APPALACHIAN REGIONAL COMMISSION

FY 2004 Budget Request and Annual Performance Plan

**As submitted by the Federal Co-Chair to the
Appropriations Committees of the House and Senate**

February 2003

A Federal-State Partnership

Alabama   Georgia   Kentucky   Maryland   Mississippi

New York   North Carolina   Ohio   Pennsylvania   South Carolina

Tennessee   Virginia   West Virginia

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I. Summary of the FY 2004 Budget Request
(thousands of dollars)

	FY 2003 Estimate /1	FY 2004 Request	Change
I. Regional Development:			
Area Development	55,476	25,499	-29,977
Local Development Districts	5,400	2,700	-2,700
Research, Planning & Tech. Assistance	840	900	60
Subtotal	61,716	29,099	-32,617
II. Salaries and Expenses:			
Federal Co-Chair & Inspector General	1,706	1,536	-170
Federal Share of Commission Expenses	2,978	2,510	-468
Subtotal	4,684	4,046	-638
Total	**66,400**	**33,145**	**-33,255**

1/ Levels requested in the FY 2003 President's Budget.

The President requests an appropriation of $33.145 million for the Appalachian Regional Commission in FY 2004. The FY 2003 appropriation is still pending. The request in the President's Budget for FY 2003 is $66.4 million, including the Administration legislative proposal to fund the full cost of retirees' annuities and health benefits. The requested amount for FY 2004 is 49.9 percent below the FY 2003 request, and almost 54 percent below the amount appropriated in FY 2002.

The reduction in the request for FY 2004 reflects a shift in emphasis of the Commission program from grant making to multi-state planning and coordination of regional investments from other public and private organizations.

II. ARC's Mission, Record of Accomplishments, and Reauthorization

The mission of the Appalachian Regional Commission (ARC) is to be an advocate for and partner with the people of Appalachia to create opportunities for self-sustaining economic development and improved quality of life.

ARC is a federal-state partnership, with a governing board composed of a Federal Co-Chair, who is appointed by the President and confirmed by the Senate, and the Governors of the 13 member states. The Commission was reauthorized through FY 2006 with the enactment of the *Appalachian Regional Development Act Amendments of 2002, Public Law 107-149.*

The Appalachian Region includes all of West Virginia and parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia. The Region is home to nearly 23 million people and covers 410 counties and 200,000 square miles. The current total of 410 counties in the area served by the Commission reflects the addition of four counties in the five-year reauthorization act. Seven counties were previously added in the *Transportation Equity Act for the 21st Century.*

Congress established ARC in 1965 to address profound economic and social problems in the Region that made it "a region apart" from the rest of the nation. The Commission strives to bring all of Appalachia into America's economic mainstream. ARC is a unique forum for studying the problems and opportunities of the Region. It forges partnerships with federal, state and local organizations, and leverages its investments by attracting private investment capital to the Region. ARC employs a "bottom up" approach, involving multi-jurisdictional planning districts to help communities determine their economic development priorities and design and implement projects to accomplish regional strategic goals.

ARC has had a substantial impact throughout Appalachia. Through its advocacy and its more than 22,000 grants over the years, it has helped

- cut the Region's poverty rate in half;
- reduce the infant mortality rate by two-thirds;
- double the percentage of adults age 25 and older with a high school diploma;
- build over 400 rural health facilities;
- construct over 2,400 miles of new highways;
- provide water and sewer services to over 800,000 households;
- create over 1.6 million new jobs in addition to 766,000 generated by the development highways; and
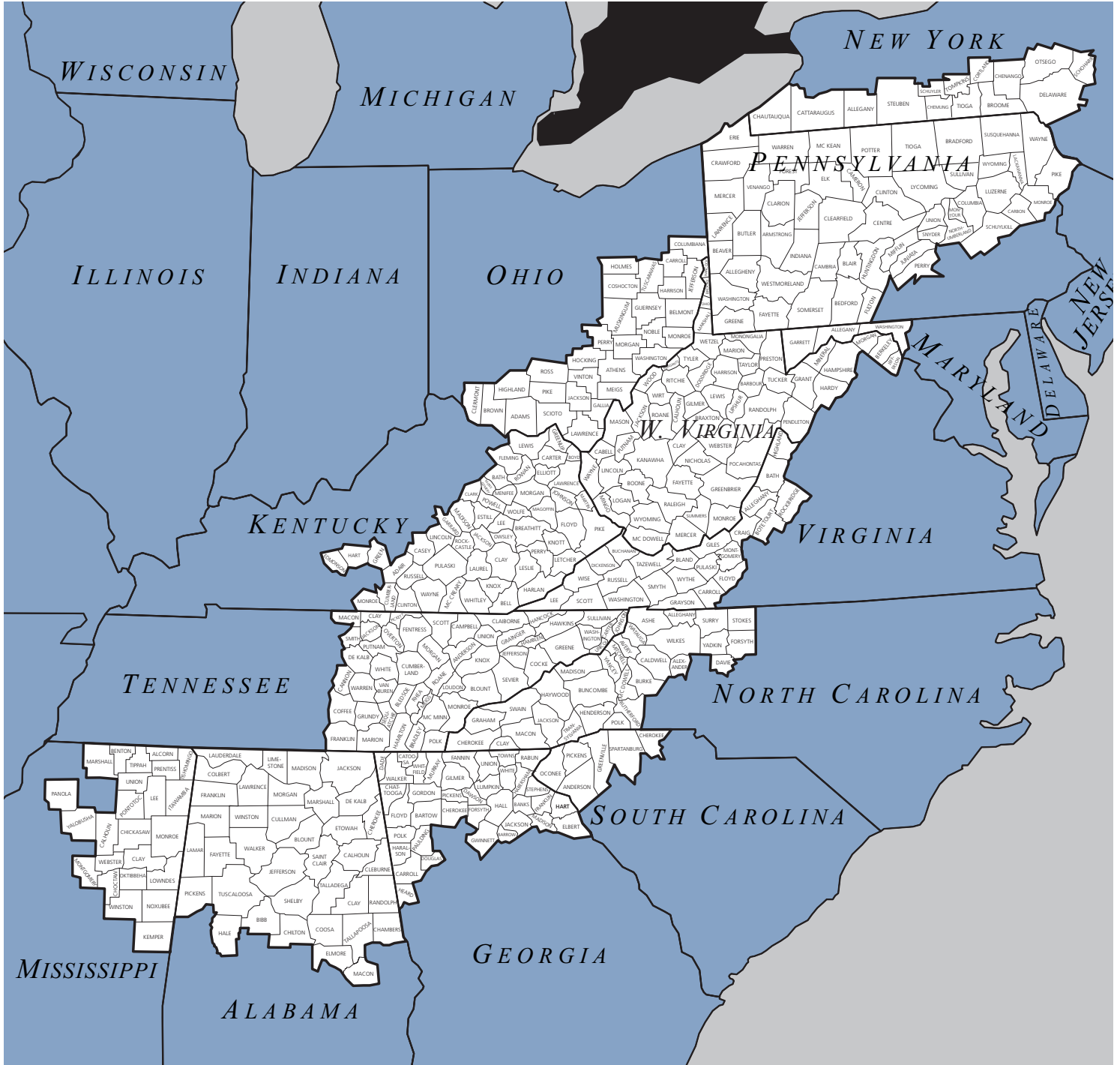- cut the number of severely distressed counties from 219 in the 1960s to a projected 91 in FY 2004.

The Commission has targeted special resources to the most severely distressed counties in the Region since 1983, and has further increased funding dedicated to these

areas in recent years. *P.L. 107-149* requires that half of all ARC grant funds must benefit distressed counties or areas.

ARC has undertaken a wide range of special regional initiatives since its founding. P.L. 107-149 recognized that the Commission is well positioned to focus on specific regional needs and opportunities, and authorized funding for a telecommunication initiative. The statute also supports continuation of ARC's entrepreneurship initiative as well as a new regional skills development initiative.

ARC

WISCONSIN

MICHIGAN

NEW YORK

ILLINOIS

INDIANA

OHIO

PENNSYLVANIA

NEW JERSEY

MARYLAND

DELAWARE

W. VIRGINIA

KENTUCKY

VIRGINIA

TENNESSEE

NORTH CAROLINA

SOUTH CAROLINA

MISSISSIPPI

ALABAMA

GEORGIA

III. Area Development Program
(*thousands of dollars)*

2002 Estimate	2003 Estimate /1	2004 Request	Change
60,591	55,476	25,499	-29,977

1/ Level requested in the FY2003 President's Budget.

The Administration requests $25.499 million for Area Development, a reduction of over 54 percent from the 2003 request. The reduction reflects the Administration's concern that the Commission should place higher priority on regional efforts rather than on individual projects, and focus on multi-state planning and coordinating regional investments. Historically, most Area Development funds were allocated to the Member States with wide discretion to assist individual community projects. About half of those ARC-approved projects were funded by transferring ARC funds to Federal agencies, notably the Economic Development Administration, Rural Development, and the Department of Housing and Urban Development, to obligate and administer. The rationale for reducing ARC Area Development grant making is that such projects could be funded in the future directly by other agencies as they better targeted their resources to distressed areas. ARC in turn should direct its program funds to regional priorities identified by the Commission.

Area Development programs would continue to address the five goals in the Commission's strategic plan: (1) education and workforce training; (2) physical infrastructure; (3) leadership and capacity building; (4) dynamic local economies, and (5) health care. In addition, half of all grant funds are required under P.L. 107-149 to benefit the counties that ARC designates as severely distressed, as well as other distressed areas in the Region. The Commission has already targeted funds at that level for several years prior to the requirement in the Act. The Commission applies rigorous and conservative measures to identify the most severely distressed counties in the Appalachia, as described in Appendix A.

Under a revised Area Development program, the Commission would adopt specific regional strategies addressing the five goals, based on analyses of problems and prospects in the Region and consensus about funding priorities. The Commission would also adopt appropriate approaches for best addressing priorities, ranging from steps to advocate effectively on behalf of the Region and to improve the coordination of Federal and other programs, to funding of demonstrations, multistate projects, or community grants that implement regional strategies. ARC has a long track record, from the pioneering health programs of its early years to its recent entrepreneurship efforts, in building leadership and organizational capacity in the Region and leaving a lasting contribution that enables self-sustaining growth. Regional strategies would be driven by solid knowledge from intergovernmental discussions, research and analysis, and would be supported by monitoring and dissemination of information about federal and private

resources, targeted technical assistance, use of the ARC on-line resource center, sponsorship of regional forums, and selective grant making.

Pursuant to ARC's legislation, joint planning and funding of development with federal agencies have always been essential to the work of the Commission. Accordingly, the Commission has established working relationships with a wide range of federal agencies over the years. The Federal Co-Chair intends to make use of these relationships to support regional priority programs and to improve the effectiveness of federal resources in the Region.

Three potential strategies would address all five ARC goals and could incorporate both research, advocacy, and project grants. **The first is to address stimulation of economic activity on new and recently completed corridors of the Appalachian Development Highway System (ADHS).** TEA-21 legislation significantly accelerated construction on the system, as discussed in Section IV of this budget. This priority would more closely align ARC investments with the development corridors and concentrate program efforts. **The second is to promote deployment of telecommunications in the Region to support economic stability and growth**, as supported in P.L. 107-149. The Commission has already completed groundbreaking analyses of the relative dearth of telecommunications infrastructure in Appalachia, and has adopted a regional strategy, called *Information Age Appalachia*, to improve access to broadband communications, strengthen industry by accelerating adoption of e-business practices, and generate technology-related jobs. The plan has garnered private sector interest and has provided the basis for special technical assistance and grant support to communities trying to bridge the gaps in telecommunications that threaten to leave them behind in the information age. A third potential strategy is **technical assistance targeted to severely distressed areas**. ARC recently undertook an extensive outreach effort that included eight community meetings in seven states. More than 750 people attended these meetings, including three Appalachian governors and the ARC Federal Co-Chair. ARC also undertook an economic analysis of the strengths and weaknesses of distressed counties and convened experts on rural economic development. ARC has followed up by aiming its online resource center to distressed areas and launching collaborative projects with the Centers for Disease Control on diabetes and with the Ford Foundation on rural community colleges. ARC also joined with the Pew Partnership for Civic Change and the Local Development Districts (LDDs) to introduce Pew's LeadershipPlenty training, and organized a joint federal-state workshop for education agencies. Continuing work such as this is the best way to strengthen basic institutions and strategic planning in the poorest Appalachian areas.

The Commission would also adopt regional strategies based on priorities within individual goals, as exemplified below.

Goal 1: Education and Workforce Training:

The ARC Strategic Plan envisions that *Appalachian residents will have the skills and knowledge necessary to compete in the world economy in the 21st century.* Raising educational attainment in Appalachia has been important from the program's beginning

because knowledge and job skills are essential to employability and earning capacity that underpins sustained economic development. While substantial progress has been made, the stakes are higher today in an information-based economy.

