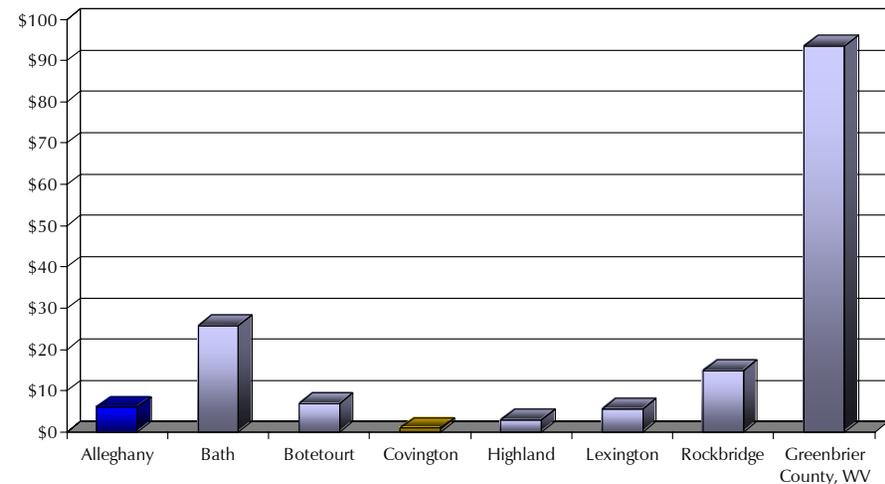
Across Virginia many communities that have faced challenging local economies have turned to tourism as a boost to their economy. While not the answer in every situation, if a community has existing or potential tourism assets on which it can build, increasing the presence of the tourism industry is a viable economic development strategy. Though sometimes seen as a low paying industry, the direct and indirect impact of tourism on a local economy can still be significant. According to the Virginia Tourism Corporation's Economic Impact Estimates, tourists spent \$17.6 billion in Virginia in 2006 creating 208,000 jobs with a total payroll of \$4.2 billion and generating \$2.4 billion in local, state, and federal taxes.

The graphs to the right and on the following page outline the economic impact of tourism on Alleghany County and Covington as well as surrounding communities. As can be seen, the economic impact of tourism on Bath County to the north and Greenbrier County, West Virginia to the west significantly dwarf the impact of tourism on Alleghany County and Covington. Lexington and Rockbridge Counties do better as well. Bath County has the Homestead in Hot Springs and Douthat State Park. Greenbrier County has the Greenbrier in White Sulphur Springs, historic Lewisburg, numerous outdoor recreation opportunities, as well as other tourism venues. Lexington and Rockbridge Counties are home to two prestigious universities. These assets are the driving forces behind their respective tourism industries.

Tourism Expenditures by Locality, 2006



Tourism Payroll by Locality, 2006

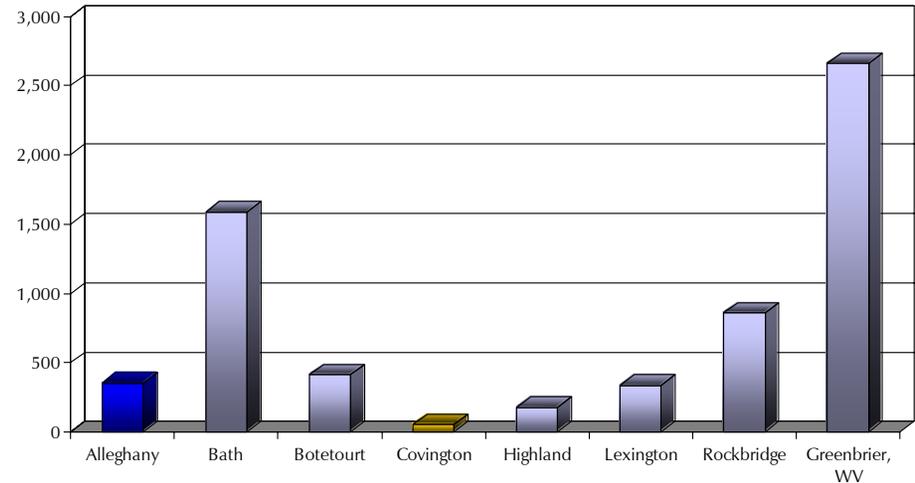


Source: 2006 Economic Impact Estimates, Virginia Tourism Corporation; 2006 Economic Impact of Travel on West Virginia, West Virginia Division of Tourism, August 2007

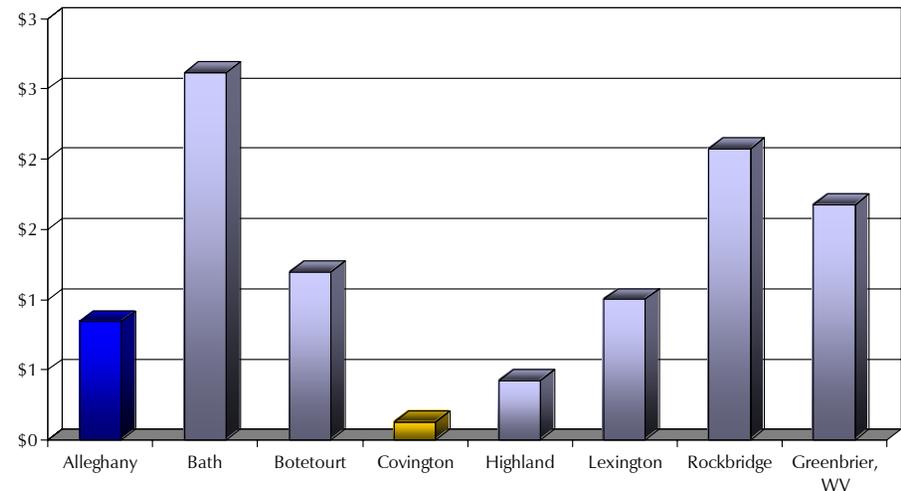
Alleghany County and its several communities share the same natural beauty as their neighboring communities, but they don't have the same tourism assets as their neighbors. Vacationers at Douthat pay their lodging and sales taxes to Bath County. When they travel into Alleghany County for some groceries or convenience items there are only a few tourism assets that might encourage them to stay and spend their dollars in the community such as the Alleghany Highlands Arts & Crafts Center and C & O Historical Society Museum in Clifton Forge. There are community restaurants in Clifton Forge and Covington, the Company Store in Low Moor, a number of chain restaurants in Covington, and retail in both Clifton Forge and Covington, but in reality, the total spending for such a foray into the Alleghany Highlands would probably be rather small.

Most of the tourist draws in the Alleghany Highlands are actually free—Humpback Bridge; canoeing, kayaking, or fishing in the Jackson River; walking or biking the Jackson River Scenic Trail or other hiking trails in the County; enjoying the view at Falling Spring; exploring the old iron furnaces; climbing up Rainbow Rock; sliding over the waterfalls at Roaring Run; starting a journey down the James River at its very beginning. What the Alleghany Highlands is lacking are the hard tourism assets that neighboring localities have. The likely source of much of the area's current tourism spending is the several hotels in Covington. Even the asset of these hotels is not being utilized to the fullest potential in that during special community events and sports tournaments at the Jackson River Recreation/Sport Complex, the prices at the hotels are raised. It is reported that a number of those attending these events stay in Lexington, therefore spending their money outside of the Alleghany Highlands.

Tourism Employment by Locality, 2006



Local Tax Receipts from Tourism, 2006



Source: 2006 Economic Impact Estimates, Virginia Tourism Corporation; 2006 Economic Impact of Travel on West Virginia, West Virginia Division of Tourism, August 2007

There are a number of occasional and seasonal events including theater and musical events put on at the Masonic Theater, the old Clifton Forge High School auditorium, or outdoors in the summer by the Allegheny Highlands Arts Council and the two major festivals, Magic in the Mountains in the summer and the Fall Foliage Festival. The sponsors of these events do an admirable job and during their run they provide a tourist draw. They also enhance the quality-of-life for community residents, one of the factors mentioned in the Introduction as important for recruiting business and industry. However, to create a regular, ongoing draw for tourists there would have to be more such events on the calendar and perhaps additional tourism-oriented venues as well.

Building the tourism assets of the Allegheny Highlands is the goal of a number of efforts currently underway or being considered. The following paragraphs briefly describe some of the major efforts and provide some additional commentary and context for each.

Enhancement & Expansion of Recreational Trails. Work on the Jackson River Scenic Trail continues. This “Rails-to-Trails” project paralleling the Jackson River has the potential of bringing tourists recreating in the area closer to Covington and its amenities. Similar trails across Virginia and the United States have brought significant economic impact to their communities. The Virginia Department of Conservation and Recreation (DCR) is in the process of expanding the number of hiking trails through the national forests in Bath and Allegheny Counties. DCR is also developing an equestrian trail that will connect the Virginia Horse Center in Lexington to Douthat State Park.



Improvements to Douthat State Park. A horse camp is under development at Douthat State Park at the terminus of the new equestrian trail. DCR has also bought the former private campground just south of the park entrance to develop an RV campground that will become a part of Douthat. Work is underway to connect Douthat to public utilities as well, which will accommodate current and future expansions.

Expansion of Railroad-Oriented Tourism. The C & O Historical Society has just completed the renovations of the old C & O freight depot in Clifton Forge with plans to continue expanding the rolling stock on the site and potentially working with CSX to recreate a passenger platform. Consideration is also being given to creating a "railroad hotel" out of some of the former executive cars in the Society's inventory much like other successful rail-oriented hotels such as the Red Caboose Hotel in Strasburg, PA. The passenger depot in Covington has also recently been redone and offers an additional rail-oriented event venue.

It has been many years since a scenic railroad operated in the area. After the demise of the Alleghany Central Scenic Railroad that made trips from Covington to Hot Springs, Mr. Jack Showalter, the principal of that effort relocated much of his stock to central Maryland in 1987. What now operates as the Western Maryland Scenic Railroad had a rocky start, but has begun to flourish and contributes greatly to the economic vitality of Cumberland and Frostburg at the two ends of its course. Western Virginia residents are quite familiar with the successes of the various scenic railroads operated in West Virginia.



Virginia currently does not have any ongoing scenic railroad. With the Buckingham Branch Railroad now operating the old Virginia Central Railroad line from Clifton Forge through the Goshen Pass and on to Staunton and Charlottesville with a terminus near King's Dominion there might be a more conducive atmosphere for a resurrection of scenic rail in the Alleghany Highlands. The Buckingham Branch does operate brief seasonal fall foliage and Christmas train rides in Dillwyn, VA on its original line. Destination scenic rail could also be a possibility between Clifton Forge and Staunton, encouraging tourists to spend a night and enjoy the charm of each locality.

A School of the Arts in Clifton Forge. Mrs. Louise Belmont is spearheading an effort to convert the old Clifton Forge High School into a school of the arts with both classrooms and accommodations for regular and occasional students. In Virginia, the operating of arts schools in small towns and rural communities is a relatively new phenomenon. The Jacksonville Center for the Arts has operated in the Town of Floyd since 1995 and the state sanctioned Artisans Center of Virginia has operated since 1997 in Waynesboro. The Chestnut Creek School of the Arts is under development in the City of Galax and the 'Round the Mountain Artisans Center is under development in Abingdon. Larger facilities with housing have been quite successful in neighboring states such as Arrowmont School of Arts and Crafts in Gatlinburg, TN; Penland School of Crafts in Spruce Pine, NC; and Tamarack in West Virginia.

Mrs. Belmont, a resident of Low Moor, also owns a number of houses on Keswick Street on the edge of downtown Clifton Forge. Final plans have not been developed for their disposition, but ideas include boutique



shops and even a bed and breakfast. Mrs. Belmont has also set her eyes on bringing new life to Low Moor as well. She is currently refurbishing and expanding the Company Store located there and has bought property near I-64 for a potential hotel.

A Hotel in Clifton Forge. In addition to the possibility of a railroad hotel in Clifton Forge, as mentioned earlier, the AHEDC is beginning an effort at exploring the possibility of the development of a hotel in Clifton Forge. The possibility exists for creating a facility of the size and scale that would fit in well within the fabric of downtown Clifton Forge linked by trails and walkways to other venues in downtown such as the Masonic Theatre. One need only look as far as Staunton with its recently renovated Stonewall Jackson Hotel for an example of what a downtown hotel can do for the economy of a small downtown.

Redevelopment of the Hotel Collins in Covington. In conjunction with the renovation of the C & O depot in Covington, preliminary planning is underway to create park space nearby and adaptively reuse the old Hotel Collins as a museum, loft housing and retail space building on the heritage of the City and the railroad.

All of these efforts are to be applauded and supported. The answer to the initial question “Is tourism the answer?” is that it is one of the answers as to how to boost the economy of the Alleghany Highlands. As stated earlier, tourism is a significant part of the economies of several neighboring localities. Their examples could be followed in the Alleghany Highlands. Interestingly, but for the exceptional cases like a Disney World carved out of vacant land west of Orlando in the 1970’s, most tourism efforts are “home grown.” Finding ways to support



“home grown” or even “come here” tourism entrepreneurs in the Alleghany Highlands may be an important part of growing the economy of the area.

A Word about Retail

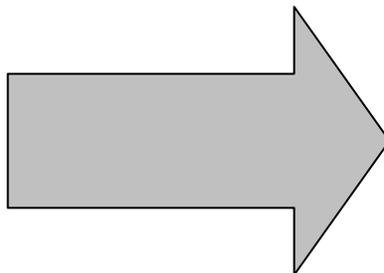
The Comprehensive Economic Development Strategy targets downtown revitalization of both Clifton Forge and Covington. Creating stronger downtown retail mixes through unique shops, restaurants and venues for the arts would be of great benefit to residents of the Alleghany Highlands and also create an additional tourism draw. There are additional, ongoing efforts to recruit more traditional retail to the Alleghany Highlands as well. The area is lacking many of the retail outlets most Americans have grown accustomed to and their lack is a quality-of-life factor that hinders further economic development. Such efforts should continue. That being said, it will be difficult to significantly expand the retail offerings in the area until downward trends in population and jobs are stemmed. Retail is always on the margin and is therefore about numbers—foot traffic, sales volume, and price. Growing the number of feet in the area, whether residents or visitors, is the first step in bringing back a stronger retail mix to the Alleghany Highlands.



