

# HOMEGROWN REVIVAL

Removing Barriers to Home-Based  
Entrepreneurship in West Virginia

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*By Nolan Gray and Olivia Gonzalez*



# INTRODUCTION

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Over the past year, the coronavirus pandemic has upended the nature of work. For the first time, offices across the country sit empty as millions of Americans work from home. Yet for many, working from home has long been the norm. Indeed, over the past few decades, many millions of Americans have taken the step of starting and operating businesses out of their homes. Sometimes these home-based businesses (HBBs) grow into major companies like Amazon or Disney; sometimes they make individually modest contributions that can collectively build up local economies. As West Virginia contends with the twin challenges of sluggish economic growth and population decline, state leaders should acknowledge HBBs as a way to both attract mobile entrepreneurs and cultivate homegrown entrepreneurs already at work in the Mountain State.

Despite their important economic contributions, HBBs frequently face hostile zoning regulations and onerous permitting requirements at the local level, leaving them at constant risk of being shut down or otherwise locked out of growth opportunities. In cities and towns across West Virginia, HBBs are often made to secure permits from local regulators or limit their operations in extreme ways, with little regard for the impact that they may have on neighbors.

State and local policymakers should recognize reform in this space as an easy way to foster sustained economic growth. The following report makes this case. In the first section, we dig into the data on HBBs and the unique challenges facing West Virginia's economy. In the second section, we discuss the potential economic contribution of HBBs in West Virginia and survey how various cities and towns across the state currently restrict them. A third and final section defines how state and local governments can embrace the nationwide push to remove unnecessary barriers to home-based entrepreneurship.

# BACKGROUND

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## How Home-Based Entrepreneurship Expands Opportunity

Even before the current pandemic, home-based entrepreneurship constituted an important part of the American economy. Defined as any business that an entrepreneur operates out of his or her home, common HBBs include everything from web design and tax preparation to hairstyling and childcare. [1] As of 2012, the last year for which we have full figures, an estimated 9.04 million firms operated out of a home. [2] As of 2016, nearly a million businesses with paid employees operated out of a home; with the rise of e-commerce and the present nationwide shift to remote work, both of these numbers have almost certainly increased. [3] While HBBs are usually small, many major firms—including Harley-Davidson, Hewlett-Packard, and eBay—started out of a home. [4] Even short of growing into economy-defining brands, HBBs can collectively make major economic contributions to local communities. [5]

The reasons for starting an HBB vary widely. For many, operating a business out of a home may simply be a low-cost way of pursuing dreams of entrepreneurship; for others, it may serve as a crucial economic safety net. [6] Indeed, while a wide array of Americans operate HBBs, the best evidence indicates that home-based work holds the greatest appeal for those otherwise excluded from traditional employment or entrepreneurship. This includes people—disproportionately women—who adopt caretaker roles and thus may be bound to the home, as well as those either recently laid off or otherwise locked out of the capital needed to start a brick-and-mortar business. [7] In this regard, HBBs provide a path to entrepreneurship for those most in need of economic opportunity.

## How Regulation Closes Doors to Home-Based Entrepreneurship

Despite the valuable role that HBBs play in supporting local economies, they often face an antagonistic regulatory environment at the municipal level. Key among these regulations are zoning laws, which allow local governments to segregate cities based on land use and restrict the size and shape of buildings. [8] While these zoning laws are in theory meant to separate truly incompatible uses, in practice, they usually enforce out-of-date assumptions of how a city should be organized. One such notion is the idea that residential and commercial uses should be strictly segregated; that is to say, that each American will live and work in separate parts of town. [9] If this assumption was dubious in the early 1900s—when most zoning codes were adopted—it makes even less sense in our present age of global telecommunications and digital commerce.

Since the adoption of zoning laws in the early twentieth century, these rules have regularly come into conflict with the natural desire of many to operate a small business out of their home. Zoning often subjects HBBs to a complicated set of regulations controlling how they can and cannot operate, including antiquated lists of permitted uses, strict rules related to whether they may employ non-residents, and vague standards concerning permitted equipment. [10] Worse yet, many municipalities condition the operation of any HBB on the receipt of a discretionary permit. As a result of these complicated and costly rules, many HBBs are forced to operate underground, leaving entrepreneurs in a legal limbo that limits their access to capital and ultimately stunts their ability to grow.