Between 1999 and 2002, ARC approved $43 million for education job training, leveraging $61 million in funds from other sources, training over 22,000 people for jobs and improving attainment for over 67,000 other students.

In FY 2004, a potential regional strategy would be development of **industry-led Regional Skills Partnerships** that apply in the Region the best techniques that are forming around the country today. Not-for-profit consortia of businesses, trade groups, institutions of higher education, and training centers can support workforce requirements of clusters of firms. P.L. 107-149 authorized the Commission to replicate this approach in the Region by establishing regional skills partnerships to improve the job skills of workers for specific industries or clusters of businesses. At the requested level, ARC would promote the establishment of these partnerships to serve clusters of small- and medium-sized enterprises that dominate our Region and that lack the ability to form these alliances on their own. Assistance would support initial start-up costs including staff salaries, office equipment, and training. Clusters of businesses that may be supported include those in the wood products, apparel and hosieries, information technology, and metal working industries. Commission economic analyses have focused on industrial clusters in recent years, establishing a sound basis for formation of skills partnerships.

Another clear education priority is **increasing the Region's college-going rate.** The percentage of Appalachians with college degrees is about half the national average, while the share of those lacking high school diplomas exceeds the national norm by about 28 percent. In economically distressed counties these gaps are even more pronounced. ARC has already formed the Appalachian Higher Education Network, composed of centers modeled after an acclaimed college access program; the Ohio Appalachian Center for Higher Education (OACHE). For 10 years this consortium has offered competitive grants to high schools for mentoring, college visitation, career planning, and other activities that have proven to bring down the barriers to attending college.   Research indicates that high schools typically see the portion of seniors choosing to go on to post-secondary schooling rise from about one-third to over 50 percent after just one year of operating these types of programs. After two to three years, the college-going rate is consistently 70 percent or more. With the assistance of the Community Colleges of Appalachia, ARC has replicated this model in West Virginia with similar results. More recently, four additional sites focusing on distressed counties have begun operating in Alabama, Kentucky, and Tennessee. The Commission is partnering with the Kellogg Foundation to support two of these new centers, providing training and guidance to help them become self-sustaining. In Hale County, Alabama, one of the poorest counties in the nation, three of the five participating high schools report that *all* graduating seniors opted to pursue post-secondary education.

Goal 2: Physical Infrastructure
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Between 1999 and 2002, $132 million of ARC investments in physical infrastructure projects have helped create more than 115,000 jobs and served almost 90,000 households by leveraging $645 million in other resources. The annual direct fiscal impact on tax receipts exceeds the ARC funds by as much as four times. In recent years, almost 47 percent of ARC Area Development funds were directed toward the goal of improving the basic water and sewer infrastructure that is essential for job growth and health in Appalachia. Many infrastructure projects have supported industrial parks and other business centers that have provided work for many thousands.

Infrastructure projects improve the Region's business climate by resolving regulatory sanctions and their negative impact on economic development. Many Appalachian communities are hobbled by obsolete facilities, often built 50 to 100 years ago, that can no longer comply with state and federal environmental standards. The most common sanctions are moratoria that prohibit the addition of new industrial or residential customers until expensive repairs are made. A moratorium can effectively stop economic development in its tracks, especially in the small economically distressed communities that most urgently need new development. In these cases, ARC funds can be an important source of capital, providing supplements to state and federal resources, or the grant funds needed to make loans affordable. ARC's participation in these projects not only helps restore environmental compliance, but also helps revive economic opportunity.

ARC has for years had cooperative agreements with the Army Corps of Engineers, HUD, EPA, RD, and EDA to coordinate, share funding, and administer Appalachian infrastructure grants. Agreements are under review to improve their effectiveness. At the same time, Appalachian states are serving as examples of innovative approaches to infrastructure development. Kentucky has used ARC project funds to focus on basin-wide planning of water and sewer projects and the regionalization of systems. Virginia has gained expertise in using a variety of "self-help" approaches to project implementation. By employing low technology designs and using voluntary in-kind local labor, locally available equipment and services providers, and alternative arrangements to purchase and acquire project materials, several projects have successfully cut capital costs for rural water and sewer systems, often saving over half of the original project cost estimate.

Proposed ARC funding limitations in FY 2004 would not be adequate to sustain the level of infrastructure investments of past years. Instead, the ARC emphasis will be placed on coordination of federal funding resources, promoting continued innovation, and addressing the highest infrastructure priorities across the Region. Funding for infrastructure supporting acceleration of economic growth on the newly completed ADHS corridors is one example. Another priority would **be to target clean water in distressed areas**. By definition, severely distressed communities lack the concentration of resources required to develop basic infrastructure required for health and economic vitality. The poorest communities of Appalachia have long looked to the Commission to help them capitalize on Federal and other resources readily available to other areas.

Goal 3: Leadership and Civic Capacity

Goal 3 includes objectives to step up leadership training in Appalachia and enable communities to marshal resources, plan, and develop solutions to local problems. Past research and demonstrations have established that resources to improve the quality of government and basic institutions are especially scarce in severely economically distressed areas. Between 1999 and 2002, $15 million of ARC funds, along with $12 million in other resources, brought leadership and other capacity-building training to almost 16,000 potential ARC community leaders.

The Appalachian Community Learning Project (ACLP), operating since 1997, is an example of promoting community self-reliance through a six-month action and results-oriented, community improvement process. The ACLP methodology consists of a two-day training session that concludes with the creation of measurable community development projects by each participating group, assisted with ARC mini-grants. In the first three years, 72 projects received $892,000 in mini-grants and training and attracted another $10 million from other sources. The projects involved diverse activities including community improvement and downtown revitalization projects, business development projects, youth-related programs and mentoring projects, and strategic planning. In 2000 and 2001 another 16 projects received $153,000 in mini-grants and brought in $240,000 of support from other sources.

In FY 2003 an independent evaluation will be conducted on ARC's civic capacity-building and community leadership projects. This evaluation will assess the results of the nearly $12.5 million that has been invested in 168 projects in this initiative and will recommend appropriate output and outcome measures. Knowledge gained from this evaluation will be used to identify future priorities for regional action.

Targeting leadership and capacity building to the most economically distressed areas of Appalachia would continue to be a potential regional focus in FY 2004.

Goal 4: Dynamic Local Economies

Goal 4 underscores lessons learned from economic fluctuations in the Region that have reflected rapidly changing demands of an increasingly internationalized economy; the fast pace of technological innovation, product development, and market formation; and the increase in education and skills requirements in competitive labor markets. Today's challenge is to develop approaches that capitalize on the Region's strengths to minimize erosion in its industrial base and take advantage of opportunities at home and abroad.

ARC funds totaling $46 million supported projects in this goal area, and they involved $64 million in funds from other sources between FY 1999 and 2002. Almost 57,000 jobs were created or retained by these projects.

Since the structural shocks to the Region beginning in the 1980s, the Commission has investigated a range of major economic vulnerabilities in the Region, including

relatively low capital formation; a shortage of entrepreneurs; loss of traditional branch plants; declines in industries impacted by foreign competition, such as textiles and apparel; lags in college completion; chronic health issues; and employment declines in areas dependent on the coal industry. On the other hand, ARC has surfaced information about the Region's economy that has increased understanding of how industries cluster and interact in Appalachia, and how trade opportunities can be enhanced.

The Commission launched a **regional entrepreneurship initiative** in 1997 to foster homegrown businesses and move rural and small town Appalachia away from branch plant recruitment. This unique initiative was selected in 2001 as a semi-finalist from among 1,200 applicants to the Harvard University/Council for Excellence in Government competition and has been incorporated in *P.L. 107-149*. The regional strategy involves educating current and future entrepreneurs, both youth and adults; improving access to investment capital for local businesses; strengthening local economies by capitalizing on strategic sectors; and nurturing new businesses by creating and supporting rural business incubators. ARC has provided a forum for stakeholders and forged alliances with major financial institutions, national foundations, community colleges and local development organizations to pursue this strategy. The Commission publishes information about the 269 projects in this initiative on its website and elsewhere to promote entrepreneurship on a broad scale.

Another potential area in Goal 4 in 2004 is **diversification of coal area economies**. Long identified with Appalachia, coal remains economically important in the Region but now accounts for a small proportion of jobs. Technology, changing markets, and sharp productivity gains have altered the work force requirements in coal areas, reducing work force participation and increasing dependence of low wage work. Coal areas will represent an opportunity to collaborate with federal and private organizations to expand economic opportunity there by helping these areas become more diversified and hence more capable of adjusting to dynamic changes.

Goal 5: Health Care

ARC's founding legislation clearly connected health investments with the economic well being of Appalachia. Since then, the impact of ARC investments in hospital facilities and access to primary care on the growth of the health industry in the Region has been distinctive and profound.

The Commission accordingly shifted its emphasis away from large-scale direct funding of health facilities and services in the early 1990s and has emphasized advocacy, monitoring and research, physician recruitment, and collaborative special regional initiatives. For example, between FY 1999 and 2002, ARC placed 361 physicians in Health Manpower Shortage Areas and used $9 million in combination with $15 million of other public and private funds to support specific health improvement initiatives. To better identify and address regional priorities, the Commission formed an expert Appalachian Health Advisory Council. A first recommendation of the Council was for ARC to undertake research to assess the current disparities in health status, risks, and accessibility to health care in the region.

In response to the research findings, the ARC is working with the Centers for Disease Control and Prevention (CDC) and Marshall University to improve the quality of life for persons with diabetes. This initiative is focusing on the region's distressed counties, assisting in the development of a community infrastructure to conduct activities that will help bring about the early detection of diabetes, improved self-management, and a reduction in the incidence of and complications resulting from this chronic condition. Nine counties are currently participating, with 10 more anticipated next year.

National Cancer Institute research revealed that women in Appalachia have some of the highest cervical cancer mortality rates in the nation. To address this issue, ARC and the Centers for Disease Control are developing a community-based outreach demonstration project to promote early detection and reduced cancer rates. In the stakeholder-driven approach that characterizes ARC's partnership, representatives from state cancer programs, community members, community health centers, and other practitioners and customers will shape this program.

Another innovative activity is the Tri-State Collaborative Cancer Control Project, which implemented previously tested approaches to enhance cancer control in distressed counties in Kentucky, Tennessee and Virginia. It built on the achievements of a National Cancer Institute program that helped develop strong cancer control networks in 71 ARC counties. Collaboration among these networks, community colleges, and local development districts resulted in the development of local strategies to detect and screen for breast and cervical cancer. In FY 2004, the Commission would intend to expand collaborative cancer control efforts to at least 25 additional distressed counties.

Since the late 1980's, the Commission has also been operating an acclaimed model program that places physicians in rural Appalachian areas that the U.S. Public Health Service has classified as Health Professional Shortage Areas (HPSAs). Administered in close cooperation with state rural health officials, this program has placed more than 1,500 doctors in over 200 Appalachian HPSA communities since its inception, providing primary medical care to areas where it would not otherwise be available. For very little cost, the ARC approach of using J-1 Visa waivers to place physicians has substantially overshadowed previous efforts to place medical graduates in poor areas through very high cost tuition subsidies. The Commission has audited physician placements and completed locational studies to assure that the J-1 program is on target and accountable.

The Commission is currently working with the Rural Task Force formed by HHS Secretary Thompson to improve health and human services in rural America. ARC anticipates that as a result ARC and the Health Resources and Services Administration will collaborate on a jointly funded project to address rural Appalachian needs.

In FY 2004, the Commission would continue to work with its advisory panel and pursue collaborative efforts to address remaining health problems in the Region.

Federal Agency Administration of ARC Projects

ARC transfers grant funds and obligational authority to a number of federal agencies to the extent that projects involve funds from those agencies or are authorized under agency statutes. Administering federal agencies ensure compliance with applicable statutes such as the National Environmental Policy Act and Davis Bacon labor laws. The Commission reimburses the Departments of Agriculture, Health and Human Services, Education, and Commerce, as well as the Tennessee Valley Authority, for the administrative costs they incur for this service. As noted in the following table, the Area Development request includes an estimated $187,000 for federal agency administrative costs. Reductions reflect fewer anticipated grant transfers.