Findings & Implications

Findings:

- Recruiting new industry is a very competitive process with many “losers” for every “winner.”
- The Alleghany Highlands Regional Commerce Park is lacking key infrastructure needed for successfully recruiting new industry. Its lack of construction-ready sites is an additional hindrance.
- The Alleghany Highlands Comprehensive Economic Development Strategy presents a very balanced approach of “home grown” and recruited business & industry, but at a cost of \$64 million.
- The Alleghany Highlands lags behind neighboring counties in tourism related revenue due to the lack of income-producing tourism assets.



Implications:

- Unless improvements are made to the Alleghany Highlands Regional Commerce Center, industrial prospects will continue to bypass the Center for other, more competitive industrial parks & communities.
- The Alleghany Highlands will face a significant challenge in securing grants and raising the local revenue needed to put in place the strategies, key infrastructure & enhanced public utilities needed for sustained economic development.
- Pending Commonwealth of Virginia sponsored projects & “home grown” tourism efforts have the potential of increasing the tourism industry in the Alleghany Highlands.



CHALLENGE #2: OFFERING A STRONG HOUSING MIX

Housing affects the quality-of-life of a community. It is one of the most basic human needs as well as an indicator of economic vitality. Affordable, attractive housing retains residents and creates a desirable community for growth. Diversity in the housing supply benefits residents in all stages of life. While the majority of housing supply is determined by the private market, it is important that localities understand their housing market and encourage a healthy mix of affordable housing, thereby supporting an environment for economic development.

The Allegheny Highlands has a unique market. The overwhelming majority of residents live and work in the area. This might suggest an adequate housing supply, yet past data and current projections show the population has been declining and is expected to continue a gradual downward trend. In keeping with this trend, from 1990 to 2000 the number of housing units decreased in the City of Covington and the Town of Clifton Forge. Housing units showed modest growth in Allegheny County, but with the population declining, household size may be shrinking. In the years 2000 to 2006 the number of housing units has increased overall in Allegheny County (now encompassing Clifton Forge) and the City of Covington. In Covington, however the number of housing units is still below what it was in 1990. The growth in housing in recent years is a good sign, since the age of existing housing is also a determinant of the quality-of-life associated with housing supply.



| Change in the Number of Housing Units | | | |
|---------------------------------------|------------------|----------------|-----------|
| | Allegheny County | Clifton Forge* | Covington |
| Housing Units, 1990 | 5,481 | 2,131 | 3,269 |
| Housing Units, 2000 | 5,812 | 2,069 | 3,195 |
| Housing Units, 2006 | 8,038 | N/A | 3,230 |

Source: 1990 and 2000 U. S. Censuses

* Numbers for Clifton Forge not available after 2000 due to reversion to Town status.

Occupancy and Age of Housing Stock

Two housing demographics that are utilized to examine the overall condition of the housing in an area are the occupancy status and age of the housing units. With housing units factored out that are only seasonally occupied, a high percentage of vacant homes in an area is an indicator of poor housing conditions and/or low demand for housing. As the graph to the right indicates, the vacancy rates in Clifton Forge and Covington were significantly higher than that for the Commonwealth, with Allegheny County's rate being slightly higher.

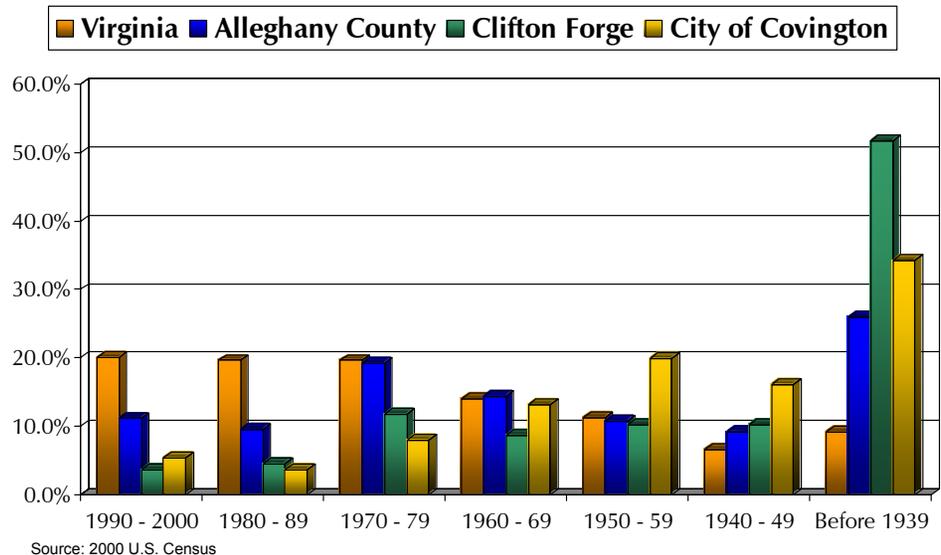
About 80% of the housing in Allegheny County, 90% in Covington, and 92% in Clifton Forge was constructed before 1980. This is further indication that a large percentage of the area's housing may be in poor condition or of obsolete function and design. The age of the housing and lack of new housing in the Allegheny Highlands is symptomatic of the economy in recent years. As seen in the graph to the right, the greatest number of housing was constructed pre-World War II (1939 and earlier). Over half of the housing in Clifton Forge dates to pre-World War II. The housing stock in the Allegheny Highlands is significantly older than that of the Commonwealth. Statewide, only 9.1% of housing was built before 1939.

The largest increase in the housing supply post-World War II happened in the 1950's for the City of Covington and in the 1970's for Allegheny County. Clifton Forge has had relatively little new housing in post World War II, with an especially small amount built since the 1980's (only 10% of total housing stock). In contrast, Virginia overall has seen growth in housing supply increase

| Percentage of Vacant Housing Units, 2000 | |
|------------------------------------------|-------|
| Virginia | 5.2% |
| Allegheny County (443 of 5,812) | 7.6% |
| Clifton Forge (222 of 2,069) | 10.7% |
| Covington (345 of 3,195) | 10.8% |

Source: 2000 U. S. Census

Percentage of Housing Units Built by Decade

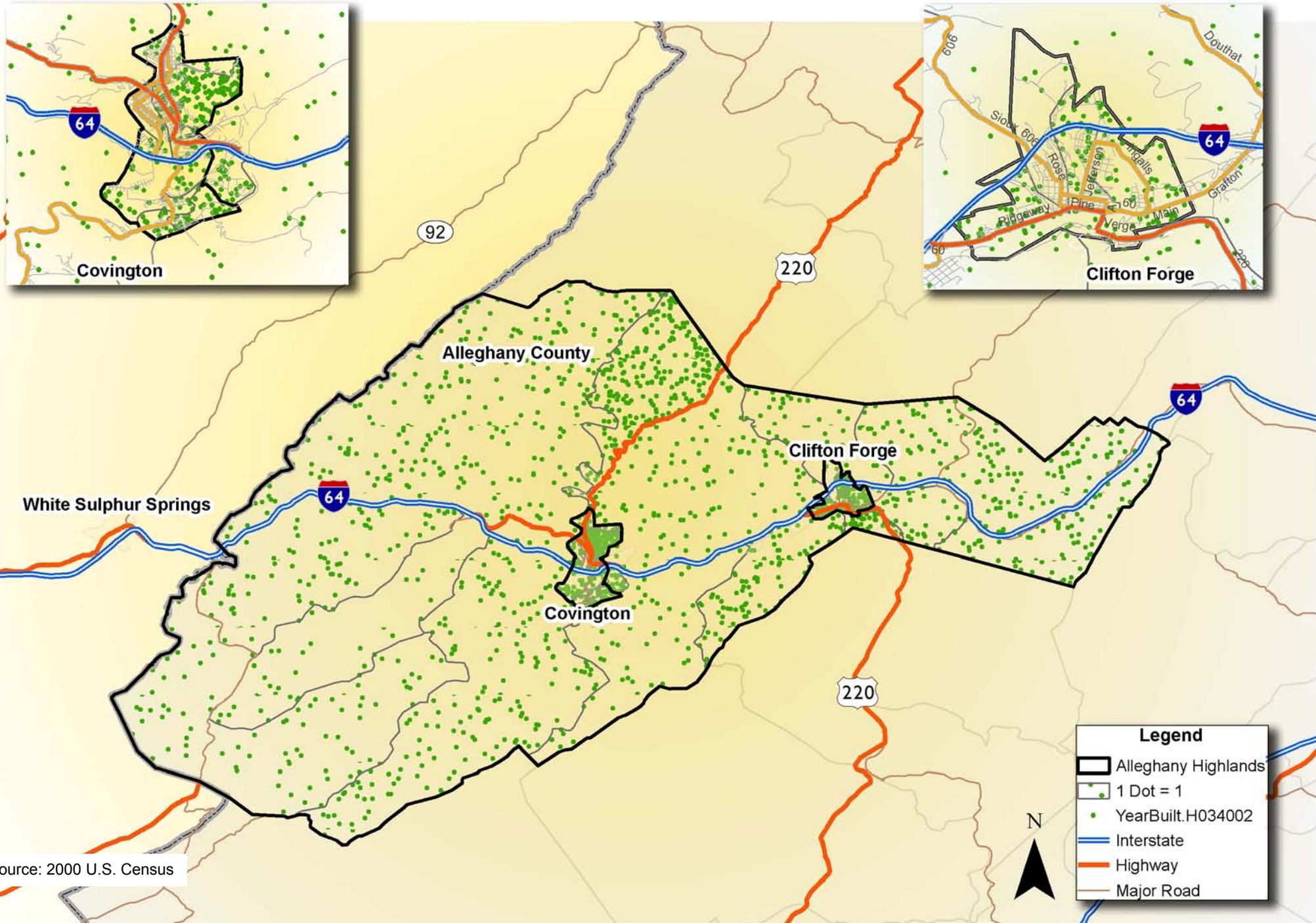


drastically since World War II, with 60% of housing built between 1970 and 2000.

The maps on the following three pages show the years in which housing units were built, by census tract. While the dots are not precisely located within their census tract, it is clear from the map that the pace of construction was greater before 1980 and that construction has remained relatively concentrated near or within the City of Covington and the Town of Clifton Forge. This is partially due to the mountainous terrain and the existence of national forest lands in Alleghany County which confine development potential.

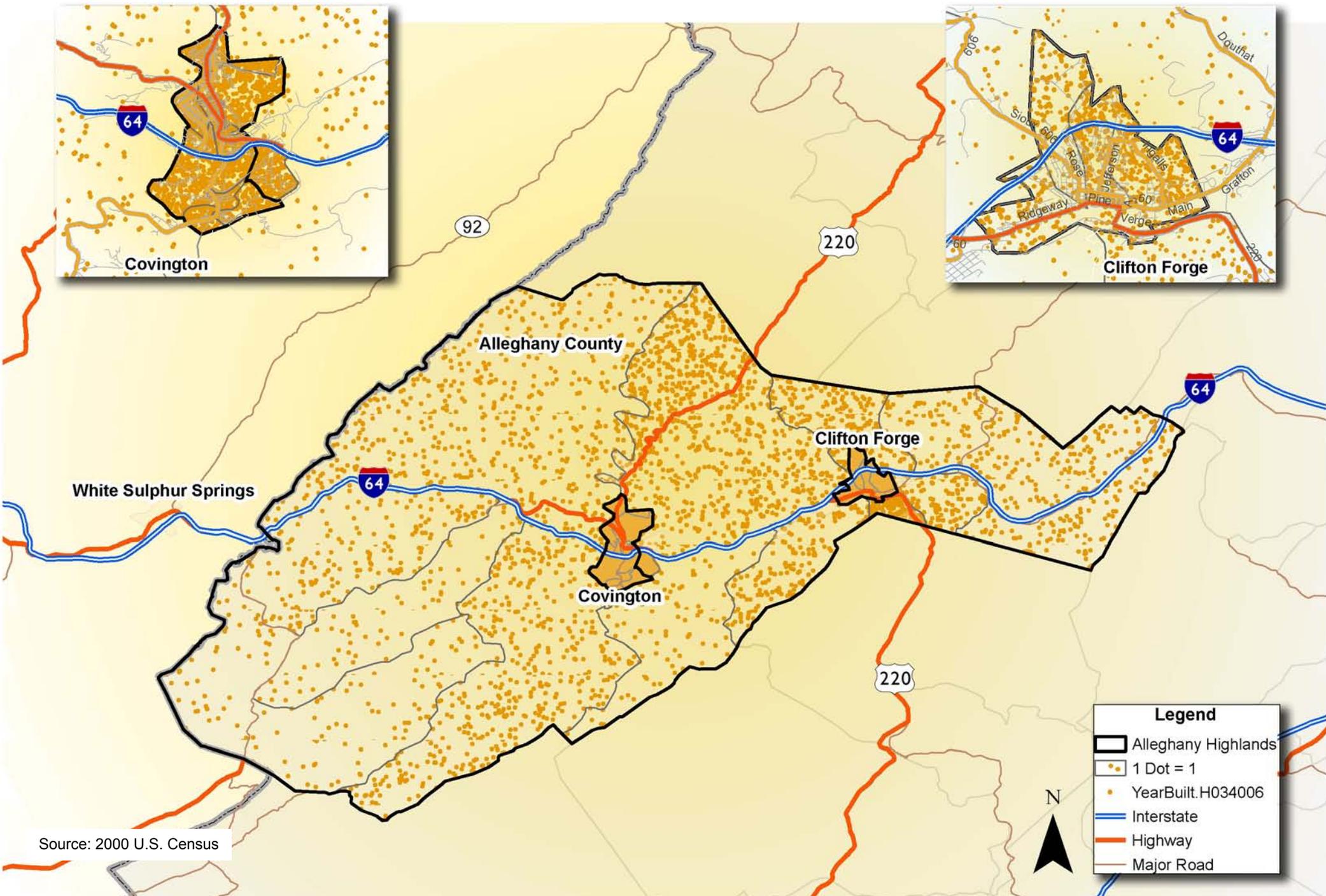
This data about the occupancy status and age of housing as a proxy for housing conditions is confirmed by even a casual ride through some of the neighborhoods of the Alleghany Highlands. A large number of the area's neighborhoods show signs of deterioration and at least some amount of abandonment. This creates a real problem for residents of those neighborhoods and creates a negative impression of the community to outsiders.