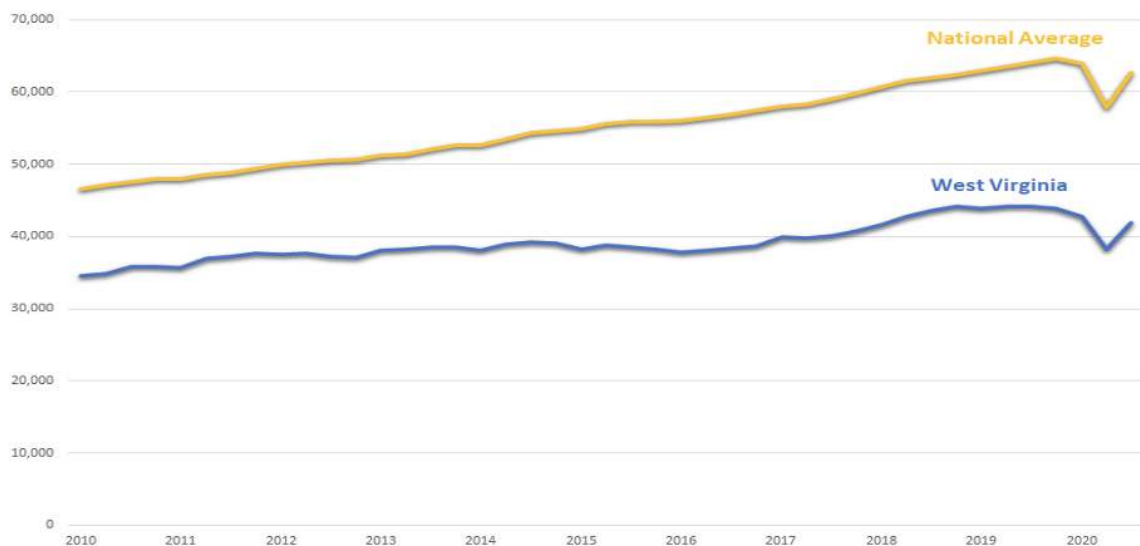
## West Virginia Economic Condition

West Virginia faces several serious economic challenges; most recently, the state lost 94,000 jobs during the 2020 pandemic. Although it has since regained 57,000 of these jobs, employment growth has slowed. [11] In February 2021, the state's unemployment rate stood at 6.3 percent, a gloomier figure for the state than where it was this time last year. [12] Although much of West Virginia's recent struggles are largely the result of the COVID-19 pandemic, its economic problems are not new.

For the past decade, West Virginia has been one of the few states to experience population decline. The state's population has been falling by 0.10 percent per year, on average, since 2010. [13] This is compared to 0.16 percent annualized growth across the country over the same period. According to the West Virginia Center on Budget & Policy, this population decline has been disproportionately concentrated across rural areas. [14]

While West Virginia's economy has grown steadily over the years, this growth has occurred at a slower and more volatile rate than other states. State gross domestic product (GDP) per capita has grown at about 0.5 percent on average each year since 2010, compared to the national average of 0.7 percent. These annualized rates, however, do not capture the volatility in economic activity that results from the state's natural gas and energy industries. [15] Figure 1 shows West Virginia's GDP per capita relative to the rest of the country. In Q3 of 2020, West Virginia's GDP per capita was \$41,883 relative to the national average of \$62,653.