Area Development Program Funding and Federal Agency Administrative Costs
(thousands of dollars)

	2002 Actual	2003 Estimate	2004 Request	Change
Area Development	60,106	54,881	25,312	-29,569
Administration	485	595	187	-408
Total:	60,591	55,476	25,499	-29,977

Costs of Federal Agency Administration

	2002 Actual	2003 Estimate	2004 Request	Change
Health & Human Services	20	30	8	-22
Education	120	150	46	-104
Commerce (EDA)	30	30	11	-19
USDA	150	210	57	-153
TVA	120	120	46	-74
Other & Contingencies	45	55	19	-36
Total:	485	595	187	-408

IV. Local Development Districts and Research, Regional Planning, and Technical Assistance
(thousands of dollars)

	2002 Actual	2003 Estimate	2004 Request	Change
Local Development District Support	5,400	5,400	2,700	-2,700
Technical Assistance	840	840	900	60
Total:	6,240	6,240	3,600	-2,640

Local Development Districts

ARC authorizing legislation has always included support for multi-county planning and development organizations. Local development districts (LDDs) have become an important element of the ARC partnership. Each LDD is governed by a board of directors comprised of locally elected officials and non-elected individuals. Many of these state-chartered entities were originally created by state executive orders, but now over half are authorized in state legislation. Some also have 501(c)(3) non-profit status, enabling them to access support from foundations and other non-public sources. The LDDs play four key roles in the development of the Region by:

- providing area-wide planning and program development and coordination of federal and state funding sources;
- assisting local governments in providing services, especially in poorer, more isolated communities;
- promoting public / private partnerships and assisting in business development; and
- helping communities assess, plan and conduct a wide range of activities such as job training, business development, telecommunications, and municipal government support.

The FY 2004 request for the LDD program is $2.7 million, a fifty percent reduction from FY 2003. This request is an estimate of the level of support that would be provided to LDDs to carry out the regional initiatives adopted by the Commission.

Historically, the Commission has allocated funds to the states to assure operational support for all 72 LDDs in the Region. ARC grants have complemented EDA planning and administration grants and the resources LDDs typically receive from their state and local governments, membership dues, and public service programs that they operate. With the reduced request, ARC will continue to support the important contributions the LDDs make to assist the ARC mission.

The Commission anticipates continuing to work with the Development District Association of Appalachia (DDAA), an organization of the Region's LDDs, to support training opportunities for the districts' staff and board members. This training will improve member districts' organizational structure, operations, and their ability to effectively implement ARC's Strategic Plan and regional initiatives. The ultimate objective is to maintain organizations of highly trained professional staff in the Region that will continue to help build local capacity and improve the quality of life for Appalachians.

Training programs conducted by the DDAA during FY 2002 included:

- **Philanthropy and Foundations:** This 2 day seminar focused on LDDs becoming more aware of the role of foundations and philanthropy in community and economic development.

- **Meeting Facilitation Training:** This workshop provided participants with relevant skills on how to develop and manage successful meetings.

- **Geographic Information Services:** Experts in the field provided advanced training in GIS and GPS for LDD staff members with previous experience.

Training scheduled for FY 2003 includes:

- **Leadership Development:** This training will be conducted in cooperation with ARC's Whisman Appalachian Scholar for 2003, Dr. Mark Weinberg from Ohio University.

- **Grantsmanship:** ARC staff would facilitate this training for the LDDs to help provide for more effective development and review of grant applications.

- **Governmental Accounting Standards Board (GASB):** This training would provide LDDs with information on what fiscal reporting responsibilities they will have in order to comply with new GASB requirements.

In addition, ARC provides assistance each year to the DDAA in conducting an annual conference for LDD staff and board members. This event not only allows for ARC staff to interact with the LDDs but also provides for several breakout-training sessions on a wide array of topics that impact the work of the LDDs.

The DDAA also facilitates a "mentor" program that helps its members support and assist one another in implementing new ideas and programs. In encouraging this sharing of best practices, the Commission has made funding available for LDD personnel to be reimbursed for eligible travel expenses when visiting other districts to help identify or implement new program initiatives

Research, Regional Planning and Technical Assistance

The Federal Co-Chair will propose that the Commission maintain a $900,000 effort in research, regional planning, and technical assistance. Continuation of these activities is necessary to sustain the Commission's capabilities to identify and address regional priorities. ***The specific purpose of these funds is to build regional strategies by enabling consensus across jurisdictions based on knowledge of regional conditions.*** No other organization is in a position to provide such a focus on the problems and developmental opportunities of Appalachia, and how to address them collaboratively.

In FY 2004 the Commission would undertake a review and update to the ARC Strategic Plan. Maintenance and implementation of the Strategic Plan requires investment in technical assistance, independent program evaluations, and timely research and analysis on key regional issues. ARC will examine its current performance measures in this process.

Examples of specific activities in FY 2003 include GIS mapping, inter-modal transportation planning, regional research and analysis, and site visitations for performance measurement and evaluation as required by the *Government Performance and Results Act (GPRA).* All this information will continue to be used to identify needs and to shape Commission policies to capitalize on the greatest opportunities for regional development. Recent work in regional telecommunications technologies is a good example of this process. The ARC telecommunications strategy called *Information Age Appalachia* grew directly from innovative research, expert consultations, and coordination with the states and DDAA.

Research and technical assistance activities serve all ARC programs by maintaining performance measurement and program evaluation systems, assisting policy and program development, and providing information about the Region to the states, Congress, and the public.

Information for developing regional strategies comes from two principal areas of activity: ongoing regional socioeconomic analyses and research, and performance management and evaluation of programs and demonstrations.

Analyses of Regional Trends in Socioeconomic Conditions.

Commission research focuses on strategic development issues and changes in socioeconomic conditions in the region. Recent research assessing the economic base of distressed and at-risk counties identified the strengths and weaknesses, and threats and opportunities for future economic growth in these counties. Commission reports are typically delivered not only to stakeholders in the ARC program, but are also published in full as e-documents on the Commission web site to help assure widest possible use of study results. Recent and current analyses with a policy focus include:

- a landmark analysis of the role of telecommunications and information technology in the Region's economy, including the most detailed analysis of telecommunications infrastructure ever undertaken for any region in the country;
- a report on the financial viability of the Region's hospitals, clinics, and other key health institutions, as well as their contribution to economic stability;
- an inventory and assessment of Appalachian natural, cultural, and recreational amenities and analyses of ways to capitalize on them for economic growth;
- a study of geographic clustering of high technology industry, science, and innovation in and near the Region, revealing technology strengths of sub-regional areas that focused economic development policy could nurture;
- a West Virginia University analysis of disparities in health status and accessibility to care in Appalachia compared with the rest of the country;
- a study of the exposure of Appalachia to trade-related competition in such traditionally important industries as apparel and textiles, and identification of sectors with key opportunities;
- a study of workforce adjustment policies and practices in the Appalachian labor markets; and
- an examination of the extent to which net out migration may affect the numbers of prime-age workers and the tax base in communities.

Support for Implementation of ARC's Strategic Plan and Performance Management

The *GPRA* requires a schedule of program evaluations and an outline of the general methodologies to be used. Performance information not only serves the purposes of GPRA but also provides insights into approaches that work effectively in the field. In FY 2000, regional planning staff visited 51 of the nearly 500 projects ARC funded in FY 1998 to compare actual versus planned accomplishments. In FY 2002, regional planning staff completed site assessments on approximately 60 of the nearly 500 projects funded by the ARC in FY 1999. As was done in FY 2001 and prior years, the actual versus planned accomplishments of these projects is under evaluation.

In addition, independent third-party evaluations of ARC's major program areas are also conducted on an on-going basis. An FY 2000 evaluation of infrastructure projects provided independent confirmation of the job creation and economic impacts of these investments. ARC's efforts to improve the quality of project performance management and implementation have paid off. FY 2001 evaluations of workforce and vocational education programs indicated that the vast majority of projects had quantifiable output measurements and had achieved their projected results. Finally, a new evaluation is now being started for the agency's civic capacity and leadership program.

The proposed Area Development program would include additional funds for advocacy, demonstration, research, and technical assistance in support of programs implementing identified Commission regional strategies.

V. Salaries and Expenses
(thousands of dollars)

	2002 Actual /1	2003 Estimate /2	2004 Request /2	Change
Appropriation	4,459	4,684	4,046	-638

1/ Includes an $8,000 rescission pursuant to P.L. 107-206, which was taken from Federal Office salaries and expenses.

2/ Includes the estimated cost of the Administration's legislative proposal to show the full cost of retirees' annuities and health benefits.

The request for salaries and expenses provides for the full costs of the Office of the Federal Co-Chair, its immediate staff, and the Office of the Inspector General. The request also includes the 50 percent federal contribution to the Commissions Trust Fund for administrative expenses of the non-federal Commission staff. Subtotals for each are in the following table.

Salaries and Expenses
(thousands of dollars)

	2002 Actual	2003 Estimate	2004 Request	Change
1. Federal Co-Chair:				
Immediate Staff	1,128	1,205	1,086	-119
Inspector General	466	501	450	-51
Subtotal:	1,594	1,706	1,536	-170
2. Commission Administrative Expenses *(50% Federal contribution)*	2,865	2,978	2,510	-468
Total Request:	4,459	4,684	4,046	-638

Pursuant to the *ARDA*, member states collectively contribute the other 50 percent of the Commission's non-federal staff and related costs.

Office of the Federal Co-Chair

The request of $1.086 million for the Office of the Federal Co-Chair provides for a reduced immediate staff of seven positions, with related benefits, travel, services, and other expenses. This includes the estimated cost associated with the Administration's legislative proposal of having agencies show the full costs of retirees' annuities and health benefits.

The Federal Co-Chair's staff is paid entirely by the Federal government and assists in carrying out the Federal Co-Chair's responsibilities. These include working with federal agencies and chairing an interagency organization as newly provided in the ARDA; serving as the Commission's liaison to the Congress; representing the Administration in working with the Member states to formulate regional strategies and other policy; reviewing projects for final approval by the Federal Co-Chair; and exercising the Federal role in budgeting and financial accountability.

Office of Inspector General

The *Inspector General Act Amendment of 1988 (P.L. 100-504)* requires ARC to maintain an independent Office of Inspector General (OIG), which reports directly to the Federal Co-Chair. The OIG workload includes a variety of headquarters and grantee reviews/inquiries/investigations that are performed by permanent and contract staff. Certain investigations and legal issues will utilize reimbursable agreements and Memoranda of Understanding with other Federal OIGs.

The OIG requests $450,000 for the expenses for a three-person staff and required contract audit/investigative/legal support. Inspector General activities will continue to emphasize the effectiveness and efficiency of program operations and compliance with laws and regulations affecting grant programs. This includes review and evaluation activities in connection with the *GPRA,* the Single Audit Act, and GISRA, as well as coordination and cooperation with other oversight offices on crosscutting issues and legislated reviews. The request will cover expenses for necessary investigative and legal support, which will be obtained through reimbursable agreements and Memoranda of Understanding with other Federal Offices of Inspector General.

The following tables show object class estimates for the request for the Offices of the Federal Co-Chair and the Inspector General.

Federal Co-Chair's Office Administrative Expenses
(thousands of dollars)

	2002 Actual	2003 Request	2004 Request	Change
Personnel Compensation	696	833	741	-92
Personnel Benefits	179	247	245	-2
Travel & Transportation	61	70	56	-14
Communications	12	7	6	-1
Printing	1	1	1	0
Services	12	28	22	-6
Supplies	9	9	7	-2
Equipment	10	10	8	-2
Total:	973	1,205	1,086	-119

Inspector General's Office Administrative Expenses
(thousands of dollars)

	2002 Actual	2003 Estimate	2004 Request	Change
Personnel Compensation	260	247	248	1
Personnel Benefits	36	63	65	2
Travel & Transportation	16	33	25	-8
Rent, Communications	28	29	30	1
Services	179	123	77	-51
Supplies	1	1	1	0
Equipment	5	5	4	-1
Total:	466	501	450	-51

Commission Operating Expenses

Annual appropriations for the ARC fund half of the costs to maintain a professional staff to provide technical support to the states and the federal staff in implementing Commission programs. These funds, and an equal contribution from member states, are deposited into the ARC's Trust Fund account. Together with prior year balances, these resources finance all non-federal Commission operating expenses.

The Commission's founding legislation specifies that ARC staff employed under the Trust Fund shall not be considered federal employees for any purpose. Accordingly, these professionals are neither state nor federal employees, even though they work directly for the joint federal-state partnership agency. An Executive Director, who is appointed by the states and the Federal Co-Chair, manages this staff and is the chief executive officer of the Commission. The following table shows the plan for financing Commission operations.

ARC Administrative Expenses
(thousands of dollars)

	2002 Actual	2003 Estimate	2004 Request	Change
State Contribution	2,865	2,978	2,510	-468
Federal Contribution	2,865	2,978	2,510	-468
Prior year balances used	151	200	99	-101
Total Obligations:	5,881	6,156	5,119	-1,037

Since reduction of the federal contribution to the Trust Fund requires an equal cut in funds provided by the member states, the FY 2004 total for the joint financing of the trust fund for operations would provide a total budget of $5.119 million, a substantial cut of $1.037 million. The reduced total would provide minimum operations to support the redrawn emphasis on regional planning and programs and to manage the 2,000 ARC grants in force, and is estimated to involve a reduction in force by 6 to 10 non-federal positions. The Executive Director has responsibility for determining positions to be eliminated and reassigned to support the changes in the program.