Housing Structures Built From 1980 - 2000

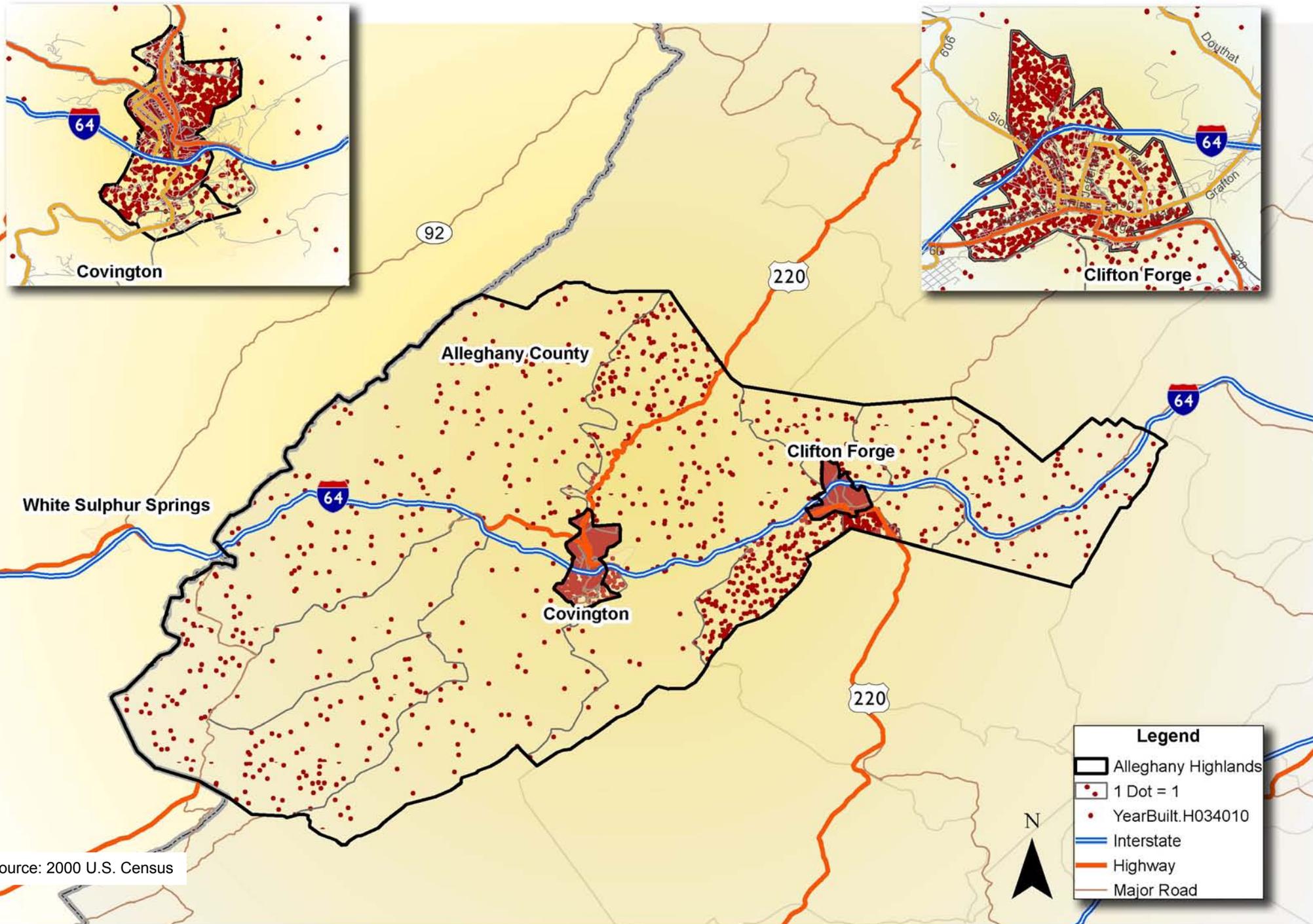


Source: 2000 U.S. Census

Housing Structures Built From 1940 - 1979



Housing Structures Built Before 1940



Source: 2000 U.S. Census

Diversity of Housing

If a community intends to attract and retain residents, one of the essential needs is diversity of housing which appeals to people in various stages of life. This includes affordable starter homes, single-family homes, multi-family units, assisted living facilities, manufactured homes, etc., which enable residents to age within their community. The option to rent or own is important as well. Diverse housing enables a healthy diversified population which is a building block to economic vitality. Businesses and industry choose locations partially based on availability of housing and the associated quality-of-life. The skilled labor they hire depend on the availability of housing that meets their personal and family needs and is within their financial means.

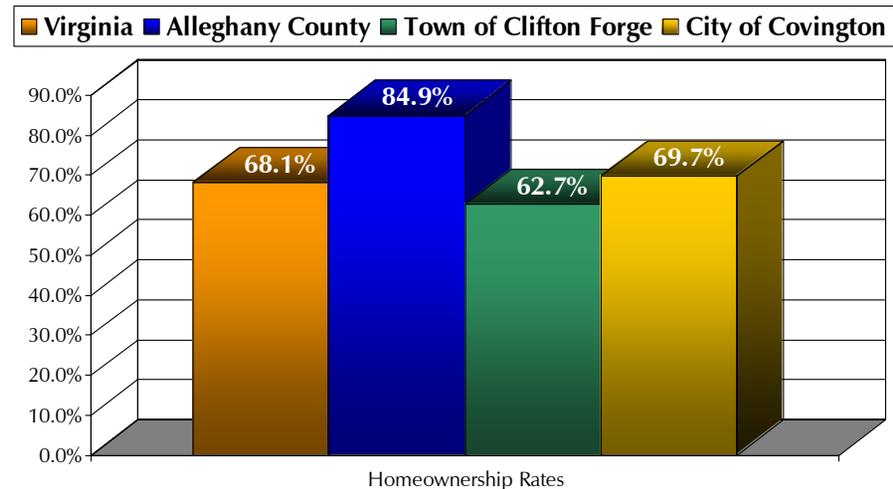
Housing in the Allegheny Highlands is predominantly single-family homes. In 2000, just 3.2% of housing was in multi-unit structures in Allegheny County, just 2.4% in Clifton Forge, and only 10.3% in the City of Covington. Zoning patterns reinforce this trend in the local housing market. Across Virginia, 21.5% of the housing units were multi-unit structures in 2000.

The predominance of single-family housing and the age of the housing stock correlate with the age distribution of the population in the region. The declining population coupled with the aging of the population suggests that the region is failing to attract new residents and is unable to retain younger residents. The housing supply may play a role in these demographic trends. With the large number of single-family homes comes also a high homeownership rate, which especially in Allegheny County reflects an older population and rural characteristics. While the average homeownership rate for Virginia was 68.1% in

| Percentage of Housing as Multi-Unit Structures, 2000 | |
|------------------------------------------------------|-------|
| Virginia | 21.5% |
| Allegheny County | 3.2% |
| Clifton Forge | 2.4% |
| Covington | 10.3% |

Source: 2000 U. S. Census

Virginia & Allegheny Highlands Homeownership Rates, 2000



Source: 2000 U.S. Census

2000, Covington had a homeownership rate of 69.7%, Clifton Forge's was 62.7%, and Allegheny County's 84.9%.

Many of the persons interviewed indicated that a lack of "executive", higher end housing was also a problem in the Allegheny Highlands. The lower median values in the area would likely confirm this problem. Also, homes with a value of \$200,000 or more were very limited in the area according to the 2000 U. S. Census with only 33 homes (3.0%) of a \$200,000+ value in Clifton Forge, 12 homes (0.6%) in Covington, and 73 (2.3%) in Allegheny County.

Housing Affordability

In addition to housing diversity, age of housing, and the quality of life in a community, housing affordability is an important factor for encouraging economic development. Compared to the 2000 \$125,400 statewide median value of owner-occupied housing, values in the Allegheny Highlands are much lower. Allegheny County's median value is the highest in the region at \$77,500. Covington's and Clifton Forge's median values are significantly lower at \$52,500 and \$52,800 respectively.

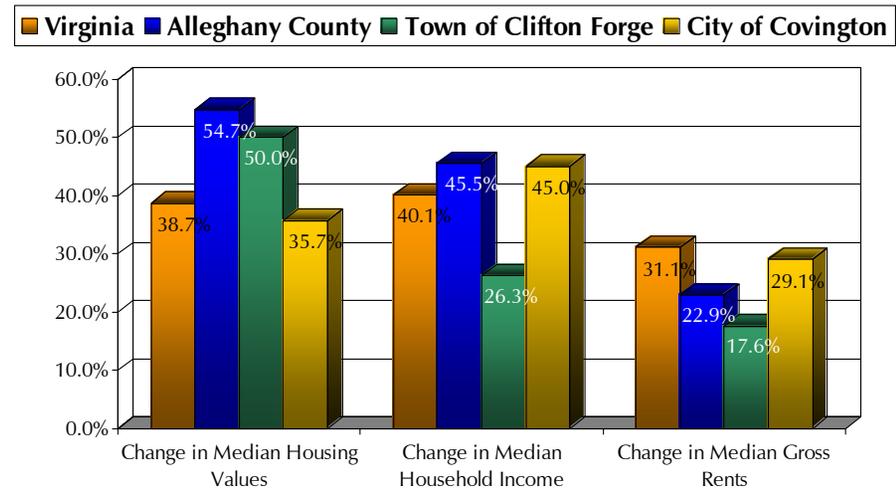
One way to measure affordability locally is to compare the increase in median household incomes from the 1990 and 2000 U. S. Censuses with the increase in median value of owner-occupied housing during the same time frame. Since updated Census data was not readily available for a more recent comparison of median incomes and housing values, comparing 1990 and 2000 still shows relevant trends in the housing market.

As the graph to the right shows, the increased cost of owner-occupied housing outpaced growth in income in Allegheny County and Clifton Forge. For Clifton Forge and Allegheny County residents, housing became less

| Housing Costs, Income, & Rent | | | | | | |
|-------------------------------|------------------------------|------------------------------|-------------------------|-------------------------|------------------------------|------------------------------|
| | Median Value of Housing 1990 | Median Value of Housing 2000 | Median Gross Rents 1990 | Median Gross Rents 2000 | Median Household Income 1989 | Median Household Income 1999 |
| Virginia | \$90,400 | \$125,400 | \$495 | \$650 | \$33,328 | \$46,677 |
| Allegheny County | \$50,100 | \$77,500 | \$293 | \$360 | \$26,486 | \$38,545 |
| Clifton Forge | \$35,200 | \$52,800 | \$290 | \$341 | \$20,659 | \$26,090 |
| Covington | \$38,700 | \$52,500 | \$313 | \$404 | \$20,913 | \$30,325 |

Source: 1990 and 2000 U. S. Censuses

Percentage Change in Median Housing Values, Household Incomes, and Gross Rents, 1990 & 2000 Census



Source: 2000 U.S. Census

affordable. For Covington residents, housing actually became more affordable. Incomes rose 45%, about 9% more than the increase in the value of housing of 35.7%. Median rents in the region grew at a lower rate than income, making renting a more affordable option in all three localities. Virginia as a whole experienced a faster rate of growth in income levels, making both median housing values and rents more affordable. Since 2000, however, housing affordability has likely decreased in the Allegheny Highlands due to plant closings and the loss of jobs and income and across the Commonwealth due to overheated increases in housing values.

Housing Cost Burden

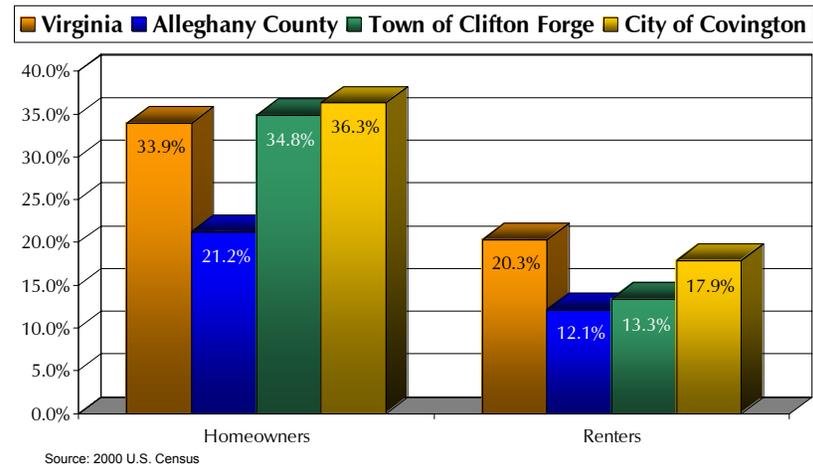
The decrease in affordability must be put in context with the relatively low housing prices and incomes in the Allegheny Highlands. The standard for affordable housing is defined as having housing costs less than 30% of total income. The graph on the right shows the percentages for owners and renters in the region whose mortgages or rents require 30% of their income or greater.