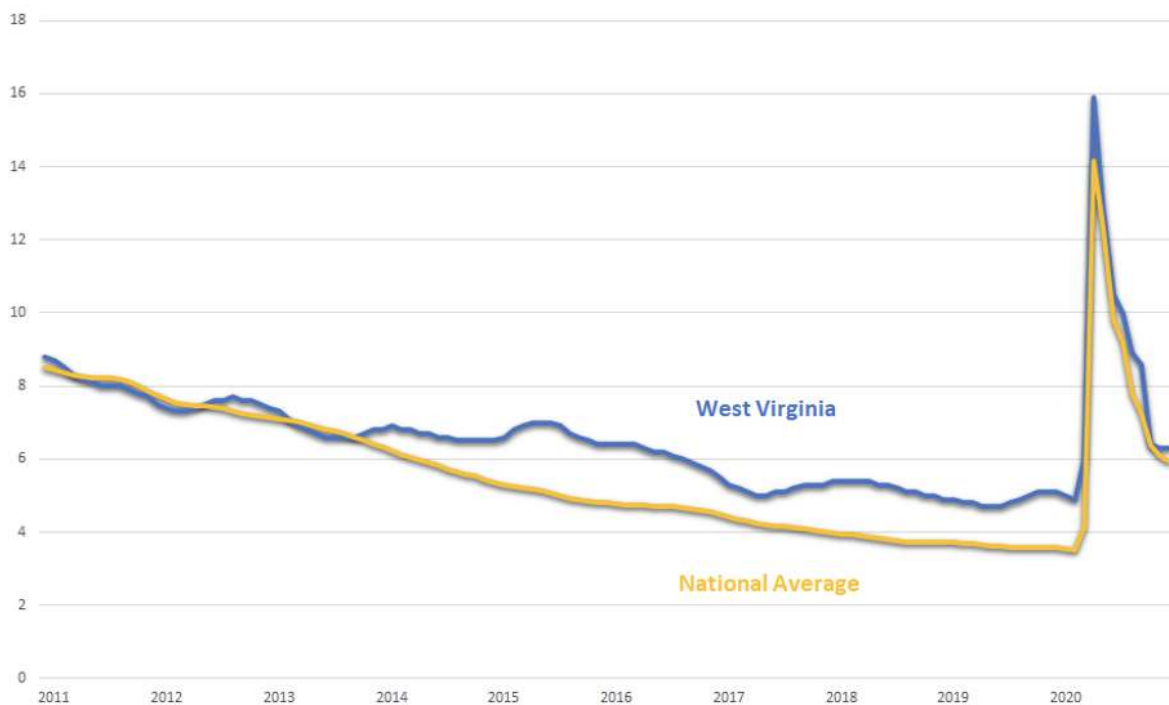
Figure 1. State GDP per capita



Source: Bureau of Economic Analysis, Regional Accounts.

Figure 2 shows that the state’s unemployment rate has consistently been significantly higher relative to the rest of the country, both before and during the pandemic. It hit an all-time high of 15.9 percent in April 2020 and has since come down to 6.3 percent in December 2020. Even more alarming is the state’s labor force participation rate—the portion of the population working or looking for work—of 55 percent, the lowest among all 50 states. [16]

Figure 2. Unemployment Rate



Source: U.S. Bureau of Labor Statistics, State Unemployment Rates, seasonally adjusted.

West Virginia’s declining population, lackluster growth, and struggling labor markets weaken the state’s competitive position. All is not lost, however; a low cost of living and world-class natural amenities are two of West Virginia’s biggest competitive advantages, making it an attractive option for relocating workers from other states lacking these features. [17] Attracting more remote workers and home-based entrepreneurs could meaningfully improve the state’s economic outlook and provide a much needed positive shock to counteract the current natural population decline. For those already in the state, home-based entrepreneurship could provide an opportunity for existing residents who are having difficulty finding a job or would prefer to be their own boss while contributing to the West Virginia economy.