Each year, the states and the Federal Co-Chair must approve the Commission's operating budget. Following completion of appropriations action, final funding allocation decisions are made and must be approved at a Commission meeting of the member states with the Federal Co-Chair. As a result of this consultative process, final allocations may differ from the following estimate of amounts by object class.

ARC Administrative Expenses
(thousands of dollars)

	2002 Actual	2003 Request	2004 Request	Change
Personnel Compensation	3,406	3,711	3,081	-630
Personnel Benefits	1,064	1,026	874	-152
Travel	112	108	87	-21
Rent, communications, and utilities	672	733	617	-116
Printing	52	122	87	-35
Services	235	295	249	-46
Supplies	71	95	71	-24
Equipment	80	66	53	-13
Total:	5,692	6,156	5,119	-1,037

The ARC management goal remains to develop effective and efficient management systems and processes and to promote an organizational culture attuned to the strategic plan. Commission staff will continue to use available resources to promote innovation, improve core competencies and internal communications, enhance technical assistance, improve the monitoring and evaluation of project operations, stress customer service, and deploy affordable technology wherever possible.

Personnel compensation for Commission staff generally follows that of Federal employees in the metropolitan area. Benefits are budgeted accordingly, and also include an additional increase for the Administration's legislative proposal to show the full costs of CSRS retirees' annuities and health benefit costs during retirement for those employees affected.

Commercially purchased benefits plans for non-federal personnel are projected to increase well above inflation, as is the case with telecommunications and commercial insurance. In October 1999 the Commission revised its retirement program for its non-federal employees. These changes contained costs for new hires by instituting a fixed contribution 401(k) plan. However, in the short term, the Commission's defined benefit retirement plan for staff in that plan will continue to require periodic infusions of funds to remain actuarially sound. In recent years, actuarial assessments have required additional funding significantly above plan assumptions.

VI.   Appalachian Development Highway System

When the ARC was established, Congress found that economic growth in the Region would not be possible until the region's isolation had been overcome. Because of the high cost of building roads through Appalachia's mountainous terrain, adequate roads had not been built in much of the region. When the interstate system was built, large areas of Appalachia were simply bypassed, compounding the problems of the region's already troubled economy. Instead of benefiting from the nation's interstate system, the Region had a network of worn, narrow, winding two-lane roads, snaking through narrow stream valleys or over mountains.

To address these problems, the *Appalachian Regional Development Act* authorized the ARC to build a 3,025-mile road system. The Appalachian Development Highway System (ADHS) was designed to link Appalachia with the U.S. interstate system, as the only highway system explicitly created by Congress to spur economic development.

Status of Completion

As of September 30, 2002, more than 80 percent of the ADHS was open to traffic and an additional 4 percent was under construction. Of the 2440.6 miles open to traffic, all eligible work has been completed on 2,257.2 miles. Second-stage construction work, such as adding interchanges, lanes, second-stage pavement, and rest areas, is required on the remaining 183.4 miles.

Also as of September 30, 2002, construction was under way on 130.0 miles, and 230.8 miles were in the design phase. The remaining 223.7 miles are in the location phase. Most of these miles are in mountainous and rugged terrain, which will require extensive coordination with environmental resource agencies.

 Despite the magnitude of the work remaining, the economic impetus to complete the system has never been more compelling. In today's global marketplace, a modern system of highways is an essential first step toward fostering economic growth and enabling Appalachia to become a net contributor to the national economy. The Commission strongly supports the completion of the ADHS.

ADHS Funding

In FY 1999, for the first time, annual funding for the completion of the ADHS was provided from the Federal Highway Trust Fund, in the *Transportation Equity Act for the 21st Century (TEA-21)*. Prior to that, funds were appropriated directly to the Commission.

TEA-21 provides annual authorizations of $450 million for the ADHS for FY 1999 through FY 2003, for a total of $2.25 billion over the five-year period from the Highway Trust Fund. Funds authorized in TEA-21 are apportioned to states annually based on each state's proportional share of the cost to complete the ADHS as specified in

the latest cost to complete estimate. Although the funds are authorized from the Highway Trust Fund, ARC continues to exercise programmatic and administrative control over the funds. This ensures that the governors of the 13 Appalachian states continue to determine where and how the money is used on ARC highways in their states.

Commission staff is working closely with the Federal Highway Administration to ensure that ADHS program needs are adequately addressed in legislation that succeeds TEA-21.

Cost to Complete and Remaining Needs

Every five years, the ARC undertakes a full-scale study of the cost to complete the ADHS. The Commission has just completed the latest cost estimate, the first formal estimate since 1997. The 13 Appalachian states conducted the study on their corridors under the guidance and oversight provided by FHWA.

Methodology

This cost estimate is based on the cost to complete the 28 corridors of the designated 3,025-mile ADHS. The purpose of the cost estimate is to determine the level of federal funding needed to complete the system and to provide the basis to apportion and allocate the funds authorized and appropriated for the ADHS. This estimate consists of all remaining work on eligible sections of the ADHS—including engineering, right-of-way acquisition, environmental mitigation, and construction—not obligated as of September 30, 2001.

Individual state estimates were prepared by the states on the basis of the current project designs using the most recently approved design features and the latest estimate of quantities needed for construction as of September 30, 2001. These estimates were subject to multiple levels of analysis and scrutiny by state, FHWA, and ARC engineers to ensure accuracy, efficiency, and economy of design, and have been accepted by the FHWA and ARC. All costs are in constant 2000 dollars. Construction costs reflect average unit prices based on bids received on comparable projects during calendar year 2000. Costs may increase or decrease as designs are refined and conditions change.

Cost Estimate

The 2002 total estimated cost to complete the ADHS (combined federal and state cost) is $8.505 billion, which includes $352 million of prefinanced projects as of September 30, 2001 and $748 million of work that is not eligible for ADHS funding. The federal share of the cost to complete the ADHS is $6.206 billion. Approximately $1.739 billion of federal funds are available to the Appalachian states, including funds allocated and apportioned for FY 2002 and authorized for FY 2003. Therefore, on September 30, 2001, the federal share needed to complete the ADHS is $4.467 billion (in year 2000 dollars).

The available funds include ADHS funds and federal funds made available to the ADHS projects under the 1991 *Intermodal Surface Transportation Efficiency Act (ISTEA)*, the TEA-21, and U.S. Department of Transportation (DOT) appropriations acts.

A limitation on the obligation of ADHS funds authorized for allocation and apportionment to states for the ADHS in TEA-21 is established each year in the DOT appropriations act. From FY 1998 through FY 2002, appropriations acts provided $1.687 billion in authority (an average of 88.5 percent) for use in obligating the $1.907 billion allocated and apportioned to the states under TEA-21 for use on the ADHS. Although a few states have used other obligation authority to obligate these ADHS apportionments, most have not chosen to do so because of other priorities.

Summary of Cost to Complete the ADHS and Remaining Federal Funds Needed

Federal share of eligible work	$6.2060 billion
Total Federal fund apportionments and allocations available	
Unobligated balance of federal funds as of 9/30/01	$0.5925 billion
FY 2002 apportionments and allocations	$0.6733 billion
FY 2003 projected apportionments and allocations	
(authorized in TEA-21)	$0.4736 billion
Total federal fund apportionments and allocations available	$1.7390 billion
Remaining federal funds needed	$4.4670 billion

Factors Affecting Cost Changes

The cost of estimating the remaining work on a highway system built over an extended period of time can be affected by several factors. The four general factors listed below increased the total cost to complete the remaining work on eligible sections of the ADHS.

Cost of construction: Price Trends for Federal-Aid Highway Construction, published by FHWA, shows that the cost of highway construction rose 19.44 percent between calendar years 1995 and 2000 (the base years for the 1997 and 2002 ADHS cost estimates)

More detailed estimates and design refinements: Both the 1997 and 2002 estimates were prepared using the latest information available. However, as a project is advanced from corridor planning to final design, detailed engineering studies are completed that allow definite quantities to be computed and unit prices to be refined. Design refinements were made to meet traffic demand or to satisfy local and regional traffic patterns and projections; to incorporate the states' latest pavement, roadway, and bridge design standards; and to reflect the latest AASHTO specifications and guidelines. Additional interchanges are required when projected traffic volumes increase or when the control of access is required. ARC agreed to include four additional interchanges in the 2002 estimate that were not included in 1997 estimate. As an example of a design refinement, Kentucky increased the median width on Corridor Q from 14 feet to 40 feet

to improve safety and lowered the maximum roadway grade from 7 percent to 6 percent to be consistent with the state's latest design standards.

Environmental Mitigation: As a project design is advanced, environmental impacts are identified, and appropriate mitigation is determined by the resource agencies. Although environmental laws have not changed since the 1997 estimate, mitigation expectations have increased along with the cost of avoiding environmentally sensitive sites. For example, West Virginia's design of the Ohio River Bridge was changed to mitigate impacts of the crossing over the historic Blennerhassett Island. This resulted in a $70.2 million increase on Corridor D.

Prefinanced reimbursement ratio: Prefinancing allows a state to accelerate the completion of the ADHS by advancing ADHS-eligible highway construction projects without federal funds as long as the projects have been approved for reimbursement. At the time of the 1997 estimate, states were reimbursed at the rate of 70 percent of the total cost of prefinanced projects. TEA-21 changed the reimbursement rate to 80 percent of total cost of all prefinanced projects reimbursed after the date of enactment.

As a result of these factors, the total cost eligible for ADHS funding is $7.8 billion, which compares with a total eligible cost of $8.5 billion in the 1997 estimate.

The $3.1 billion in obligational authority made available since the 1997 estimate reduced remaining federal funds needed from $6.2 billion in the 1997 to $4.5 billion in the 2002 estimate.

Benefits of the ADHS

An economic study conducted by Wilbur Smith Associates was completed in 1998. This study focused on the contributions of completed improvements on 1,417.8 miles (on 12 corridors) of highway in 165 counties (of 399 counties in the Region at that time) toward economic value and development. The objective was to quantify the impacts on travel efficiencies (reduced travel time, operating costs, and number of accidents) and regional economic development impacts (as measured by jobs, wages, and value added).

The economic development impacts were estimated by use of the REMI model, a comprehensive economic forecasting and simulation model. In this study the economic impacts quantified and measured are the difference between what occurred "with the ADHS" compared with what would have occurred "without the ADHS."

Completed sections of the 12 corridors studied were found to have created jobs (an estimated net increase of 16,000 jobs by 1995) and had a solid return on investment ($1.18 in travel efficiency benefits and $1.32 in economic benefits for each $1 invested in construction and maintenance over the life cycle of the ADHS segments studied). The study concludes the ADHS can take credit for enough growth in Appalachia to demonstrate the completed portions of the ADHS have been a good investment.

The study of highway safety improvements on the ADHS was completed in 1999. This compared crash rates on completed portions of the ADHS with those on existing highways to be improved or replaced in the unbuilt portions of the ADHS. This study revealed that substantial reductions in crash rates have been obtained and can be expected with additional improvements on ADHS corridors. As an example, comparison shows replacing an existing two-lane highway with a four-lane divided highway can reduce the crash rate by over 60 percent.

FY 2002 Accomplishments on the ADHS

The states obligated a total of $555.8 million on the ADHS in FY 2002. This includes $401.5 million from the TEA-21, $1.5 million from prior *Energy & Water Appropriation Acts,* $2.2 million *from the FY 98 DOT Appropriation Act* and $59.9 million from the FY 2001 *DOT Appropriation Act* and $13.0 from the FY 2002 DOT Appropriation Act.