Compared to statewide figures, the region has lower percentages of the population paying 30% of total income or more for housing. Therefore, while the increase in the cost of housing outpaced gains in income in Allegheny County, the percentage of people for whom housing costs are a burden (more than 30% of income) is significantly less than the statewide figures. For residents of Clifton Forge and Covington, renting appears to be the more affordable option.

On a More Positive Note

Several developers have recently been active in the Allegheny Highlands putting together housing develop-

Percent of the Population Paying More Than 30% of Household Income for Housing



ments that are much more upscale than the area's typical housing development. They report interest from buyers from other states attracted to the quality-of-life and beauty of the area. An example is the River's Edge Subdivision at Cliff View Golf Club & Inn which is planned to have thirty-one homes starting in the upper \$600,000's.

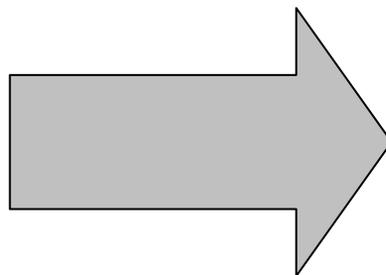
Regarding existing housing, there are some positive signs. One interviewee indicated that he had new neighbors who were originally looking for a home in Lexington, but were attracted to Clifton Forge because of the low price for a roomy, well built, older home. Unfortunately, they had to make their discovery on their own since their real estate agent had discouraged them from looking in Clifton Forge. Another interviewee indicated that a friend and executive from a large corporate interest was soon to retire and was looking to locate in Clifton Forge because of the cheap prices and "million dollar" views. Mayor Alan Williams of Iron Gate indicated that new families had been buying up homes in his community. Clifton Forge is considering seeking grant funding for a housing rehabilitation project much as they have done in the past.

Hopefully the trend for both existing and new homes is on the upswing. With early retirements, people starting second careers, families looking for a small town or rural area in which to raise their children and those seeking to be near outdoor adventure recreation, there may be more people willing to fix up some of the older housing stock or populate new housing. As mentioned earlier, a diverse, affordable, attractive housing market is an important factor in the region's ability to attract and retain residents and business. Whether it will be bargain hunters or new jobs that drive the housing market is yet to be seen, but in reality both are severely needed in order to create any long-term growth in the local housing market.

Findings & Implications

Findings:

- Housing units have shown modest growth in the past 25 years, after showing losses in Clifton Forge & Covington between the 1990 and 2000 censuses.
- There is relatively little new housing in the area. The majority of housing was built before 1980. Much of the housing is in poor condition.
- Housing is predominately single-family, with relatively little multi-unit housing available in the area.
- Homeownership rates are about average with the exception of Alleghany County with an exceptionally high homeownership rate of 85%
- Housing affordability is not a huge problem in the area, though data suggests owning a home is less affordable than renting.



Implications:

- The predominately single-family housing stock may inhibit retention of younger and older residents who have different housing preferences not available in the area.
- It is likely that a number of people commuting to the Alleghany Highlands for work from neighboring counties are doing so because of an inadequate local housing mix.
- The lack of multi-unit housing, new or rehabilitated housing & higher end housing is likely inhibiting the economic growth of the Alleghany Highlands.
- Housing units in poor, dilapidated, or blighted condition damage the quality-of-life of residents & are a drag on the local economy because of the negative impression they create for the community.



CHALLENGE #3: PROVIDING QUALITY PUBLIC SCHOOLS

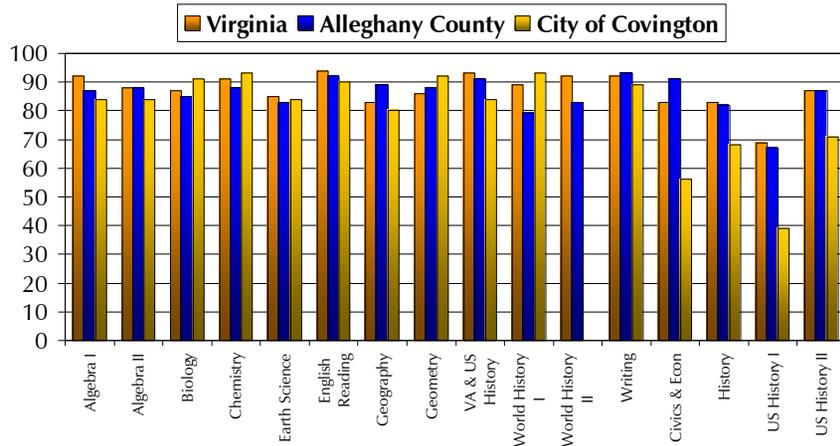
The quality of education in a community has socioeconomic implications. Educational characteristics signify the competitiveness of the labor force and reflect the ability of a local economy to generate new business from within as well as attract companies looking to expand or relocate from other areas. To understand the current state of education in the Alleghany Highlands, data needs to be examined in comparison to similarly sized, relevant communities in the Commonwealth.

The Department of Education determines comparison school divisions based upon data that includes cost per student, major drivers of costs, and rankings of cost among other factors. These similar divisions are given a cluster code. Alleghany County Public Schools (ACPS) is in Cluster 4 which includes Dickenson County, Nottoway County, Patrick County, Prince Edward County, and Southampton County. Covington City Public Schools (CCPS) is in Cluster 7 which includes Buena Vista City, Franklin City, Galax City, Norton City, and the Town of West Point.

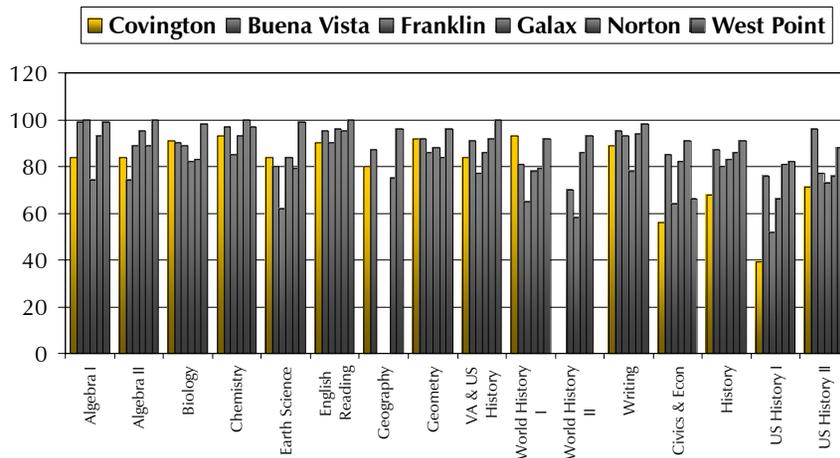
Secondary Education SOL Assessments

The graphs to the right and on the following page compare Virginia Standards of Learning (SOL) assessment results for ACPS's and CCPS's secondary education programs with school districts in their clusters and with the overall scores for the Commonwealth. Similar comparisons could be made for the primary education programs as well, but with the emphasis of this report

Virginia & Alleghany Highlands SOL Assessment Results, 2006-07



Cluster 7 SOL Assessment Results, 2006-07



Source: Virginia Department of Education Assessment Results

being economic development it was felt that this comparison was sufficient.

Compared to the Commonwealth, the performance of ACPS and CCPS students compares well with their peers from across the state. The graph shows 80% of students or more passing SOL tests in most categories. The only noted major deficiencies (achievement levels below 70%) are in Civics & Economics and U. S. History I in CCPS and in U. S. History I in ACPS.

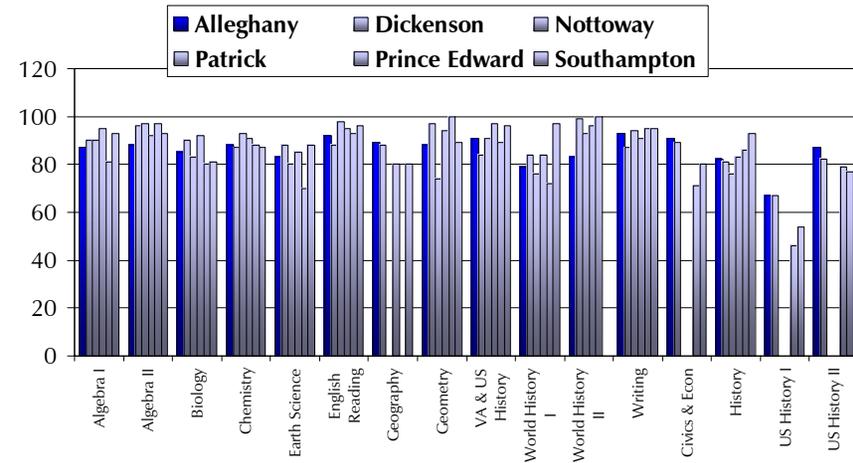
ACPS and CCPS are about equal to or below the achievement rates of their peer districts with a few scores being higher. Again, U. S. History I and Civics & Economics stand out as the notable deficiencies in achievement rates for CCPS and U. S. History I for ACPS. While there is room for improvement, both ACPS and CCPS do well when compared to both peer communities and the Commonwealth.

Educational Attainment Rates

An important indicator for the competitiveness of the workforce is educational attainment rates. The graph to the right shows that Alleghany County and the City of Covington have higher rates of persons for whom a high school Diploma or G.E.D is their highest level of education, both near 40%. This is in part because a higher percentage of people in peer localities and throughout Virginia go on to pursue post secondary degrees.

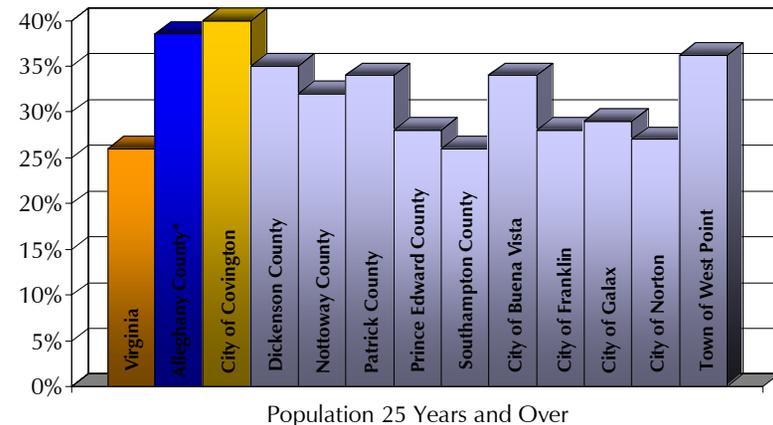
Maintaining a competitive labor force also requires the opportunity for continued education after high school. The Alleghany Highlands does well compared to the Commonwealth related to associate's degrees with 5.6% of Virginians having the degree as their highest level of

Cluster 4 SOL Assessment Results, 2006-07



Source: Virginia Department of Education Assessment Results

Percent of the Population for Whom Highest Educational Attainment is a High School Diploma or G.E.D.



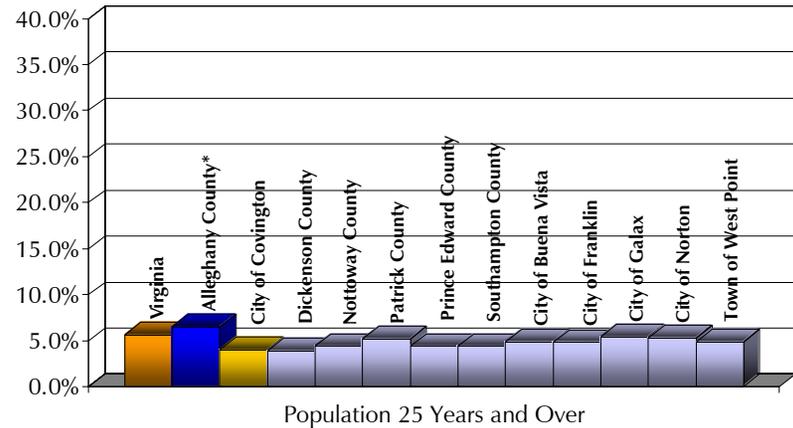
Source: 2000 U.S. Census
* Numbers for Alleghany County include the Town of Clifton Forge

education, 6.5% of Alleghany County residents having the degree, and 4.0% of Covington residents. However, the educational attainment rates for bachelor's and master's degrees fall behind those of the Commonwealth. While 18% of Virginians had bachelor's degrees in 2000, Alleghany County's rate was just 8.5% and Covington's just 5.1%. 8.0% of Virginians had master's degrees in 2000 with Alleghany County's rate at 2.6% and Covington's 0.8%. This may reflect the dominance of manufacturing jobs in the economy and the lack of a four year college in the region.

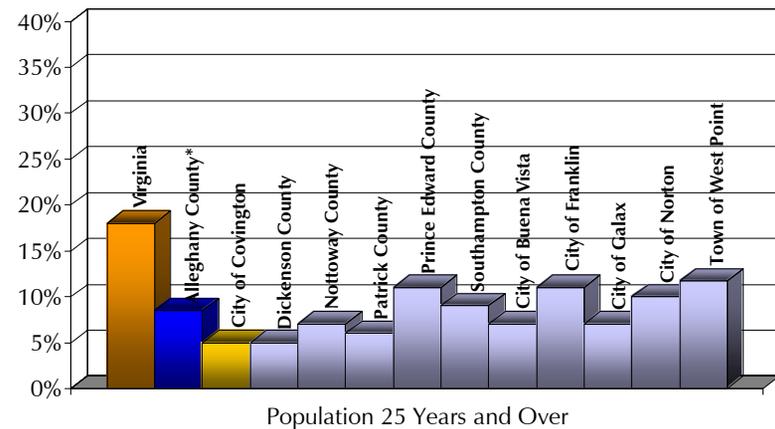
The opportunities for post secondary education and job training in the community include Dabney S. Lancaster Community College and the Jackson River Technical Center. The Community College offers associate's degrees, continuing education opportunities transferable to four year colleges, and workforce training services primarily geared toward the manufacturing jobs in the area. A new, unique program of the Community College is the Virginia Packaging Applications Center instructional lab. The Jackson River Technical Center offers vocational training for high school students and adult evening classes. It offers programs for diverse local needs and entry-level jobs including business, marketing, trades, and computer, multimedia and typing skills.