# WHAT DO WE KNOW ABOUT HOME-BASED BUSINESSES IN WEST VIRGINIA?

## The Economic Contribution of Home-Based Entrepreneurship

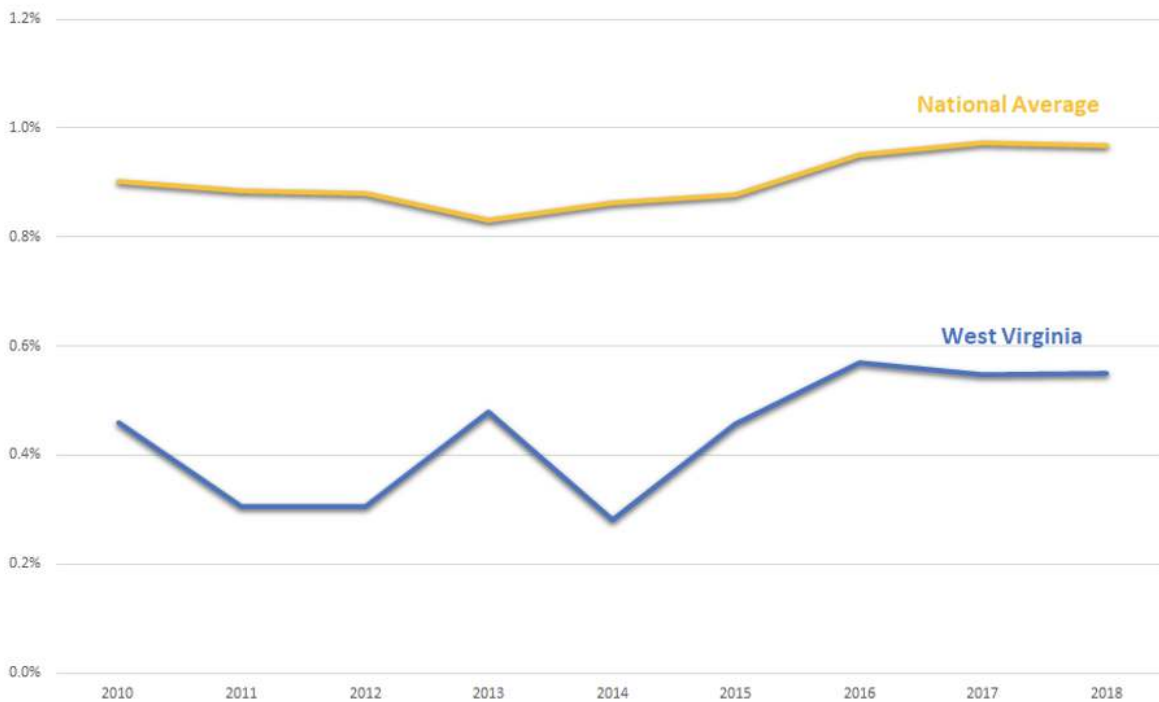
Small businesses in particular are an essential part of West Virginia's economy. There were 113,410 small businesses in the state in 2019, and they employed 49.2 percent of the entire workforce. [18] Supporting small business growth means supporting local farmers, entrepreneurs, and family-owned businesses. Although policymakers may be tempted to try to attract large corporations with taxpayer dollars or special privileges, creating a healthy economic and regulatory environment for small businesses to thrive is key to sustained long-term growth. Though individually modest, small businesses collectively make a substantial contribution to West Virginia, creating jobs and diversifying the Mountain State's economy. [19]

Research shows that a greater presence of small businesses in West Virginia can alleviate poverty, primarily through their impact on driving economic growth. [20] Home-based businesses, or those small businesses that are based in the home, are just as vital. The Small Business Administration estimates that HBBs make up nearly a quarter of all small businesses. [21] According to the Census, there were roughly 2,836 HBBs with paid employees in West Virginia in 2016. [22] The average salary for those employed by HBBs is generally quite modest at \$27,493, compared to the average HBB salary of \$39,221 for the entire United States.

Yet given the frequency with which HBB operators work alone, this likely understates their economic contribution; after all, HBBs make up 60.1 percent of all firms without paid employees. [23] This does not mean that HBBs do not provide value. Instead, this statistic reflects the fact that many small-scale entrepreneurs are empowered by the option to operate out of a home. A strong economy is an economy that allows individuals to take risks. Not all end up succeeding, but being able to start a business in the garage or spare room in the house lowers the risk that entrepreneurs have to take on. Lower overhead and operating costs are often cited as one of the biggest motivations for entrepreneurs to start their business at home. [24] Other considerations for starting an HBB include greater flexibility and work-life balance. [25]

Although we don't have data on HBBs more recent than 2016, we can look at the portion of the population who are homeworkers and are also self-employed as an indirect measure. [26] Figure 3 shows the proportion of the total population who are both self-employed and working from home. Remote work has grown over the years, but West Virginia still falls behind the rest of the nation. These data are only available up to 2018, but it is almost certainly the case that remote work has significantly increased following the start of the COVID-19 pandemic.

**Figure 3. Self-Employed Homeworkers (% of total population)**



Source: American Community Survey 1 Year Estimates, Public Use Microdata Samples; Bureau of Economic Analysis Regional Accounts.  
 Note: This is a cross-tabulation of those individuals who both work from home and are self-employed.