A total of 38 ADHS miles were completed or opened to traffic in FY2002, with sections being opened in six states. The states advanced a total of 18.5 miles from the location phase to the design/right-of-way acquisition phase, and a total of 49.8 miles from design/right-of-way acquisition to construction. The states also reported that all of the remaining stage construction work had been completed on an additional 90.7 miles.
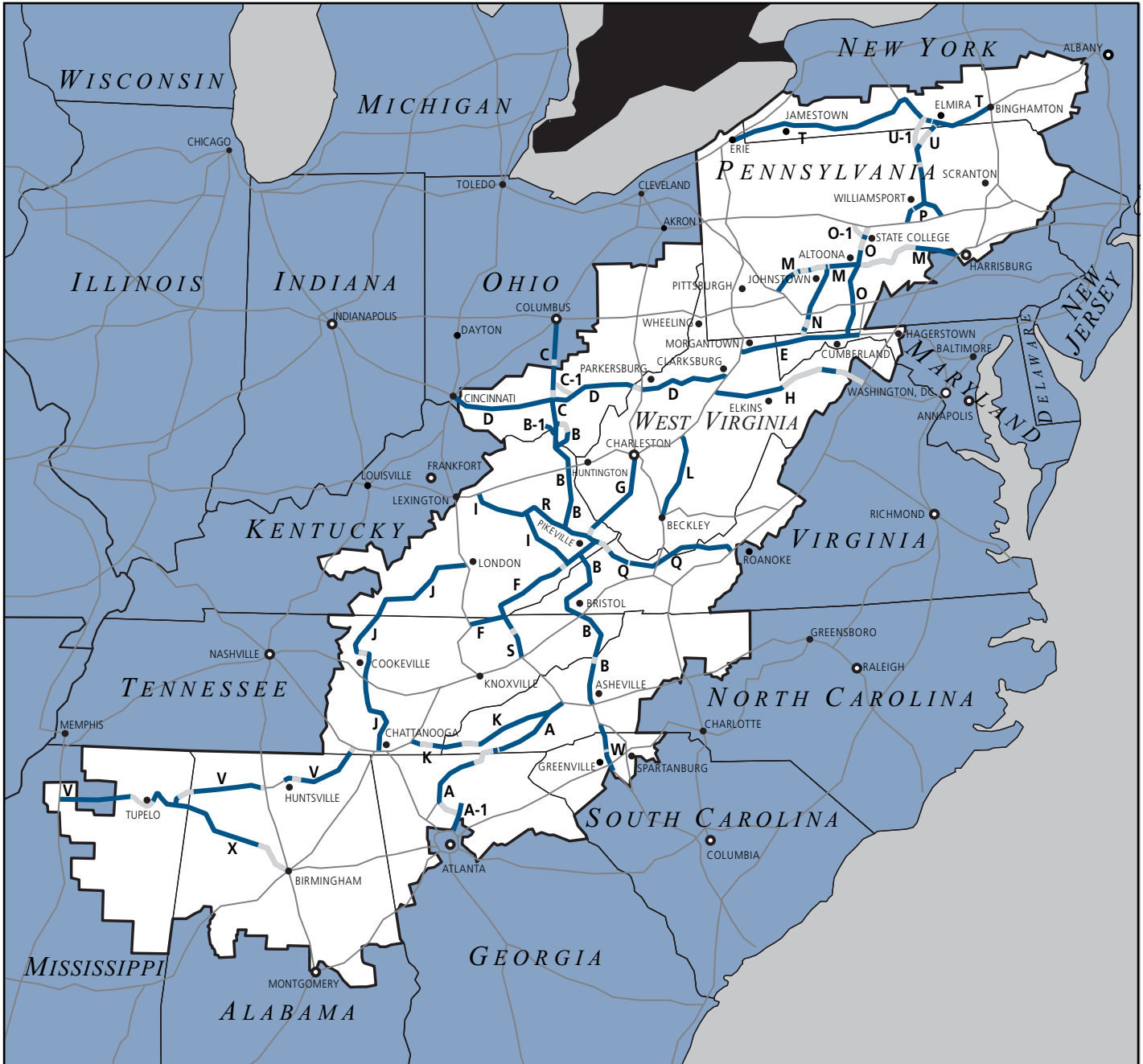
Access Roads

The access road program is another essential ingredient in accelerating regional growth. Unlike the highway program, which will provide an entire connected system as planned in advance, the access road program consists of individual projects designed to meet specific local needs. These projects are submitted separately and approved individually by the Commission. Under *ARC's Code* access road projects must provide access to economic centers such as industrial sites or industrial parks. Job creation and retention are the focus of this program.

Of the 1,400 miles of access roads authorized in the *ARDA*, an estimated 910 miles were approved through FY 2002. The *ARC Code* allows each state to invest up to $1 million of its annual ADHS funding allocation on local access roads. States used $4.1 million on local access road projects in FY 2002, with similar levels expected in fiscal 2003.

APPALACHIAN DEVELOPMENT
HIGHWAY SYSTEM

ARC

WISCONSIN

MICHIGAN

NEW YORK

ALBANY

JAMESTOWN
ELMIRA T
BINGHAMTON

ERIE
T

U-1
U

PENNSYLVANIA

SCRANTON

WILLIAMSPORT

P

ILLINOIS

INDIANA

OHIO

CLEVELAND

AKRON

O-1
ALTOONA
STATE COLLEGE

M
M
O
M

CHICAGO

TOLEDO

PITTSBURGH
JOHNSTOWN
M
O

HARRISBURG

NEW JERSEY

DELAWARE

COLUMBUS

INDIANAPOLIS

DAYTON

C

WHEELING

N

HAGERSTOWN
BALTIMORE

C-1
D
D

MORGANTOWN
CLARKSBURG

E

CUMBERLAND

MARYLAND

ANNAPOLIS

CINCINNATI
D

C

PARKERSBURG

WEST VIRGINIA

ELKINS
H

WASHINGTON, DC

B-1
C
B

CHARLESTON

LOUISVILLE

FRANKFORT

B

HUNTINGTON

G
L

RICHMOND

LEXINGTON

I

R
B

BECKLEY

KENTUCKY

I

PIKEVILLE

B
Q
Q

VIRGINIA

ROANOKE

LONDON

F

J

RICHMOND

NASHVILLE

J

COOKEVILLE

F

S

B

GREENSBORO

TENNESSEE

F

KNOXVILLE

B

ASHEVILLE

NORTH CAROLINA

RALEIGH

MEMPHIS

J

CHATTANOOGA

K

A

W

CHARLOTTE

K

GREENVILLE
SPARTANBURG

V
V

HUNTSVILLE

A
A-1

SOUTH CAROLINA

COLUMBIA

V

TUPELO

X

ATLANTA

BIRMINGHAM

GEORGIA

MISSISSIPPI

MONTGOMERY

ALABAMA

**Adequate or Complete
September 30, 2002**

To be Completed

Interstate System

VII. Operations and Governance

The ARC Partnership Model

The Appalachian Regional Commission has 14 members: the Governors of the 13 Appalachian states and a Federal Co-Chairman, who is appointed by the President and confirmed by the Senate. Each year one Governor is elected by his or her peers to serve as the States' Co-Chairman.

An Alternate Federal Co-Chairman, who is also appointed by the President and confirmed by the Senate, has authority to act as the Federal Co-Chairman in his or her absence. Each governor appoints an alternate who oversees state ARC business and serves as the state-level point of contact for those seeking ARC assistance.

The ARC Office of Inspector General reports to the Federal Co-Chairman.

The Commission's Executive Director, who is appointed by the Commission Members, serves as the chief executive, administrative, and fiscal officer. The Executive Director and staff are not federal employees. Commission staff serves both the federal and state members in carrying out ARC programs and activities.

The partnership nature of ARC is evident in its policymaking: the Governors and the Federal Co-Chair share responsibility for determining all policies and making spending decisions. The Federal Co-Chair has one vote, and the 13 Governors share one vote, on all Commission decisions. Accordingly, all program strategies, allocations, and other policy must be approved by both a majority of the Governors and the Federal Co-Chair.

Business Processes and Operations

ARC's business processes and operations continue to evolve to serve the Region more efficiently and effectively. In FY 2002, the Commission implemented a new Online Resource Center that provides tools and information to help communities, particularly those in distressed areas, plan and develop projects for economic and community development. The Commission has also enhanced its knowledge management processes by expanding its intranet capabilities, enabling staff and state partners to remain up to date on the status of individual projects.

In the past decade, virtually all Commission operations systems have been re-engineered or replaced. These include a project management database, as well as accounting, payment processing, and time and attendance systems. In FY 2003, the Commission is involving outside expertise to even further improve financial accountability in the spirit of the new legislation requiring audited financial statements from most agencies. ARC also continues to implement e-processes in its operations, such as electronic file management. It is also moving to implement such technologies as electronic grant applications processing. In addition, local area network solutions have

significantly reduced paperwork and led to more effective information sharing. The Commission also remains a member of an interagency group that is working to implement the Government Paperwork Elimination Act (GPEA.)

Following GISRA and technical guidance from the National Institutes of Technology, internal IT security policy and procedures have been thoroughly updated. Business recovery requirements have been achieved through secure short-latency off-site data backup, and ARC is developing an emergency management plan in response to the events of September 11.

The Commission is using the President's Assessment Rating Tool (PART) internally as a self-assessment measure, at the same time that work is continuing with the states, outside experts, and partner organizations to continue refinement of performance reporting.

Although the Commission is operating with a minimal number of staff, it continues to perform all core functions and has successfully implemented several new regional initiatives and the Online Resource Center. The Commission has become a very flat organization, with no more than one management level between any employee and the Executive Director or Federal Co-Chairman.

Intergovernmental Cooperation

ARC's program authority encompasses nearly the full range of federal domestic activities including enterprise development, education and training, health care, export promotion, telecommunications, water and sewer infrastructure, and highway construction. With a limited appropriation, the Commission has always emphasized collaboration with public and private resources to accomplish its mission. ARC investments supplement the work of federal agencies that do not have a special focus on the Region. Through this approach, ARC funds and technical assistance help make projects viable, enabling communities to leverage private, state and other federal funds. ARC's highly flexible funds are often referred to as "glue money" which, although often a small part of a project, makes it feasible. ARC efforts to collaborate with other organizations, both public and private, will intensify as the agency shifts from individual grant making to the pursuit of regional strategies and advocacy. State and local governments, always a part of the ARC partnership approach, will continue to be essential.

A special provision of the Appalachian Regional Development Act has authorized ARC to operate in part as a supplemental grant program for many years. This authority allows ARC funds to be used to increase the allowable participation under federal grant programs, enabling grantees to participate in programs for which they would be ineligible. In addition, it involves appropriate federal entities to assure not only program coordination but also compliance with all applicable laws, such as NEPA and Davis Bacon. Accordingly, about half of past ARC grants have been administered under agreements with various federal agencies. Of over 22,000 grants awarded, about 2,000 are active accounts at ARC or partner agencies. As Area Development policies result in

more grants made under special regional strategies and initiatives, agreements with federal organizations are expected to focus on effective joint programming and sharing of resources rather than on transfer of ARC funds and obligational authority.

The following illustration shows Commission Members as of February 2003, along with an organizational chart.

Appalachian Regional Commission

February 2003

Federal Co-Chair
Anne B. Pope

States' Co-Chair
Governor Mark Warner

Alternate Federal Co-Chair
Richard J. Peltz

Alabama
Governor Robert Riley

New York
Governor George E. Pataki

South Carolina
Mark Sanford

Georgia
Governor Sonny Perdue

North Carolina
Governor Michael F. Easley

Tennessee
Governor Phil Bredesen

Kentucky
Governor Paul E. Patton

Ohio
Governor Bob Taft

Virginia
Governor Mark Warner

Maryland
Governor Robert L. Ehrlich Jr.

Pennsylvania
Governor Ed Rendell

West Virginia
Governor Robert E. Wise Jr.

Mississippi
Governor Ronnie Musgrove

Organizational Chart
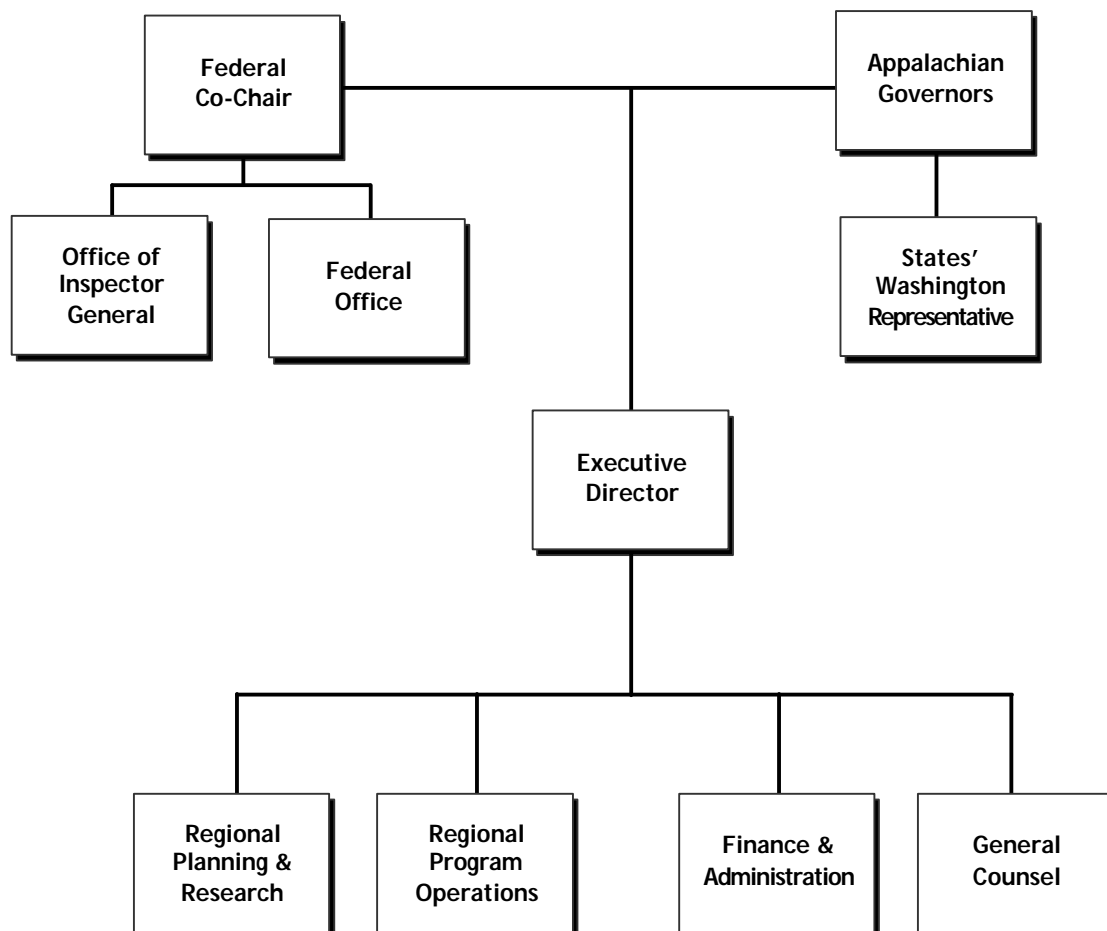
Appendix A:
Designated Distressed Counties

Using the following rigorous set of criteria, in FY 2003, 30 percent, or 121 of the Appalachian Region's 410 counties will be designated as economically distressed.