The local economy is well served by these institutions, as they offer programs and training compatible with the current businesses located in the region. However, four year college and university education opportunities remain limited to transfer programs at the Community College. Virginia Military Institute and Washington & Lee University are nearby in Lexington, but the former is purposely geared toward a particular student and the latter, as a private school, is quite expensive. Interestingly, the

Percent of the Population for Whom Highest Educational Attainment is an Associates Degree



Percent of the Population for Whom Highest Educational Attainment is a Bachelor's Degree



Source: 2000 U.S. Census
 * Numbers for Alleghany County include the Town of Clifton Forge

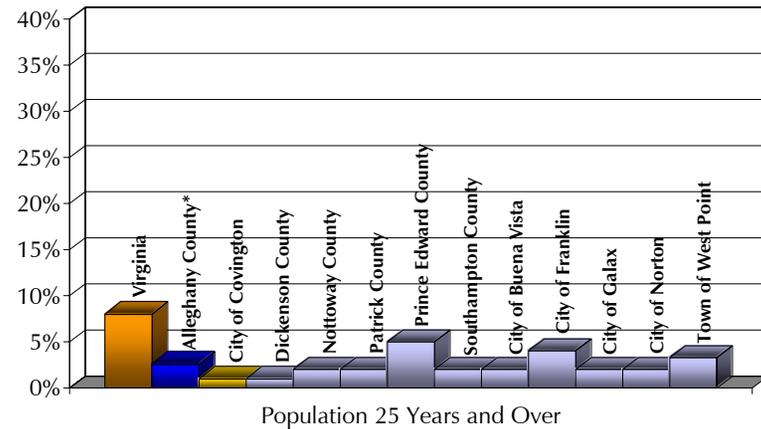
communities of Martinsville and Henry County found themselves in a very similar economic situation as the Alleghany Highlands without a four year institution, but worked hard in recent years to begin the New College Institute. The Institute quickly began offering bachelor's and master's degree classes in its downtown Martinsville location using adjunct professors from Virginia's private and public colleges and universities with the goal of becoming a free-standing institution over time.

Education Expenditures

The cost of providing a K-12 public education is one of the largest annual costs for a locality. The efficiency with which funds are spent has a great impact on the quality of education and the ability to meet future educational and other community needs. A comparison of expenditures per student for ACPS, CCPS, their peer districts, and the Commonwealth shows Covington spending more per student than Alleghany County, the peer localities, and the average for Virginia.

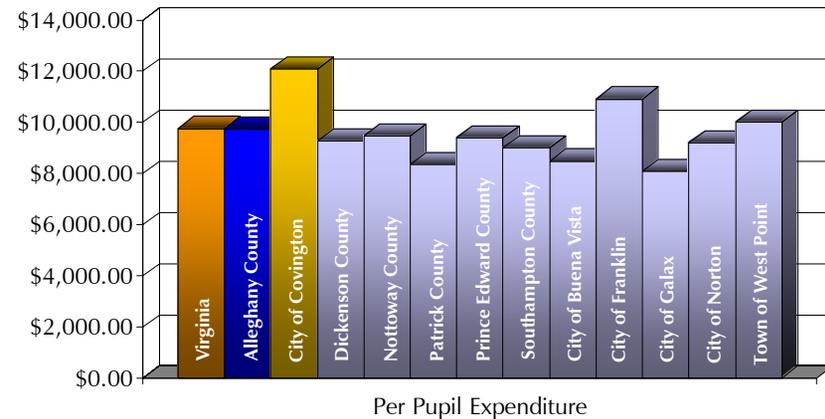
From the graph at the lower right it is clear that Covington City Public Schools spends the most per student at \$12,106, considerably more than the average \$9,755 for the Commonwealth. Part of the cost burden borne by CCPS is related to its larger share of Special Education Students (25.6% compared to the statewide average of 14.7% with its peer districts running from 13.5% to 19.8%) Educating Special Education students requires higher expenses per student due to providing appropriate classroom sizes and meeting their special needs. CCPS' higher cost is also likely related to the number of students coming from poverty (Free & Reduced Lunch counts serving as the usual indicator of the number of students coming from poverty). 42.9% of

Percent of the Population for Whom Highest Educational Attainment is a Master's Degree



Source: 2000 U.S. Census
 * Numbers for Alleghany County include the Town of Clifton Forge

Comparison of Expenditures per Student FY 2005 - 2006



Source: Table 15, Superintendent's Annual Report, FY 2006, VA Dept of Education

CCPS students receive Free & Reduced Lunches as compared to the statewide average of 33.1%. However, two of CCPS' peer districts have Free & Reduced Lunch rates even higher, the City of Franklin at 55.2% and the City of Galax at 45.2%.

The higher per student expenditures in Covington City Public Schools relates then at least partially to meeting special needs and educating students coming from poverty. This is particularly a large burden for a school division with less than 1,000 students (enrollment has ranged from 876 to 950 since 2000). In fact, CCPS is among the smallest school districts in Virginia. Only eight of the 136 school districts in Virginia are smaller than CCPS. Additionally, the smaller size does create the additional burden of spreading the administrative costs of the school division over a smaller base, further raising the per student expenditure rate.

Alleghany County Public Schools' per student expenditures are about even with the statewide average at \$9,724. Special Education Students in Alleghany County make up 17.9% of the student population. Free & Reduced Lunches are provided for 37.7% of students. While these percentages are higher than the statewide average, having a larger student population (ranging from 2904 to 2914 since 2000) allows for economies of scale when providing these and other services. Additionally, the administrative costs are spread over a larger base and helps keep ACPS's expenditures per student more in line with the statewide average.

In talking about spreading the expenses across any base, it is important to remember that the true base is the citizens of the Alleghany Highlands whose taxes help pay for the schools. Reprising data included in "Trend #1:



Declining Population,” the overall population of the Allegheny Highlands is projected to continue declining (-1,295 / -7.5% over 30 years for Allegheny County & -354/-5.7% for Covington) with the workforce age population declining even more significantly (Allegheny County: -1,911/-17.3% & Covington: -618/-15.9%). Covington’s school age population is projected to remain stable from 2000 to 2030 and therefore the burden of paying for the education of those children will fall increasingly to a smaller base of taxpayers. In Allegheny County the school age population is anticipated to decline on pace with the overall population (-7.4%), but with this rate of decline being less than half of the decline in the workforce age population, ACPS faces the same dilemma of educating children from a smaller base of taxpayers.

Cost Savings & Improved Services

Already, the City of Covington, Allegheny County, ACPS and CCPS share a number of services which translates into savings. Between the City of Covington and CCPS, vehicle maintenance, fuel distribution, and secured bus parking are all shared services. CCPS baseball and football facilities and gyms are available to City residents. Trash, water, sewer, and snow removal are provided for the CCPS at no cost by the City. Accounting services are shared as well.

CCPS also cooperates with ACPS to provide services at the Jackson River Technical Center, an example of sharing costs and improving educational opportunity. The school systems also share substitute teachers and attendance officers. The School Nurse Program is a cooperative effort between ACPS, CCPS, and the Allegheny Foundation. Both ACPS and CCPS benefit from shared services with their respective local governments through

| Shared Services | | | | |
|--------------------------------|------|----------------|------|------------------|
| Service | CCPS | Covington City | ACPS | Allegheny County |
| Vehicle Maintenance | ✓ | ✓ | | |
| Fuel Distribution | ✓ | ✓ | | |
| Secured Bus Parking | ✓ | ✓ | | |
| Athletic Facilities | ✓ | ✓ | | |
| Accounting Services | ✓ | ✓ | | |
| Jackson River Technical Center | ✓ | | ✓ | |
| Substitute Teachers | ✓ | | ✓ | |
| Attendance Officers | ✓ | | ✓ | |
| School Nurse Program* | ✓ | | ✓ | |
| School Resource Officers** | ✓ | ✓ | ✓ | ✓ |
| DARE Officers** | ✓ | ✓ | ✓ | ✓ |

* School Nurse Program costs are shared by Allegheny Foundation, 50.0%; CCPS, 12.5%; ACPS, 37.5%.
 ** School Officers are shared services with respective local governments.

the provision of school Resource Officers and DARE Officers.

The School Efficiency Reviews done by Evergreen Solutions, LLC for ACPS and CCPS in February 2007 highlighted ways that both districts can cut operational expenses and save money through sharing additional services. While the cost savings are “incremental and cumulative,” the report suggested potential operational expense savings of \$1.5 million with an additional \$2.8 million saved through new shared services for ACPS over a period of five (5) years. Savings for CCPS would be significant as well with \$1.3 million saved in operational expenses and an additional \$800,000 saved through new shared services over five (5) years. The main areas of recommended cooperation were providing joint transportation services and cooperating on the purchase of health benefits and other services and supplies. These efforts would effectively free up money to be spent on other needed items.

Improving School Facilities

The Allegheny Highlands has an additional financial challenge on the horizon related to school improvements. The Evergreen Efficiency Reviews of ACPS and CCPS recognized the greatest capital needs as the replacement or major renovation of Allegheny High School, Covington High School, Jeter-Watson Intermediate School, and Edgemont Primary School. To date, construction has begun on a new facility to house the combined Jeter-Watson and Edgemont Primary Schools. Planning is underway for the construction of a new Allegheny High School after talks related to creating a combined high school broke down. The current CCPS building project is expected to cost \$26.5 million and the planned new

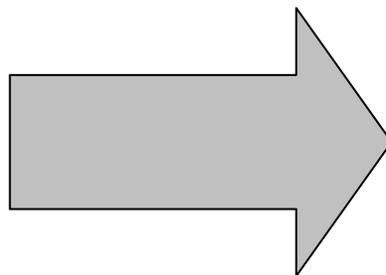


Alleghany High School is expected to cost between \$43.0 and \$53.0 million. These sizeable financial commitments will require significant increases in debt service on the part of their respective localities. The complete financial impact of these construction projects is explored in the next section of this report, but it can be said at this point that paying for these new facilities can create some challenging math for localities in a region where the population and economy are declining.

Findings & Implications

Findings:

- Standards of Learning assessment scores show ACPS & CCPS to be about average compared to similar school districts and the Commonwealth.
- Attainment of bachelor's and master's degrees is significantly lower in the Allegheny Highlands than the statewide average.
- Continuing education opportunities in the region are limited to associate's degrees & reflect the local manufacturing economy.
- Analysis of expenditures per student suggests potential savings in shared services between ACPS, CCPS, Allegheny County & Covington.
- Outdated school facilities need replacement in both ACPS & CCPS, but will prove to be expensive to build.



Implications:

- Even though certain school facilities are dated and need replacement, ACPS & CCPS are offering good, basic educational opportunities that are attractive to families and industry.
- At the same time, limited post secondary educational opportunities are likely to discourage companies and younger workers from locating in the Allegheny Highlands.
- Increased cooperation among ACPS, CCPS, Allegheny County & Covington would potentially provide savings that could be used to service debt associated with the construction of new schools or to provide additional educational opportunities in the Allegheny Highlands.



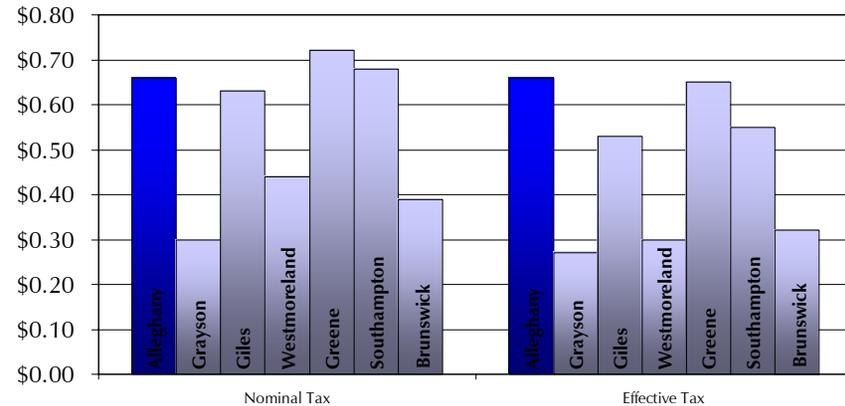
CHALLENGE #4: KEEPING TAXES LOW

Are the Tax Rates in the Allegheny Highlands Competitive?

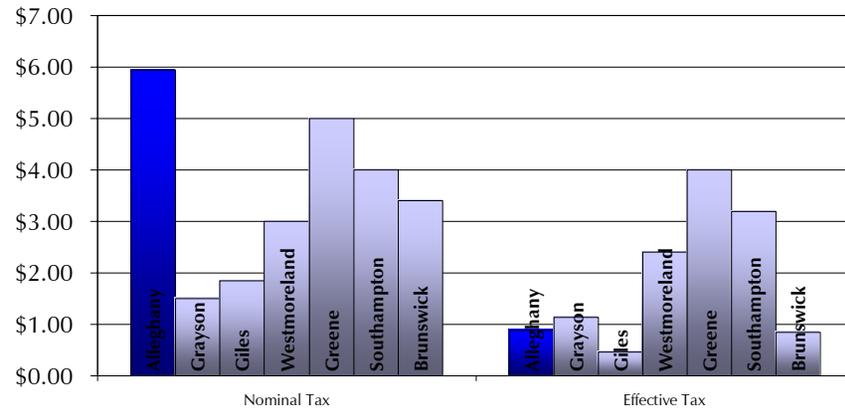
The "22nd Annual Corporate Survey" published in *Area Development Magazine* and cited in the Introduction clearly pointed out the importance of keeping the cost of doing business low to be competitive in recruiting new business and industry. One of those costs is taxes. Keeping the tax burden as low as possible while providing needed services is not only important to recruiting business, but also for retaining existing businesses and residential population. Communities do compete with each other for jobs and population, so a comparison of the tax rates of Allegheny County and Covington with similar sized communities places the current local tax rates in perspective.