Given the recent increase in remote work, many workers are beginning to see the appeal of relocating to more rural areas, no longer constrained to pay high premiums for access to urban labor markets. [27] This trend provides a unique opportunity for West Virginia policymakers to re-evaluate the state's regulatory climate. Streamlining regulations that currently hold back HBBs would allow entrepreneurs to thrive, improving the long-term competitiveness of the state. Economists predict that home working, whether through telework or HBBs, is here to stay even after we recover from the pandemic. [28] Now is the time for West Virginia to get ahead of the curve in creating an accommodating regulatory environment for potential and active home-based entrepreneurs.

## How West Virginia Cities Regulate Home-Based Businesses

How do cities in West Virginia regulate HBBs? Like in much of the rest of the country, HBB zoning regulations in the Mountain State are a complicated patchwork of local ordinances, with rules shifting from municipality to municipality. To gain a sense of how West Virginia municipalities broadly approach HBBs, we here survey the zoning ordinances of the three largest cities in the state: Charleston, Huntington, and Morgantown. At the end of this section, we also briefly look at a few suburbs and smaller towns and tease out some of the commonalities across the state.

Getting HBB regulations right in Charleston, the capital of West Virginia and her largest city, is crucial. As specified in the Charleston zoning ordinance, the city uses a two-tiered permitting system for HBBs: A “Level I” HBB is strictly limited to businesses conducted online or over the phone. [29] Such HBBs must secure approval from planners before operation; further, any unapproved change to business operations may result in the permit being revoked. A “Level II” HBB may do slightly more, but they are treated as a conditional use, meaning that entrepreneurs must secure the approval of the Board of Zoning Appeals (BZA); this will involve a public hearing and strict rules set on how the business may operate. All HBBs in Charleston are prohibited from hiring non-resident employees, and Level II HBBs must provide an additional off-street parking space, effectively making them illegal in apartments, condos, and townhouses.

Unlike Charleston, Huntington makes no such “level” distinctions, applying the same set of rules to all HBBs. [30] Many of these rules are appropriately quite liberal: the code allows for a wide range of uses, small signs are permitted, and certain specified businesses may host non-resident employees. While some rules might cause unnecessary confusion for HBB operators—such as a rule stipulating that no more than 25 percent of the home be used for business purposes—there are no unusually restrictive rules in Huntington's code, as there are in the Charleston and Morgantown codes. Indeed, Huntington's code even allows some on-site customer or client visits—a practice nearly always banned—meaning that home daycare centers or barbershops may freely operate out of a home. That said, as with Charleston, Huntington conditions the operation of any HBB on the receipt of a permit.

The home of West Virginia University and one of the fastest-growing cities in the state, Morgantown enforces a set of rules similar to Charleston's. [31] Like Charleston, Morgantown distinguishes between “Class 1” HBBs, which may strictly operate online or over the phone, and “Class 2” HBBs, which may do more pursuant to the standards set by the BZA. As with Charleston, the latter entails a discretionary permit, which will involve a public hearing and tight rules governing how the HBB may operate. The standards which apply to both classes of HBBs can be quite vague. Where the standards are not vague, they often are unusually strict. For example, Morgantown explicitly bans HBBs from operating out of garages or outdoor sheds, and renters must prove to regulators that they have provided their landlord with written notice before the city will allow them to operate an HBB.

Beyond West Virginia’s three major cities, the treatment of HBBs in zoning ordinances can frequently be quite strict. In Wheeling, as in the cities discussed above, all HBBs must secure a permit from the city; yet HBBs in its “Class 1” equivalent may only use one bedroom in a home, and are barred from using garages or outdoor sheds. [32] In Martinsburg, a rapidly growing outer suburb of the District of Columbia, permitted HBBs are limited to a list of a dozen or so types of businesses—often obscure and antiquated uses, including city planners and seamstresses. [33] In suburbs across the state, HBBs are usually either outright banned or forced to go through a discretionary permitting process; in Dunbar, a suburb of Huntington, every HBB must first go through a public hearing at the BZA before it may legally operate. [34]


Despite the wide range of rules across the state, two common themes emerge: First, many municipalities enforce rules which have little to do with the potential impacts that an HBB may have on neighbors—that is to say, the appropriate purpose of this type of regulation. In some cases, these rules may simply be unenforceable, such as limits on the amount of floor area that may be used; in other cases, they may make HBBs technically infeasible in a wide range of homes. Second, West Virginia cities frequently condition the operation of an HBB on the receipt of a permit, forcing HBB operators to justify their existence before starting up. While this may be appropriate for businesses that are likely to have impacts on neighbors, this type of preemptive review is unnecessary for the vast majority of HBBs.