(1) Distressed counties meet all three of the following economic indicators:

Per capita market income no greater than two-thirds (67 percent) of the US average,

Three-year unemployment rate at 150 percent of the US average or greater; and

Poverty rate which is at least 150 percent of the US average; or

(2) Distressed counties have at least twice the national poverty rate and meet one other criterion for economic distress.

The following 121 counties will be designated for special assistance as distressed counties in FY 2003 based on these criteria:

Alabama (7)—Bibb, Fayette, Franklin, Hale, Macon, Pickens, and Winston

Kentucky (42)—Adair, Bath, Bell, Breathitt, Carter, Casey, Clay, Clinton, Cumberland, Edmonson, Elliott, Estill, Floyd, Green, Harlan, Hart, Jackson, Johnson, Knott, Knox, Lawrence, Lee, Leslie, Letcher, Lewis, Lincoln, McCreary, Magoffin, Martin, Menifee, Monroe, Morgan, Owsley, Perry, Pike, Powell, Rockcastle, Rowan, Russell, Wayne, Whitley, and Wolfe

Mississippi (14)-- Benton, Chickasaw, Choctow, Clay, Kemper, Marshall, Monroe, Montgomery, Noxubee, Oktibbeha, Panola, Tishomingo, Winston, and Yalobusha.

North Carolina (3)—Cherokee, Graham, Swain

Ohio (11)--Adams, Athens, Gallia, Jackson, Lawrence, Meigs, Monroe, Morgan, Pike, Scioto, and Vinton

Pennsylvania (2)--Fayette, Greene

Tennessee (10)--Campbell, Clay, Cocke, Fentress, Hancock, Jackson, Johnson, Meigs, Morgan, and Scott

Virginia (5)--Buchanan, Dickenson, Lee, Russell, and Wise

West Virginia (27)--Barbour, Boone, Braxton, Calhoun, Clay, Fayette, Gilmer, Jackson, Lewis, Lincoln, Logan, McDowell, Mason, Mingo, Nicholas, Pocahontas, Raleigh, Randolph, Ritchie, Roane, Summers, Taylor, Upshur, Webster, Wetzel, Wirt, and Wyoming.

County Economic Status in Appalachia, Fiscal Year 2003
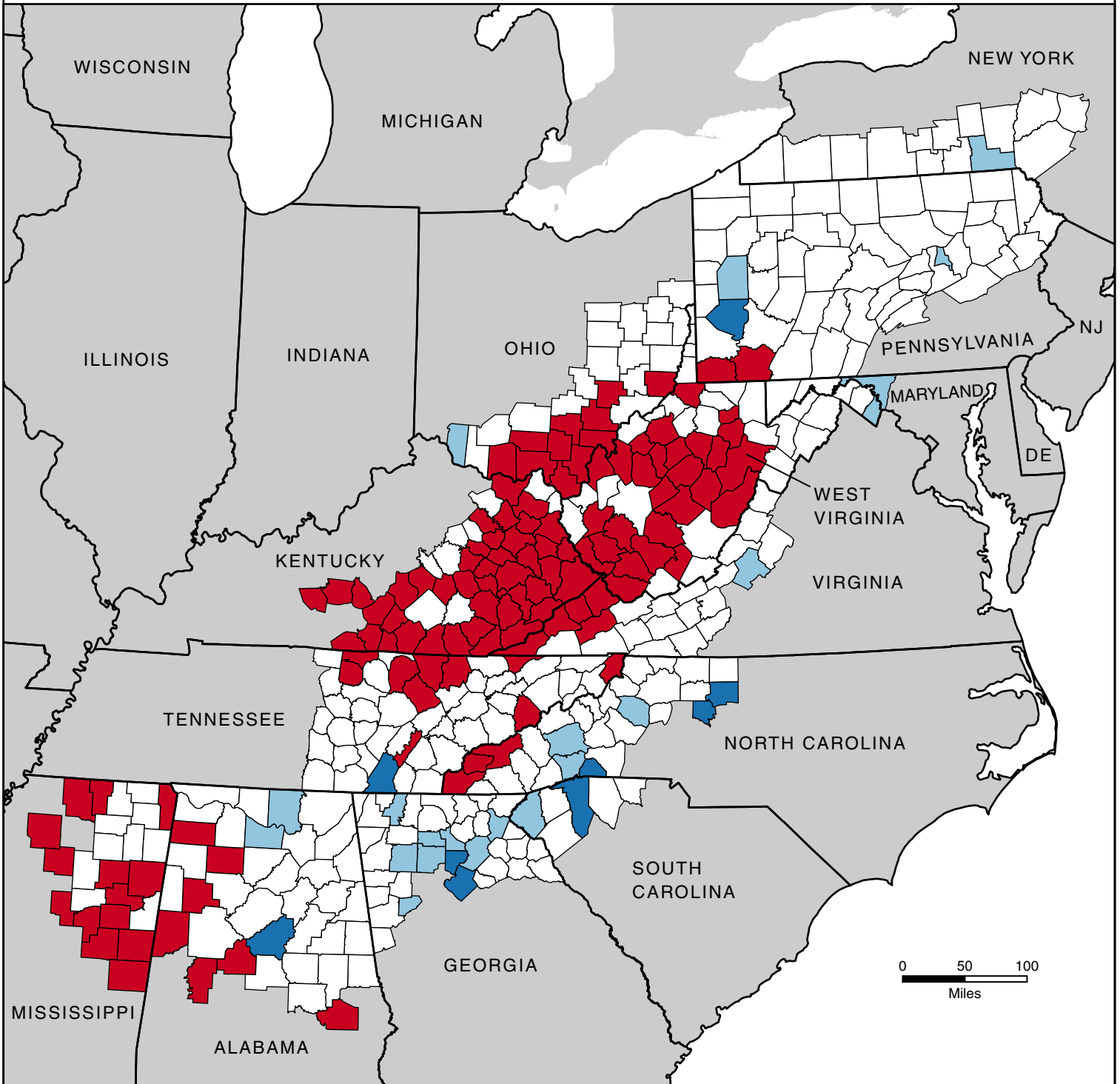
Each fiscal year the Appalachian Regional Commission classifies each county into one of four economic levels based on the comparison of three county economic indicators (three-year average unemployment, per-capita market income, and poverty) to their respective national averages. See the reverse side for a description of each economic level.

County Economic Levels

- Distressed (121)
- Transitional (259)
- Competitive (21)
- Attainment (9)

0   50   100
Miles

Appalachian Regional Commission

Map Created: June 2002.
Data Sources: U.S. Bureau of Labor Statistics, LAUS, 1998-2000;
U.S. Bureau of Economic Analysis, REIS, 1999;
U.S. Census Bureau, STF3A, 1990.

Effective October 1, 2002
through September 30, 2003.

WISCONSIN
MICHIGAN
NEW YORK
ILLINOIS
INDIANA
OHIO
PENNSYLVANIA
NJ
MARYLAND
DE
WEST VIRGINIA
KENTUCKY
VIRGINIA
TENNESSEE
NORTH CAROLINA
SOUTH CAROLINA
GEORGIA
MISSISSIPPI
ALABAMA

Criteria for County Economic Levels of the
Appalachian Regional Commission
Fiscal Year 2003

Latest County Data as of December 1, 2001

FY 2003 Economic Level	No. of Counties in Appalachia	1998-2000 Three-Year Average Unemployment Rate		1999 Per Capita "Market" Income		1990 Census Poverty Rate		
Distressed	121	6.4% or more [150% of U.S. 4.2%]	*and*	$16,629 or less [67% of U.S. $24,819]	*and*	19.7% or more [150% of U.S. 13.1%]	*OR*	twice U.S. poverty rate and qualify on one other indicator
Transitional	259	All counties not in other classes. Individual indicators vary.						
Competitive	21	4.2% or less [100% of U.S.]	*and*	$19,855 - $24,818 [80% of U.S. = $19,855]	*and*	13.1% or less [100% of U.S.]		
Attainment	9	4.2% or less [100% of U.S.]	*and*	$24,819 or more [100% of U.S.]	*and*	13.1% or less [100% of U.S.]		

Note: Indicator threshold values may not calculate to the exact U.S. average breaking point due to rounding.

Source: U.S. Department of Labor - Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS), 1998-2000 (employment data);
U.S. Department of Commerce - Bureau of Economic Analysis, Regional Economic Information System (REIS), 1999 (income data);
U.S. Department of Commerce - Bureau of the Census, 1990 (poverty data).

Calculations made by the Appalachian Regional Commission, 1666 Connecticut Avenue NW, Washington, DC 20009 [phone: 202-884-7780]. December 2001.

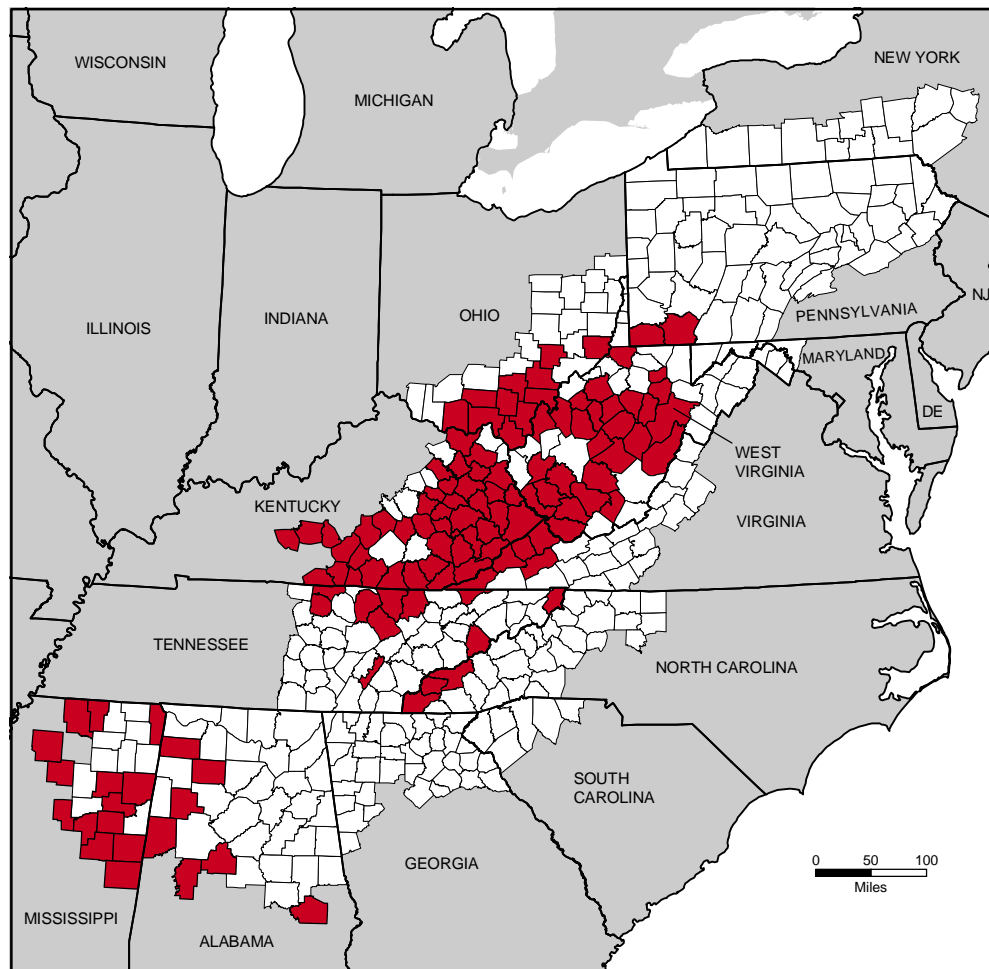# Distressed Counties in the Appalachian Region