The graphs and table to the right and on the following page show how Allegheny County's tax rates stack up against six Virginia counties of similar size (ranging from a population of 16,189 to 18,516 as compared to Allegheny's 17,160). The three graphs show the nominal tax rates (the actual established tax rate) and the effective tax rates (the nominal tax rate times the ratio of assessment) for real estate, personal property and machinery and tools. The reader is familiar with the first two, but of equal importance to business and industry, particularly within the manufacturing sector, is the Machinery and Tools Tax imposed by a locality. As an example of the importance of this tax, Covington's FY 2008 budget includes more revenue from its Machinery and Tools Tax (\$4,220,867) than from its Real Estate Tax (\$1,628,879). This is mainly because of the presence of MeadWestvaco and the equipment required for its

Allegheny County & Selected Counties
Real Property Tax, FY 2008



Allegheny County & Selected Counties
Personal Property Tax, FY 2008



Source: 2007-08 Virginia Economic Development Partnership Guide to Local Taxes on Business

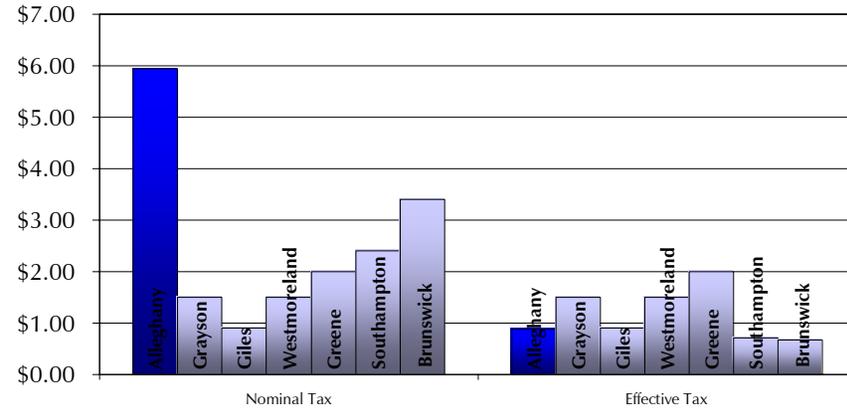
Covington operations. For Allegheny County these two revenue sources are roughly equal with each bringing in around \$6,000,000 annually.

The table shows the rates for the Business, Professional, & Occupational License Tax (BPOL), but four of the comparable counties are not included. This is because they impose a Merchants' Capital Tax which is an annual tax on inventory. The Code of Virginia does not allow a community to impose both a BPOL Tax and a Merchants' Capital Tax. BPOL Tax involves a licensing fee and levies a tax on a business' gross receipts or purchases. The tax portion of BPOL typically varies depending on the nature of the business.

As can be seen from the graphs, Allegheny County's Real Estate Tax rate at \$0.66 per \$100 in assessed value with an assessment ratio of 100.0% is significantly higher than Brunswick, Grayson, and Westmoreland Counties' rates, but roughly on par with Giles, Greene, and Southampton Counties' rates. Allegheny County's Real Estate Tax rate would make it fairly competitive against three of the counties, but not competitive against the other three.

For the Personal Property Tax, Allegheny County's rate is higher than the comparable counties at \$5.95 per \$100 in assessed value, but the assessment ratio is only 15.0% which lowers the effective tax rate to \$0.89, the low end of the scale as compared to the other counties. The Machinery and Tools Tax rate is much higher than for the comparable counties at \$5.95 per \$100 in assessed value, but also has a 15.0% assessment ratio and therefore an effective tax rate of \$0.89 which is lower than all but one of the comparable counties. Allegheny County is therefore competitive related to Personal Property Tax and Machinery and Tools Tax. For the BPOL Tax

Allegheny County & Selected Counties Machinery & Tools Tax, FY 2008



Source: 2007-08 Virginia Economic Development Partnership Guide to Local Taxes on Business

| Allegheny County & Selected Localities BPOL Tax, FY 2008 | | | |
|-------------------------------------------------------------|------------------|---------------|--------------------|
| Type of Business | Allegheny County | Greene County | Southampton County |
| Retailers | \$0.10 | \$0.15 | \$0.25 |
| Wholesalers & Distributors | \$0.05 | \$0.04 | \$0.05 |
| Financial Services | \$0.29 | \$0.44 | \$0.58 |
| Business Services | \$0.18 | \$0.27 | \$0.25 |

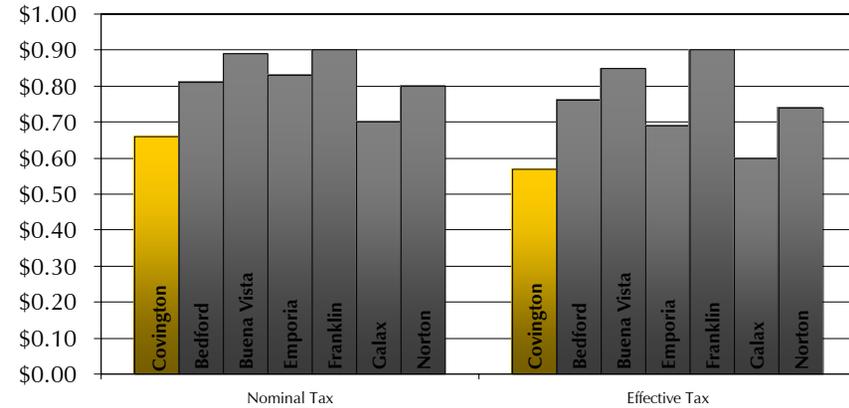
Source: 2007-08 Virginia Economic Development Partnership Guide to Local Taxes on Business
* Brunswick, Giles, Grayson, and Westmoreland have a Merchant's Capital Tax instead of a BPOL Tax

Alleghany County has rates lower or roughly equal to the comparable counties and is therefore competitive in regard to this tax.

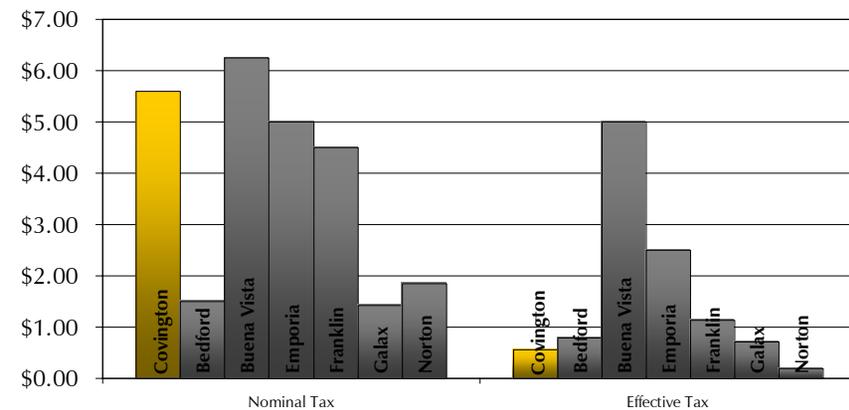
The graphs and table to the right and on the following page show how Covington's tax rates stack up against six Virginia cities of similar size (ranging from a population of 3,769 to 8,501 as compared to Covington's 5,865). As can be seen from the graphs, Covington's Real Estate Tax rate at \$0.66 per \$100 in assessed value is slightly or significantly lower than all six comparable cities. The Commonwealth of Virginia agency that compiles these rates indicates that Covington has only an 86.3% assessment ratio, a ratio questioned by some who initially reviewed this data. If the ratio is accurate, it would lower the effective rate to \$0.57 and make Covington's Real Estate Tax scenario even more advantageous. Covington's Real Estate Tax rate would therefore make it fairly competitive against all six of these communities.

For the Personal Property Tax, Covington's rate is higher than all but one of the comparable cities at \$5.60 per \$100 in assessed value, but the assessment ratio is only 10.0% which lowers the effective tax rate to \$0.56, the low end of the scale as compared to the other cities. The Machinery and Tools Tax rate is higher than all but one of the comparable cities at \$5.52 per \$100 in assessed value, but has a 15.0% assessment ratio and therefore an effective tax rate of \$0.83. While this effective rate is more advantageous than the nominal rate, it is still higher than all but one of the comparable cities. Covington is somewhat competitive related to Personal Property Tax and Machinery and Tools Tax. In regard to the BPOL Tax, Covington has rates that are equal to or higher in every category as contrasted with the comparable cities except for the City of Norton's rate on wholesalers and

Covington & Selected Cities Real Property Tax, FY 2008



Covington & Selected Cities Personal Property Tax, FY 2008



Source: 2007-08 Virginia Economic Development Partnership Guide to Local Taxes on Business

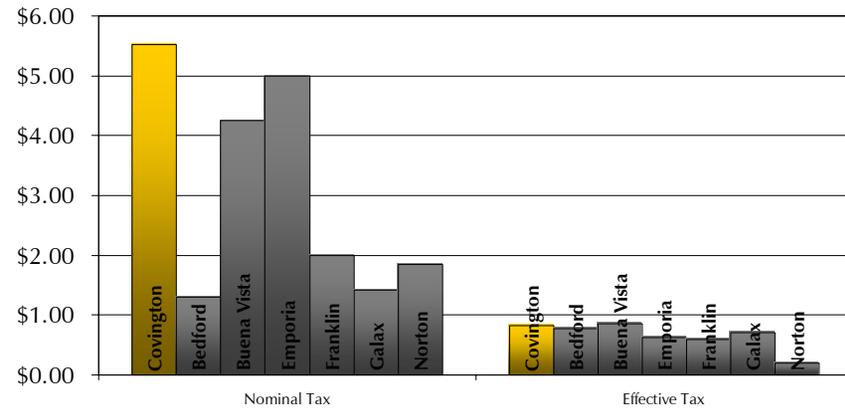
distributors. Covington is therefore somewhat not competitive with these comparable cities regarding the BPOL Tax.

Overall, the Alleghany Highlands is fairly competitive as compared to other localities, but not to any large extent. The graphs and tables point out a mixed picture when it comes to tax rates. Depending on the nature of the business and the taxes it would be subject too, certain business and industry would have a stronger advantage in one community verses another. Communities have tools at hand to ameliorate their tax burden to attract and retain business and the Alleghany Highlands has used those effectively over the years. Two examples will help illustrate this.

First, when looking at the Machinery and Tools Tax rates for Alleghany County and Covington, you find fairly high nominal rates, but much lower effective rates because of the low assessment ratios. This means the Alleghany Highlands can recruit and retain industry while leaving room for necessary adjustments over time without raising the nominal rate.

Second, like many communities across Virginia, the Alleghany Highlands Economic Development Corporation uses incentives to attract new business and industry to the designated Enterprise Zone within the area. Several of these involve incentive payments to new industry to help them pay their taxes over the first several years of operation. This lowers the initial costs during the start-up phase and can be the difference between a deal made and a deal lost. Additionally, the Commonwealth of Virginia has incentives it can provide new business and industry, both within and outside designated Enterprise Zones.

Covington & Selected Cities Machinery & Tools Tax, FY 2008



Source: 2007-08 Virginia Economic Development Partnership Guide to Local Taxes on Business

| Covington & Selected Cities BPOL Tax, FY 2008 | | | | | | | |
|--------------------------------------------------|----------------|--------------|------------------|--------------|---------------|------------|-------------|
| Type of Business | Covington City | Bedford City | Buena Vista City | Emporia City | Franklin City | Galax City | Norton City |
| Retailers | \$0.20 | \$0.125 | \$0.20 | \$0.20 | \$0.20 | \$0.20 | \$0.20 |
| Wholesalers & Distributors | \$0.12 | \$0.10 | \$0.05 | \$0.05 | \$0.10 | \$0.05 | \$0.25 |
| Financial Services | \$0.58 | \$0.50 | \$0.58 | \$0.58 | \$0.58 | \$0.58 | \$0.50 |
| Business Services | \$0.36 | \$0.25 | \$0.36 | \$0.36 | \$0.30 | \$0.20 | \$0.36 |

Source: 2007-08 Virginia Economic Development Partnership Guide to Local Taxes on Business

Is the Existing Debt Service Reasonable?

It is important for a locality to keep its debt service at a level that allows it to capitalize needed improvements and meet emergencies that might arise while maintaining needed services even in the ebb and flow of the local and national economy. It is also important to maintain a debt load that allows a locality to obtain the best bond ratings and interest rates possible. Localities can face the dilemma of having to cut services or raise additional revenue through raising nominal or effective tax rates as the cost of providing those services rise over time due to inflation in order to continue paying a debt service that is too large. This is particularly true in an area with limited economic growth and therefore a limited amount of new residential, commercial, or industrial development coming on line that can be taxed.