## How Can West Virginia Clear a Path for Home-Based Businesses?

The good news is that West Virginia is not alone in facing the challenge of out-of-date HBB zoning regulations. Helped along in no small part by the present pandemic, states and cities across the country are now exploring ways to remove regulatory barriers to entrepreneurship. Reform at the local level, the source of zoning regulation, reform at the local level is a natural place to start. In Seattle, local policymakers may soon temporarily allow HBBs to hire up to two non-resident employees and host clients and customers by appointment. [35] In Chicago, local policymakers have pushed to remove arbitrary limits on the space that HBBs may use within a home, including ending a prohibition on operating out of a garage or shed. [36] In Fairfax County, Virginia, planners have proposed streamlining the onerous permitting processes that HBBs are forced to endure, scrapping unnecessary public hearings. [37]

Despite these promising initiatives, reform at the local level has been limited; most local governments have been distressingly complacent. As a result, many state legislatures are now considering legislation that might remove unnecessary zoning barriers to HBB formation and growth statewide. One proposal, developed by the Goldwater Institute, would require that municipalities allow “no-impact” home-based businesses—those HBBs which have no meaningful impact on their neighbors—to operate freely, without requiring a permit from local regulators. [38] Dubbed the “Home-Based Business Fairness Act,” the bill also specifies how municipalities can regulate HBBs, limiting local regulation to tangible safety considerations and measurable impacts. [39] Versions of this bill are either currently or have recently been under consideration in legislatures across the country, in states as diverse as Arizona, Missouri, New Jersey, and Oklahoma. [40]

West Virginia should not sit idly by as these conversations unfold. At the local level, policymakers can significantly expand opportunities for home-based entrepreneurship by adopting at least two simple reforms to their zoning code: First, cities should replace vague, unenforceable, and arbitrary HBB standards with measurable health, safety, and welfare impacts. [41] The focus of any HBB zoning regulation should be on mitigating tangible spillover effects that may affect neighbors, not on dictating the minor details of how an HBB may operate. Second, cities should create a permit-free “no impact” category of HBBs, releasing harmless HBBs from the need to secure prior approval from regulators. While additional discretionary review may be appropriate for HBBs that are likely to have impacts on neighbors—such as those HBBs which require significant building modifications, or create a measurable increase in noise—the vast majority of HBBs do not have these impacts and thus should not be expected to preemptively secure a permit as a condition of legally operating.



With any luck, cities and towns across West Virginia will be moved to adopt such reforms by their own volition. But if the experience of the rest of the country is any indication, state policymakers should not wait around for a groundswell of local reform. Now is the time for policymakers in Charleston to set a baseline set of protections for home-based entrepreneurs. A good starting place for statewide reform would be to incorporate elements of the Home-Based Business Fairness Act. This legislation would pursue two objectives: First, it would define and establish baseline protections for “no impact” HBBs, exempting them from onerous local permitting requirements. This would automatically release the majority of HBBs from unnecessary regulatory hurdles. Second, it would put guardrails up around how municipalities may regulate HBBs, putting the onus on regulators to prove that they are addressing measurable impacts. Beyond merely easing the permitting and regulatory burden on HBBs, statewide standards would provide entrepreneurs with regulatory certainty, lending a needed degree of consistency to this crucial area of policy.

# CONCLUSION

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With any luck, the negative effects of the current pandemic—a crisis that has particularly affected so many West Virginia families—will soon come to a close. But its positive effects on the nature of work could be long-lasting. While most Americans will almost certainly return to work as usual in the months to come, an unknown share of workers will never return to the office on a full-time basis. This presents a unique opportunity for the Mountain State. After decades of disinvestment and outward migration, West Virginia’s low cost of living and exceptional natural amenities leave her well-positioned to attract home-based entrepreneurs from out-of-state and retain her homegrown home-based entrepreneurs. Now more than ever, state and local policymakers should work to ensure that arbitrary regulations and onerous permitting requirements are not standing in the way of West Virginians contributing to a bottom-up “West Virginia Miracle.” Other states are currently acting to remove barriers to home-based entrepreneurship. Will West Virginia lead or follow?

# ENDNOTES

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