1960
■ 223 Distressed Counties
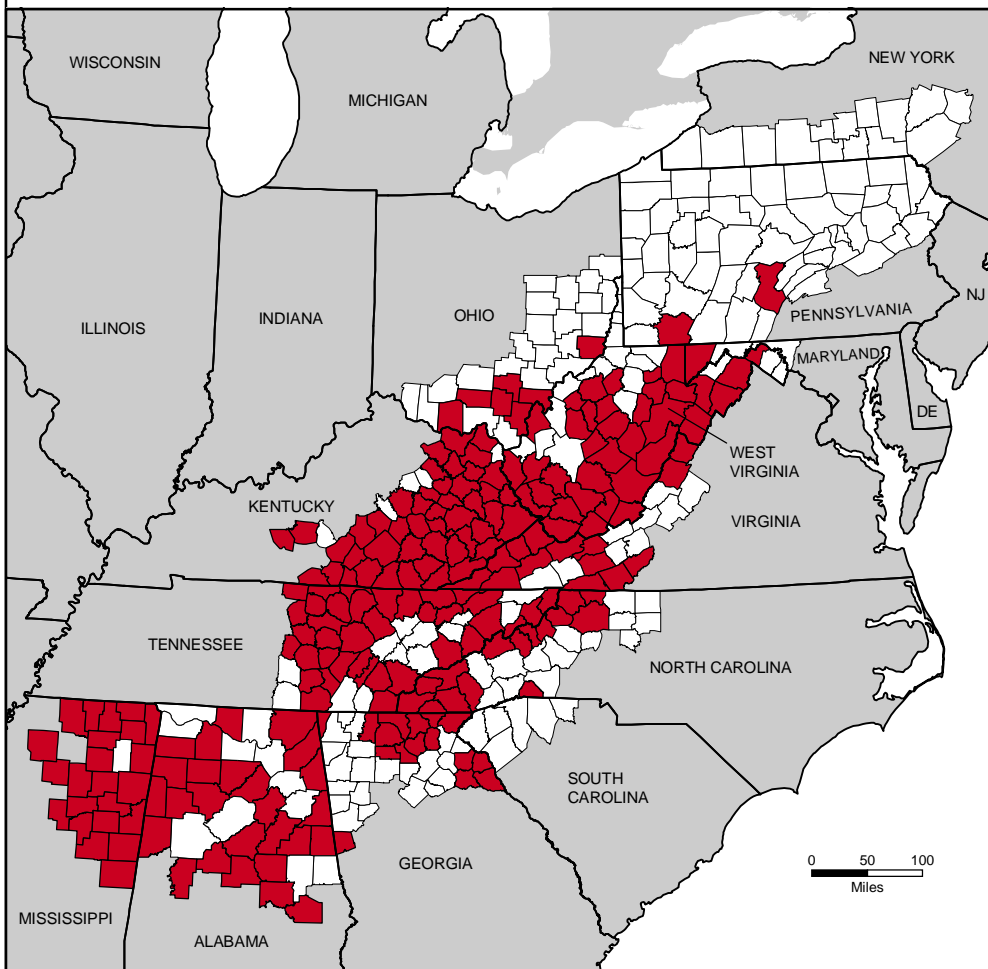
FY 2003
■ 121 Distressed Counties

Definition of Distress in 1960:
Distressed counties have an unemployment rate that is at least 1.5 times the U.S. average of 5.1 percent; a per capita market income that is two-thirds or less of the U.S. average of $1,639; and a poverty rate that is at least 1.5 times the U.S. average of 22.1 percent; OR they have 2 times the U.S. poverty rate and qualify on the unemployment or income indicator.

Data Sources:
Unemployment: Census data from USDA, Economic Research Service (ERS), 1960;
Income: U.S. Department of Commerce, Bureau of the Census, 1960;
Poverty: Office of Economic Opportunity data from USDA, ERS, 1960.

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Definition of Distress in Fiscal Year 2003:
Distressed counties have a three-year average unemployment rate that is at least 1.5 times the U.S. average of 4.2 percent; a per capita market income that is two-thirds or less of the U.S. average of $24,819; and a poverty rate that is at least 1.5 times the U.S. average of 13.1 percent; OR they have 2 times the U.S. poverty rate and qualify on the unemployment or income indicator.

Data Sources:
Unemployment: U.S. Department of Labor, Bureau of Labor Statistics, 1998-2000;
Income: U.S. Department of Commerce, Bureau of Economic Analysis, 1999;
Poverty: U.S. Department of Commerce, Bureau of the Census, 1990.

Annual Performance Plan for FY 2004

The Government Performance and Results Act (GPRA) requires agencies to effectively measure the impact of their projects, programs, and activities. This information is contained in Annual Performance Plans and Reports. In developing these documents, the Appalachian Regional Commission (ARC) has adhered to the key steps set forth in OMB Circular A-11 and the GAO Executive Guide to implementing GPRA. These include:

1. **Involving Stakeholders**— ARC is using several techniques to gather information and involve the region's stakeholders. These include community meetings and focus groups and consultations with leading experts on economic development in rural America, federal officials who manage programs in Appalachia, and officers and board members of the region's 72 LDD's.

   The ARC's strategic plan, *Setting A Regional Agenda,* was developed in a collaborative effort by the Federal Co-Chairman, the 13 governors and their staff, ARC staff, the LDDs, and the people of Appalachia. In developing this new vision for the ARC, stakeholders took part in 13 focus groups, four interstate town meetings, and a televised town meeting. In addition, 50 LDDs participated in six meetings throughout the region at which performance measures were developed. Since FY 1997, ARC operations have been guided by this plan.

   To more effectively implement this plan in the region's most economically distressed counties, in February 2000 the governors and the Federal Co-Chairman directed the ARC to create an enhanced development program for distressed counties. These efforts, which obtained input from various stakeholders, led to a series of focus group meetings and a regional town meeting attended by two governors. A final plan was adopted by the Commission in February 2001, which also served as an update to the strategic plan as required by law.

2. **Assessing the Environment**-- ARC conducted and/or had completed under contract several major analyses of socio-economic factors affecting the region, including:

   - *Links to the Future: The Role of Information and Telecommunications Technology in Appalachian Economic Development;*
   - *Regional Technology Assets and Opportunities: The Geographic Clustering of High Tech Industry, Science and Innovation in Appalachia;*
   - *Comparing Electricity Deregulation in California and Pennsylvania: Implications for the Appalachian Region;*
   - *An Assessment of Labor Force Participation Rates and Underemployment in Appalachia;*
   - *Analysis of Business Formation, Survival and Attrition Rates of New and Existing Firms in Appalachia;*
   - *An Assessment of Demographic and Socioeconomic Change in Appalachia, 1990-2000;*
   - *An Analysis of Opportunities to Improve Transportation Efficiencies Through Enhanced Intermodal Capabilities and Increased Utilization of the Appalachian Development Highway System;*
   - *An Analysis of the Global Competitiveness of Selected Industries and Clusters: An Assessment of Trade, Market and Transportation Trends Affecting the Appalachian Region's Export Prospects;*
   - *Analysis of Health Disparities in the Appalachian Region;*
   - ***An Analysis of the Financial Viability of Health Care Institutions and Economic Impact in the Region;***
   - ***An Analysis of the Role of Natural, Cultural and Recreational Amenities in Economic Development.***

3. **Aligning Activities**— The ARC is a unique federal-state program that serves 410 counties throughout Appalachia, as defined by statute. All ARC activities are aligned to one of five major goal areas. The ARC Code has been revised to include management policies, guidelines, and principles to pursue these goals through the cooperative efforts of federal and commission staff, State staff, and LDDs. To further ensure that the pursuit of these goals is central to all ARC operations, each State is required to submit an Annual Strategy Statement to the ARC to identify priorities in each goal area for the coming year.

4. **Producing Performance Measures**—Performance measures have been defined for all major operations of the ARC. Over 300 grantees have been interviewed to determine the most illustrative project measures to include in GPRA-required reports. Examples of these measures are included in this document.

5. **Collecting and Evaluating Data**—In 1998, one year before GPRA required the collection of data, ARC started measuring projected outputs and outcomes for all projects. ARC staff continues to actively collect and evaluate measures, with an estimated 60+ projects being validated during FY 2002.

   In addition to these project-specific on-site evaluations by ARC staff, the Commission also has completed and/or initiated three external evaluation studies to assess the results of projects by goal category. These include:

   - *An Evaluation of ARC's Telecommunications Projects;*
   - *An Evaluation of ARC's Civic Capacity and Leadership Development Program;*
   - *Evaluation of ARC's Vocational Education and Workforce Training Projects;*
   - *An Evaluation of the Early Stages of ARC's Entrepreneurship Initiative.*

6. **Identifying Performance Gaps** — ARC uses a three-tiered approach to identifying performance gaps throughout the region and in tracking the results of specific projects. This includes collecting regional data and incorporating that data in a Geographic Information System (GIS), project assessments by goal area, and project-specific performance verification.

   The ARC also tracks projected performance of all projects in each goal area. The *projected* measures are quantitatively based on the past trends of ARC funded projects while *estimated* measures are grant-specific estimates documented at the time a project is funded.

   In addition ARC assesses the performance of specific grants across a representative sample in each goal area. For this, actual accomplishments reported by the grantees' during on-site visits are compared with the estimates contained in the grantees' applications. Results of this review, clearly the most reliable measure with which to gauge performance, are presented each year in ARC's Annual Performance Measures Report.

7. **Reporting Information**—The first report on the performance of projects was made to the 13 governors in February 1997, with updates provided annually thereafter. The results of each year is reported to the Commission at the annual February meeting.

8. **Using Information for Management**—The ARC has used and will continue to use output and outcome information to evaluate projects and programs to help guide investments in the region.

Overview

The ARC FY 2004 Performance Plan complements the ARC strategic plan and the FY 2004 budget request, and provides a framework for documenting the Commission's progress in fulfilling its mission.   This document describes the ARC's fulfillment of the six requirements of a performance plan as outlined in section 4(b) of the Government Performance and Results Act (GPRA)*:*

1. *Establish performance goals to define the level of performance to be achieved by a program activity.*

2. *Express such goals in an objective, quantifiable, and measurable form, unless authorized to be in an alternative form under subsection (b).*

3. *Establish performance indicators to be used in measuring the relevant output and outcomes of each program activity.*

4. *Briefly describe the operational processes, skills and technology, and the human, capital, information, or other resources required to meet the performance goals.*

5. *Provide a basis for comparing actual program results with the established performance goals.*

6. *Describe the means to be used to verify and validate measured values.*

This performance plan has been prepared pursuant to OMB Circular No. A-11, Part 2 (June 2002) and GAO's *Executive Guide: Effectively Implementing the Government Performance and Results Act* (June 1996), which requires the assignment of funding levels for each goal category and the inclusion of historical performance measurement information. In adhering to this guidance, the Commission's federal partners, 13 State-partners, and 72 local development districts will be able to demonstrate how ARC's activities impact the region. ARC is committed to utilizing GPRA processes as a management tool with which to continually improve upon both the measurement of outcomes and ARC programs. The Commission is reviewing its system of reporting on the results of projects it funds and on standardization of results measurement with those of other agencies that are engaged in similar activities.

REQUIREMENTS 1, 2, AND 3:
Goals, Objectives and Performance Indicators
_____

Overview:

This section includes ARC's Mission Statement, descriptions of each ARC general goal, the current status of the region as it relates to that goal, the objectives adopted to implement the general goal, and performance measurement information for FY 1999 through 2004. These elements relate directly to the requirements set forth in OMB Circular A-11, which advises each agency to:

1. *Establish performance goals;*

2. *Express goals in objective, quantifiable, and measurable form; and*

3. *Establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity.*

The ARC's Performance Goals and Mission Statement

ARC Mission Statement:
To be an advocate for and partner with the people of Appalachia to create opportunities for self-sustaining economic development and improved quality of life.