The two tables to the right provide data on the 2007 debt of Alleghany County and the six comparable counties. Several parameters need explanation. First, the tables make a reference to “Morgan Keegan Suggested Policy.” These guidelines were provided to Alleghany County and Alleghany County Public Schools in the fall of 2007 by Morgan Keegan & Company, Inc. in a report entitled “Financial Analysis and Debt Capacity: A Preliminary Review.” In reality, communities do use other guidelines, both higher and lower, but Morgan Keegan’s are reasonable and now familiar to the community. Those guidelines will be used. Second, there are several ratios that can be used to analyze the debt capacity of a locality. Rather than use multiple ratios, this report will use only the Interest Coverage Ratio. The Interest Coverage Ratio as defined by Radford University’s Governmental and Nonprofit Assistance Center is calculated by dividing the change in a locality’s net assets

| Comparison of 2007 Debt Service Ratios | | | | | | |
|-------------------------------------------|-------------------|-----------------|------------------------|------------------|-----------------------|---------------------|
| Data Point/ Ratio | Grayson County | Giles County | Westmoreland County | Greene County | Southampton County | Brunswick County |
| Estimated Population, 2007 | 16,189 | 16,604 | 16,885 | 17,714 | 18,335 | 18,516 |
| Total Debt, 2007 | \$3.1 mill | \$21.2 mill | \$17.6 mill | \$38.3 mill | \$48.1 mill | \$11.8 mill |
| Debt per Capita, 2007 | \$195 | \$1,277 | \$1,045 | \$2,162 | \$2,625 | \$639 |
| Total Taxable Real Estate Valuation, 2005 | \$822 mill | \$823 mill | \$1,123 mill | \$1,073 mill | \$885 mill | \$670 mill |
| Debt to Assessed Value | 0.38% | 2.58% | 1.57% | 3.57% | 5.44% | 1.77% |
| Interest Coverage Ratio, 2006* | 72.40 | 0.76 | -0.33 | 4.12 | 3.44 | 1.91 |

Source: 2007 Population Estimates, Weldon Cooper Center; 2006 Financial Performance Measures for Virginia Governments, Radford University; 2007 Comparative Reports, Virginia Auditor of Public Accounts

| Comparison of 2007 Debt Service Ratios | | | | |
|------------------------------------------------------------------------------|------------------|------------------------------|-------------------------------|-----------------------------------|
| Data Point/ Ratio | Alleghany County | Median of Six VA Counties | Average of Six VA Counties | Morgan Keegan Suggested Policy |
| Estimated Population, 2007 | 17,160 | 16,745 | 16,848 | |
| Total Debt, 2007 | \$31.9 mill | \$19.4 mill | \$23.4 mill | |
| Debt per Capita, 2007 | \$1,859 | \$1,161 | \$1,324 | \$2,200 |
| Total Taxable Real Estate Valuation, 2007 for Alleghany, 2005 for All Others | \$900.7 mill | \$854 mill | \$899.3 mill | |
| Debt to Assessed Value | 3.54% | 2.27% | 2.60% | 3.00% |
| Interest Coverage Ratio, 2006* | -0.89 | 2.68 | 13.72 | |

Source: 2007 Population Estimates, Weldon Cooper Center; 2006 Financial Performance Measures for Virginia Governments, Radford University; 2007 Comparative Reports, Virginia Auditor of Public Accounts

plus interest by the interest expense. A higher number indicates better ability to meet borrowing costs.

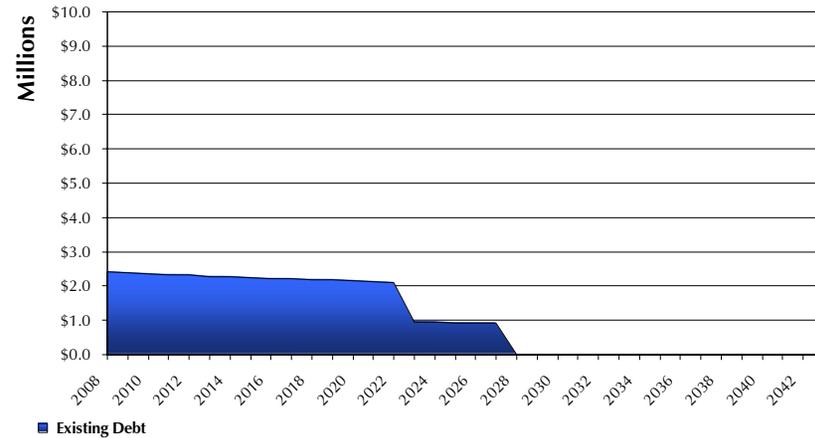
As can be seen from the two tables on the previous page, Alleghany County's Total Debt in 2007 was somewhat higher than the Total Debt of the comparable counties. While the Debt per Capita was higher than the comparable counties, it was within the range of Morgan Keegan's suggested policy. The Debt to Assessed Value was both higher than the median and average for the comparable counties and higher than Morgan Keegan's suggested policy, though only 16% higher. The County's Debt Service Ratio was also somewhat problematic, but not overly so, particularly if Grayson County is taken out of the comparison.

The graph in upper right corner of this page charts the existing annual debt service for Alleghany County. Annual debt service payments currently run \$2.4 million on debt that will be paid off in 2027.

The table to the right and the table on the next page provide data on the 2007 debt of Covington and the six comparable cities. As can be seen from the tables, Covington's Total Debt in 2007 was lower than most of the comparable cities. The Debt per Capita was also lower than most of the comparable cities, but did slightly exceed the range of Morgan Keegan's suggested policy. The Debt to Assessed Value was slightly lower than the median and average for the comparable counties, but nearly double Morgan Keegan's suggested policy. The County's Debt Service Ratio was also somewhat problematic, but not overly so.

The graph in lower right corner of this page charts the existing annual debt service for Covington excluding the

Alleghany County Existing Annual Debt Service



Source: Existing Debt Service, Morgan Keegan & Co. 10-07; Debt Service & Calculations by K. W. Poore & Associates, Inc. 03-08

| Comparison of 2007 Debt Service Ratios | | | | | | |
|-------------------------------------------|----------------|-----------------|-----------------|---------------------|---------------|------------------|
| Data Point/ Ratio | City of Norton | City of Emporia | City of Bedford | City of Buena Vista | City of Galax | City of Franklin |
| Estimated Population, 2007 | 3,769 | 5,591 | 6,111 | 6,552 | 6,791 | 8,501 |
| Total Debt, 2007 | \$9.5 mill | \$16.3 mill | \$38.3 mill | \$25.4 mill | \$8.1 mill | \$23.2 mill |
| Debt per Capita, 2007 | \$2,528 | \$2,911 | \$6,275 | \$3,882 | \$1,188 | \$2,733 |
| Total Taxable Real Estate Valuation, 2005 | \$171 mill | \$305 mill | \$316 mill | \$290 mill | \$350 mill | \$411 mill |
| Debt to Assessed Value | 5.57% | 5.34% | 12.14% | 8.77% | 2.31% | 5.65% |
| Interest Coverage Ratio, 2006* | 0.00 | 9.21 | 3.42 | 1.12 | -1.50 | 0.00 |

Source: 2007 Population Estimates, Weldon Cooper Center; 2007 Financial Performance Measures for Virginia Governments, Radford University; 2007 Comparative Reports, Virginia Auditor of Public Accounts

new debt related to school construction. Annual debt service payments currently run \$1.3 million, but will drop to \$1.1 million in 2009 even with the recent new debt taken on to provide a new cell at the landfill. All current debt, except for new debt related to school construction will be paid off in 2028.

Both Alleghany County and Covington currently have outstanding debt and annual debt service payments that are at, just below, or just above the guidance provided by Morgan Keegan. All in all, both localities are very healthy regarding current debt and do not place an undo debt burden on their citizens. However, the population and employment trends mentioned in the beginning of this report may impact the debt scenario for both jurisdictions over time. Also, as noted next, the pending new debt and anticipated new debt for both localities will certainly change this picture.

Where Is Debt Service Headed? How about Taxes?

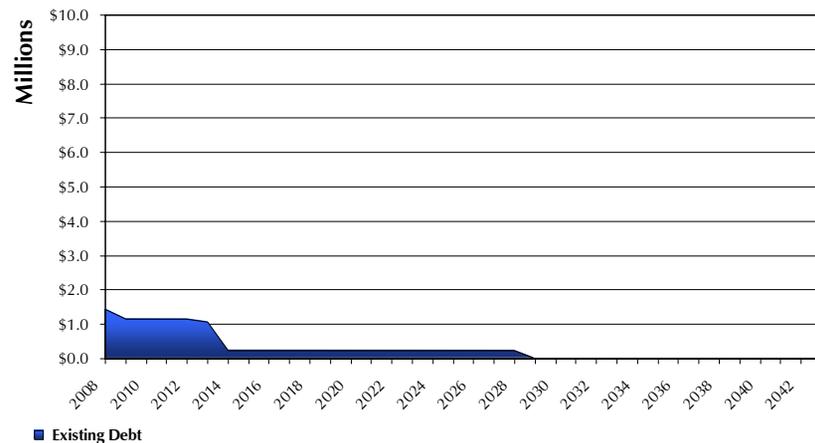
The sub-headings for this section have been worded as questions to reflect the age old question, “What does all of this mean to the bottom line?” Or more appropriately put, “...my bottom line?” Keeping taxes reasonable is an ongoing concern of both citizens and elected officials of any locality. The concern is raised most often when localities have failed to keep up with their capital needs and large construction projects and new debt are required to get back on track.

Covington City Public Schools has recently started construction on a dual facility to replace the Edgemont Primary School and Jeter-Watson Intermediate School. As affirmed in the *School Efficiency Reviews* by Evergreen Solutions, LLC, both facilities need to be replaced. Talks

| Comparison of 2007 Debt Service Ratios | | | | |
|------------------------------------------------------------------------------|-------------------|-------------------------|--------------------------|--------------------------------|
| Data Point/ Ratio | City of Covington | Median of Six VA Cities | Average of Six VA Cities | Morgan Keegan Suggested Policy |
| Estimated Population, 2007 | 5,865 | 5,851 | 5,506 | |
| Total Debt, 2007 | \$13.4 mill | \$19.8 mill | \$20.1 mill | |
| Debt per Capita, 2007 | \$2,282 | \$2,822 | \$3,253 | \$2,200 |
| Total Taxable Real Estate Valuation, 2007 for Covington, 2005 for All Others | \$245 mill | \$310.5 mill | \$307.1 mill | |
| Debt to Assessed Value | 5.46% | 6.36 | 6.56 | 3.00% |
| Interest Coverage Ratio, 2006 | -1.50 | 0.56 | 2.04 | |

Source: 2007 Population Estimates, Weldon Cooper Center; 2006 Financial Performance Measures for Virginia Governments, Radford University; 2007 Comparative Reports, Virginia Auditor of Public Accounts

**City of Covington
Existing Annual Debt Service**



Source: Covington FY 07-08 Budget; Covington Statement of General Bond Indebtedness as of June 15, 2007; Debt Service & Calculations by K. W. Poore & Associates, Inc. 03-08.

between Allegheny County and Covington regarding renovating an existing facility or constructing a new facility to serve as a joint high school were discontinued and Allegheny County Public Schools has purchased land and begun planning for a new Allegheny High School. A new high school has been needed for many years due to the obsolescence of the current facility and its presence in a flood plain. Without a doubt, replacing these facilities is very important to the community, both for the current residents and businesses and for the recruitment of new businesses and the attraction of new residents.

Answering the bottom line question for just the current and pending school construction projects, however, does not paint a complete picture. Both Allegheny County and Covington face a long list of other needed capital projects. A 5-Year Capital Improvement Plan (CIP) is often a “wish list” with some of the capital projects on the list necessarily postponed until the next CIP. However, there are also items in a CIP that can’t be postponed. The cost related to the construction of new schools must be considered along with the cost of additional, unavoidable capital needs to completely answer the bottom line question.

The remaining tables and graphs in this section have been assembled on the assumption that at a minimum, Covington will have to upgrade its wastewater treatment plant and the Eastern Regional Wastewater Treatment Plant will be constructed, both of which are included in the respective CIP’s of the two localities and in the Comprehensive Economic Development Strategy. The reader could substitute a different set of capital projects for these two. Either way, by including at least some of the other pending capital expenses, a more realistic “bottom line” picture can be painted. **[Note: Because the**

terms utilized to calculate debt service could change, all figures are considered to be estimates only and therefore have been rounded accordingly.]

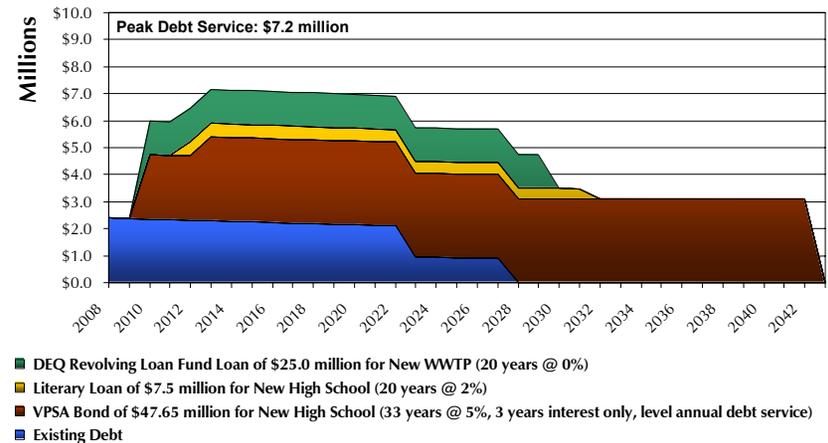
The new Allegheny High School is projected to cost between \$43.0 and \$53.0 million. Allegheny County's *Capital Improvements Program, 2009-2013* lists the cost of the Eastern Regional Wastewater Treatment Plant at \$29,713,540. With costs for such facilities going up every year, it is very likely that the cost will go higher. Using a figure of \$48.0 million for the construction of the new high school and a figure of \$25.0 million for the wastewater treatment plant (assuming grants could cover the remaining, even inflation adjusted costs) and taking advantage of low cost financing available through the Commonwealth of Virginia, the Total Debt for Allegheny County could approach \$97 million in 2013, the likely peak year in Annual Debt Service (as shown in the table to the right). The Debt per Capita and the Debt to Assessed Value would exceed Morgan Keegan's suggested policies by a multiple of nearly three. An additional Morgan Keegan suggested policy is added here, the Debt Service to Annual General Operating Expenditures. This figure would likely exceed Morgan Keegan's suggested policy as well. When debt service requires progressively more of a locality's revenue is when cuts in services or cuts in staff ensue unless new sources of revenue are discovered.

The graph at the right represents the likely Annual Debt Service scenario that might develop under the burden of the debt created by these large projects. The loans used for each capital project are described. Under different terms, this scenario would change, but not significantly because of the scale of the projects and the likelihood

| Potential Allegheny County Debt Service Ratios, 2013 | | |
|------------------------------------------------------------------|------------------|--------------------------------|
| Data Point/Ratio | Allegheny County | Morgan Keegan Suggested Policy |
| Population Projection, 2010 | 16,287 | |
| Potential Total Debt, 2013 (Existing, New High School, New WWTP) | \$97.0 million | |
| Potential Debt per Capita, 2013 | \$5,957 | \$2,200 |
| Potential Taxable Real Estate Valuation, 2013* | \$946.6 million | |
| Potential Debt to Assessed Value, 2013 | 10.2% | 3.0% |
| Potential Annual Debt Service, 2013 | \$7.2 million | |
| Potential Annual General Operating Expenditures, 2013** | \$44.2 million | |
| Potential Debt Service to Annual Expenditures, 2013 | 16.2% | 10.0% |

Source: 2010 Population Projections, Virginia Employment Commission; Debt Service & Calculations by K. W. Poore & Associates, Inc. 03-08
 * Calculated at 1% annual increases in valuations used in FY 2008 budget (the assumption used by Morgan Keegan & Company)
 ** Calculated at 4% annual increase in expenditures from FY 2008 budget (the assumption of Morgan Keegan & Company), plus new debt service.

Allegheny County – Potential Annual Debt Service Including a New \$48.0 Million High School & New \$25.0 Million Wastewater Treatment Plant



Source: Existing Debt Service, Morgan Keegan & Co. 10-07; Debt Service & Calculations by K. W. Poore & Associates, Inc. 03-08

that as a public entity, any interest rate incurred will be fairly low.

These large increases in Total Debt and Annual Debt Service will likely come with a price unless economic growth in the County can bring in additional revenue. Without growth, that price would be decreased services or increased taxes. There would be a number of ways to evaluate how these projects and their associated debt would impact Allegheny County's budget, but the easiest is to calculate the Implied Tax Increase in Real Estate Taxes that would be required to cover the additional costs of the Annual Debt Service associated with these projects. The rate for other taxes could be raised; staff operating costs and services could be reduced; or some combination of the above could be implemented instead, but the implication of an Implied Tax Increase is that existing resources have to be redirected from one place in the budget to another or additional revenue has to be secured.

The first table to the right delineates what the Implied Tax Increase would be for the construction of the new Allegheny High School in 2013, the peak year in Annual Debt Service. It does include funding resources already committed by the Allegheny County Board of Supervisors and the ACPS School Board, which would help lower the Implied Tax Increase. The second table delineates the Implied Tax Increase associated with the construction of the Eastern Regional Wastewater Treatment Plant. Combined, they outline a potential Implied Tax Increase of \$0.40 per \$100 in assessed value, an increase of 60% in the Real Estate Tax rate.

For the City of Covington, the construction of the new Edgemont-Jeter Watson school complex is projected to

| Potential Implicit Real Estate Tax Increase, 2013 Construction of New \$48.0 Million High School | | | | | | |
|-------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------|--------------------------------------|-------------------------------------|--------------------------------|-------------------------------|
| Annual Debt Service Scenario for Debt of \$55,150,000 | VPSA Bond & Literary Loan | ACPS* Contribution | Allegheny County Contribution | Net Increase in Debt Service | Implicit Tax Increase** | Percentage of Increase |
| Fiscal Year 2013 | \$3.6 million | \$810,000 | \$500,000 | \$2.3 million | \$0.26 | 39.4% |

Source: Allegheny County Public Schools Construction Planning; Prelim Financial Analysis & Debt Capacity for ACPS, Morgan Keegan & Co. 10-07; Debt Service & Calculations by K. W. Poore & Associates, Inc. 03-08
 * ACPS Contribution: Lottery & School CIP, \$400,000 & Clifton Forge Reversion, \$410,000
 ** Implicit tax increase assuming an increase of \$0.01 per \$100 in valuation raises \$90,000 (the assumption used by Morgan Keegan & Company)

| Potential Implicit Real Estate Tax Increase, 2013 Construction of \$25.0 Million Eastern Regional Wastewater Treatment Plant | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------------------------------|--------------------------------|-------------------------------|
| Annual Debt Service Scenario for Debt of \$25,000,000 | DEQ Revolving Loan Fund | Net Increase in Debt Service | Implicit Tax Increase * | Percentage of Increase |
| Fiscal Year 2013 | \$1.25 million | \$1.25 million | \$0.14 | 21.2% |

Source: Allegheny County CIP, 2009-2013; Debt Service & Calculations by K. W. Poore & Associates, Inc. 03-08
 * Implicit tax increase assuming an increase of \$0.01 per \$100 in valuation raises \$90,000 (the assumption used by Morgan Keegan & Company)

cost \$26.5 million. Improvements to the Covington Wastewater Treatment Plant are projected to cost between \$2 and \$10 million according to the *City of Covington Five-Year Capital Improvement Plan Effective July 1, 2007*. Choosing a middle of the road figure for that construction project of \$6.0 million and assuming grants of \$1.0 million to assist with the costs would leave a project costing \$5.0 million. Using this cost and the cost for the new school complex yields the figures included in the table to the right.

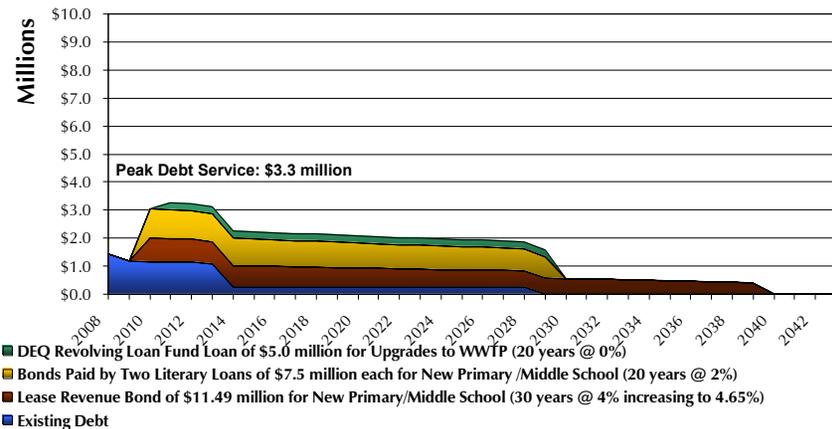
The Total Debt for Covington could approach \$36 million in 2011, the likely peak year in Annual Debt Service. This date is somewhat earlier than that for Alleghany County in light of the fact that the new school complex is already under construction. The City successfully negotiated interest only payments for the new school debt during construction, which is being paid from earnings on the City's investments. However, once regular debt service kicks in, the Debt per Capita would exceed Morgan Keegan's suggested policy by a multiple of nearly three. The Debt to Assessed Value would exceed Morgan Keegan's suggested policy by a factor of nearly five. The Debt Service to Annual General Operating Expenditures would also exceed Morgan Keegan's suggested policy.

The graph at the right represents the likely Annual Debt Service scenario that might develop under the burden of the debt created by these large projects (or at least large relative to the size of Covington). The loans used for each capital project are described. Under different terms, this scenario would change, but not significantly because of the scale of the projects relative to the resources available and the likelihood that as a public entity, any interest rate incurred would be fairly low.

| Potential City of Covington Debt Service Ratios, 2011 | | |
|--------------------------------------------------------------------------------|-------------------|--------------------------------|
| Data Point/Ratio | City of Covington | Morgan Keegan Suggested Policy |
| Population Projection, 2010 | 6,055 | |
| Potential Total Debt, 2011 (Existing, New Primary/Middle School, WWTP Upgrade) | \$35.6 million | |
| Potential Debt per Capita, 2011 | \$5,884 | \$2,200 |
| Potential Taxable Real Estate Valuation, 2011* | \$252.4 million | |
| Potential Debt to Assessed Value, 2011 | 14.1% | 3.0% |
| Potential Debt Service, 2011 | \$3.3 million | |
| Potential Annual General Operating Expenditures, 2011** | \$18.4 million | |
| Potential Debt Service to Annual Expenditures, 2011 | 17.8% | 10.0% |

Source: 2010 Population Projections, Virginia Employment Commission; Debt Service & Calculations by K. W. Poore & Associates, Inc. 03-08
 * Calculated at 1% annual increases in valuations used in FY 2008 budget
 ** Calculated at 4% annual increase in expenditures from FY 2008 budget plus new debt service

City of Covington – Potential Annual Debt Service Including a \$26.5 Million New Primary/Middle School & \$5.0 Million Upgrade to Wastewater Treatment Plant



Source: Covington FY 07-08 Budget; Covington Statement of General Bond Indebtedness as of June 15, 2007; CCPS Construction Plans; Debt Service & Calculations by K. W. Poore & Associates, Inc. 03-08

The first table on the right delineates what the Implicit Tax Increase would be for the construction of the new Edgemont-Jeter Watson school complex in 2011, the peak year in Annual Debt Service. The second table delineates the Implicit Tax Increase associated with improvements to the Covington Wastewater Treatment Plant. Combined, they outline a potential Implicit Tax Increase of \$0.84 per \$100 in assessed value, an increase of 127% in the Real Estate Tax rate. Even with facing smaller capital projects than Allegheny County, Covington's Implicit Tax Increase is higher than the County's because of the much smaller base of real property on which the Real Estate Tax can be imposed.

With the drop in Annual Debt Service associated with existing debt that will occur in 2014, this potential tax burden will be somewhat ameliorated, but only after several very tough financial years for Covington. However, even with the drop-off in Annual Debt Service for existing debt, the Annual Debt Service beginning in 2014 and continuing for many years would be about 70% higher than Covington's current Annual Debt Service.

As previously mentioned, both Allegheny County and Covington may choose to handle the new, pending and planned debt in different ways—cuts in staff, operating expenses, or services; raising tax rates other than the Real Estate Tax rate; etc. Nevertheless, there is obvious pressure building to increase taxes because of the need for these capital projects. While some tax increases may become necessary or even inevitable, in order to keep the Allegheny Highlands competitive economically, the localities and their citizens must figure out ways to make those increases as low as possible.

| Potential Implicit Real Estate Tax Increase, 2011 | | | | | |
|-------------------------------------------------------------------------------------|---------------------------|-------------------------------------|-------------------------------------|-------------------------------|-------------------------------|
| Created by the Construction of a New Covington Primary/Middle School Complex | | | | | |
| Annual Debt Service Scenario for Debt of \$26,490,000 | Lease Revenue Bond | Bonds Paid by Literary Loans | Net Increase in Debt Service | Implicit Tax Increase* | Percentage of Increase |
| Fiscal Year 2011 | \$827,000 | \$1.0 million | \$1.8 million | \$0.74 | 112.1% |

Source: City of Covington Council & Administration; Debt Service & Calculations by K. W. Poore & Associates, Inc., 03-08.

*Implicit tax increase assuming an increase of \$0.01 per \$100 in valuation raises \$24,736 (the assumption utilized in the FY 07-08 budget).

| Potential Implicit Real Estate Tax Increase, 2011 | | | | |
|-------------------------------------------------------------|--------------------------------|-------------------------------------|-------------------------------|-------------------------------|
| Upgrades to the Covington Wastewater Treatment Plant | | | | |
| Annual Debt Service Scenario for Debt of \$5,000,000 | DEQ Revolving Loan Fund | Net Increase in Debt Service | Implicit Tax Increase* | Percentage of Increase |
| Fiscal Year 2011 | \$250,000 | \$250,000 | \$0.10 | 15.2% |

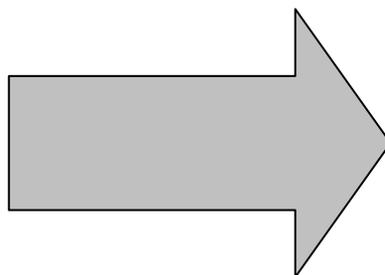
Source: City of Covington CIP, 2007-1012; Debt Service & Calculations by K. W. Poore & Associates, Inc., 03-08.

* Implicit tax increase assuming an increase of \$0.01 per \$100 in valuation raises \$24,736.

Findings & Implications

Findings:

- Alleghany County & Covington currently have tax rates that are competitive and are equal to or close to those of similar communities.
- The current debts & debt service for Alleghany County & Covington are reasonable and in keeping with similar communities and suggested policy.
- New & pending capital projects and their associated debt service in both Alleghany County & Covington will lead to future debt loads significantly higher than suggested policy & norms for similar locations.
- New & pending capital projects and their associated debt service will increase the pressure on both Alleghany County & Covington to increase tax rates.



Implications:

- While new & pending capital projects are necessary to provide better schools, improve utilities & enhance the competitiveness of the Alleghany Highlands, the likely increases in taxes required to service their associated debt will likely decrease the competitiveness of the area.
- Both Alleghany County & Covington will likely be forced to reduce staff, operating budgets and services in order to handle the additional debts being incurred for new & pending capital projects.
- Alleghany County & Covington may elect to find additional means of cooperating & sharing services in order to avoid cuts in services and to free up resources for debt service.



A CONCLUDING WORD

The Allegheny Foundation's primary purpose in commissioning a study by K. W. Poore & Associates, Inc. was to have current and meaningful data and information to assist in making the best possible decisions about direction and funding. This report sets forth the findings and their implications as the first phase of the study. As the report came together, the Foundation's Board of Directors felt that the findings and implications of the report were so significant that the report should be made available to the community.

This report identifies challenges facing the Allegheny Highlands, including financial challenges. K. W. Poore is currently preparing an additional report as a second phase of its study to identify potential efficiencies that might be accomplished to help meet these challenges. That report will also be presented to the community.