ARC's Five General Goals:

1. *Appalachian residents will have the skills and knowledge necessary to compete in the world economy in the 21st century.*

2. *Appalachian communities will have the physical infrastructure necessary for self-sustaining economic development and improved quality of life.*

3. *The people and organizations of Appalachia will have the vision and capacity to mobilize and work together for sustained economic progress and improvement of their communities.*

4. *Appalachian residents will have access to financial and technical resources to help build dynamic and self-sustaining local economies.*

5. *Appalachian residents will have access to affordable, quality health care.*

Each of these goals has a number of supporting objectives and associated performance measures. These are defined in greater detail in the following section.

Projected Performance Measures

Since implementing the GPRA requirements in FY 1998, ARC has projected results for each goal area based on past performance and on an assumed continuation of the way States have chosen to allocate their area development funding by goal area in prior years.

"*Projected Results*" for each performance measure are presented in the left-hand columns of the following tables. As noted above, these projections for both FY 2003 and 2004 are rough estimates at best, as each States spending priorities can shift from year to year.

"*Estimated results*" for each performance measure are presented in the right hand column of the following tables. These figures may differ dramatically from the projected results because they are based on specific projects. For each goal activity, these represent the total number of specific outputs or outcomes in all approved project applications. Accordingly, FY 2001 is the most recent year for which this information is available.

"Final results" will be reported to OMB in the *2002 Annual Performance Measures Report* to be issued in February of 2003. ARC conducts an external evaluation of projects in one goal area annually and makes validation visits to approximately 10% of funded projects.

Area Development Program: Building Regional Strategies for the Five ARC Goals

ARC will assist regional leaders in the development of economic and social strategies by assessing the region, delivering technical assistance, sharing the information, and convening forums on regional issues.

Output (Activity) Goals for Building Regional Strategies

> **ARC will provide technical assistance and socio-economic data to 5,000 regional leaders in order to develop regional strategies.**

> **ARC will provide information to 50,000 users through the ARC web site and online resource center.**

> **ARC will assess the effectiveness of ARC programs utilizing 50 on site project evaluations**

Outcome (Results) Goal for Building Regional Strategies

> ARC will achieve a satisfaction level of 75% of participants rating ARC information and technical assistance good or excellent.

> ARC will invest 75% of grant funding in targeted regional development projects.

Area Development Program: Regional Investments

ARC will make strategic investments in the region in support of the five ARC goals. These investments will be one component of a targeted strategy to improve the quality of life and create a self-sustaining Appalachian economy.

General Goal 1 – Education and Training

Appalachian residents will have the skills and knowledge necessary to compete in the world economy in the 21st century.

Current Status: The ARC's Education and Training Goal was adopted to help alleviate the following conditions in the region:

- College graduation rates in 359 of the 406 Appalachian counties are 20 percent or more below the U.S. national average.

- In 364 Appalachian counties, roughly 25 percent of the adult population lacked a high school education.

As a means of implementing this Goal, the following two objectives were adopted by the ARC:

Objective 1.1 - The percentage of workers receiving basic education and skills training, skills upgrading, and customized training will increase, leading to development of a workforce that is competitive in the 21st century world economy.

Objective 1.2 - The percentage of students participating in school readiness, dropout prevention, school-to-work transition, and GED programs will increase, thereby raising the college-going rate and preparing students for the world of work in the 21st century.

1.1a Output (Activity) Goals for Workforce Training

- **FY 2004**: ARC will support skills training for *2,500 trainees* in order to ensure a skilled employable workforce.

Performance Measurement Information	
Projected **results based on past performance.**	*Estimated* **results based on funded ARC projects.**
FY 2004 – 2,500 Trainees	*To be reported*
FY 2003 - 5,000 Trainees	*To be reported*
FY 2002 - 5,000 Trainees	**FY 2002** – 5,274 Trainees
FY 2001 – 5,000 Trainees	**FY 2001** - 7,810 Trainees
FY 2000 – 10,000 Trainees	**FY 2000** – 4,822 Trainees
FY 1999 – 5,000 Trainees	**FY 1999** – 17,005 Trainees

1.1b Outcome (Results) Goals for Workforce Training:

- **FY 2004:** As a result of the ARC training activities, *1,000 trainees* will obtain jobs or retain employment at a higher status.

Performance Measurement Information	
Projected **results based on past performance.**	*Estimated* **results based on funded ARC projects.**
FY 2004 – 1,000 Trainees w/results	*To be reported*
FY 2003 – 2,500 Trainees w/results	*To be reported*
FY 2002 – 2,500 Trainees w/results	**FY 2002** – 4,809 Trainees w/results
FY 2001 – 2,500 Trainees w/results	**FY 2001** - 6,093 Trainees w/results
FY 2000 – 5,000 Trainees w/results	**FY 2000** – 3,276 Trainees w/results
FY 1999 – 2,500 Trainees w/results	**FY 1999** – 7,804 Trainees w/results

1.2a Output (Activity) Goals for Student Readiness

- **FY 2004**: ARC will provide access to education activities for *10,000 students* as a step to ensuring an educated, resourceful, and skilled population.

Performance Measurement Information	
Projected **results based on past performance.**	*Estimated* **results based on funded ARC projects.**
FY 2004 - **10,***000 Students*	*To be reported*
FY 2003 – 20,000 Students	*To be reported*
FY 2002 – 20,000 Students	**FY 2002** – 25,590 Students
FY 2001 – 20,000 Students	**FY 2001** - 19,450 Students
FY 2000 – 35,000 Students	**FY 2000** – 19,818 Students
FY 1999 – 40,000 Students	**FY 1999** – 29,383 Students

1.2b Outcome (results) Goals for Student Readiness

- **FY 2004:** As a result of ARC's educational activities, it is projected that *5,000 students will have documented improvements* in early childhood/education readiness, lower dropout rates, school-to-work transition, GED attainment, and college attendance.

Performance Measurement Information	
Projected results based on past performance.	**Estimated results based on funded ARC projects.**
FY 2004 – 5,000 Students w/results	*To be reported*
FY 2003 – 15,000 Students w/results	*To be reported*
FY 2002–15,000 Students w/results	*FY 2002* – 16,894 Students w/results
FY 2001–15,000 Students w/results	*FY 2001 -* 17,832 Students w/results
FY 2000–17,500 Students w/results	*FY 2000*–16,862 Students w/results
FY 1999–20,000 Students w/results	*FY 1999*– 16,364 Students w/results

General Goal 2 – Improving Physical Infrastructure

Appalachian communities will have the physical infrastructure necessary for self-sustaining economic development and improved quality of life.

Current Status: Improving the physical infrastructure of Appalachian communities has been a primary goal of the ARC in an effort to help alleviate and/or improve conditions in the Appalachian Region. The following information is from our most recent (2000) survey of the 71 Local Development Districts (LDD):

> *Households Served by Public Water Systems:*
> - 26 percent of all Appalachian Counties had municipal or rural water systems that provided for 50 percent or less of county households.
>
> *Households Served by Public Sewer Systems*
> - Fewer than 6 percent of all Appalachian counties had public sewer facilities for 75 percent or more of county households.
>
> *Highway Development*
> - When completed, the Appalachian Development Highway System (ADHS) will consist of 3,025 miles of highway. By the end of FY 2002, approximately 2,519 miles of the ADHS (approximately 83%) was completed or under construction

To implement Goal 2, the following four objectives were adopted by the ARC:

Objective 2.1 — Substantial progress will be made toward completion of the Appalachian Developmental Highway System (ADHS).

Objective 2.2 — All Appalachian communities will have access to safe drinking water and sanitary sewer and waste-disposal systems.

Objective 2.3 — All Appalachian communities will be in reasonably close proximity to an industrial-commercial park, business incubator and/or a community revitalization effort to facilitate economic growth and investment.

Objective 2.4 — All Appalachian counties will have access to enhanced telecommunications services to ensure their ability to compete in the global economy.

Projected Performance Goals for Providing Infrastructure:

Outcome (Results) Goals for providing infrastructure:

- **FY 2004:** ARC will provide basic services and infrastructure for water, sewerage, and waste management systems to improve the livability of *10,000 households* and create/retain *10,000 jobs.*

Performance Measurement Information	
Projected results based on past performance.	*Estimated* results based on funded ARC projects.
FY 2004 - 10,000 Households Served 10,000JobsCreated/Retained	*To be reported*
FY 2003 - 25,000 Households Served 30,000JobsCreated/Retained	*To be reported*
FY 2002 - 30,000 Households Served 25,000 Jobs Created/Retained	*FY 2002 – 74,105 Households Served* 19,649 Jobs Created/Retained*
FY 2001 – 30,000 Households Served 25,000 Jobs Created/Retained	*FY 2001:* 24,454 Households Served 41,495 Jobs Created/Retained
FY 2000 – 18,000 Households Served 20,000 Jobs Created/Retained	*FY 2000 -* 32,727 Households Served 32,668 Jobs Created/Retained
FY 1999 – 10,000 Households Served 18,000 Jobs Created/Retained	*FY 1999 –* 20,473 Households Served 22,019 Jobs Created/Retained
* Includes 11,513 new households served and	62,592 households with upgraded service

- **FY 2004:** For each $100 million invested in the Appalachian Development Highway System, the ARC program will open to traffic *8 miles* of highway.

Performance Measurement Information	
Projected results based on past performance - in miles per $100 million.	Estimated results based on funded ARC projects – in miles per $100 million.
FY 2004 – 8 Miles	*To be reported*
FY 2003 – 8 Miles	*To be reported*
FY 2002 – 8 Miles	*To be reported*
FY 2001 – 8 Miles	*FY 2001 –* 11.2 Miles
FY 2000 – 9 Miles	*FY 2000 –* 10.4 Miles
FY 1999 – 9 Miles	*FY 1999 –* 9 Miles

General Goal 3 – Strengthening Local Leadership & Civic Capacity

The people and organizations of Appalachia will have the vision and capacity to mobilize and work together for sustained economic progress and improvement of their communities.

Current Status
- According to a 2000 survey of ARC LDD's, 266 of the 406 Appalachian counties had leadership programs compared to 260 counties in 1998.

To implement Goal 3, the Commission adopted the following objectives:

Objective 3.1—The percentage of Appalachian residents participating in leadership development programs aimed at community improvement will substantially increase.

Objective 3.2—All communities and community organizations will have access to capacity building activities to enhance their ability to marshal resources, plan, and develop solutions to local problems.

Projected Performance Goals for Strengthening Local Civic Capacity:

Output Goal for strengthening strategic planning:

- **FY 2004:** ARC will support *500 participants* in strategic planning and/or capacity building programs for Appalachian leadership development programs.

Performance Measurement Information	
Projected results based on past performance.	*Estimated* results based on funded ARC projects.
FY 2004 – 500 Participants	*To be reported*
FY 2003 – 3,500 Participants	*To be reported*
FY 2002 – 2,000 Participants	*FY 2002 – 3,467 Participants*
FY 2001 – 2,000 Participants	*FY 2000 -* 1,769 Participants
FY 2000 – 5,000 Participants	*FY 2000 –* 5,568 Participants
FY 1999 – 4,000 Participants	*FY 1999 –* 5,105 Participants

General Goal 4 – Building dynamic Local Economies

Appalachian residents will have access to financial and technical resources to help build dynamic and self-sustaining local economies.

Current Status: Assisting in the building of dynamic local economies has been adopted as a specific Goal by ARC in response to the following existing conditions:

- 46 percent of all Appalachian counties had unemployment rates 25 percent higher than the U.S. average in 1997 (U.S. Dept. of Labor).

To implement Goal 4, the ARC identified the following three objectives:

Objective 4.1—Access to programs in Appalachia that provide entrepreneurial education, technical assistance, and business services to entrepreneurs will increase and be improved.

Objective 4.2—Access to programs in Appalachia that help businesses participate in the global marketplace will increase, creating jobs and stabilizing employment opportunities.

Objective 4.3—Appalachian counties will increase their efforts to restructure their local economies in order to provide more opportunities for high-value, high-wage employment.

Performance Goals for Building Dynamic Local Economies:

Output Goal for enterprise and business support:

- **FY 2004:** Access to enterprise and business services will be provided for *2,000 participants*.

Performance Measurement Information	
Projected results based on past performance.	**Estimated results based on funded ARC projects.**
FY 2004 –2,000 Participants	*To be reported*
FY 2003 – 8,000 Participants	*To be reported*
FY 2002 – 10,000 Participants	*FY 2002 – 7,697 Participants*
FY 2001 – 10,000 Participants	*FY 2001*- 7,273 Participants
FY 2000 – 7,000 Participants	*FY 2000* –15,418 Participants
FY 1999 – 10,000 Participants	*FY 1999* – 18,874 Participants

Outcome Goal for enterprise and business support:
- **FY 2004:** The ARC will support the development *of 4,000 jobs* created/retained in the Region as a result of the proposed expansion of the entrepreneurship program.

Performance Measurement Information	
Projected results based on past performance.	*Estimated* results based on funded ARC projects.
FY 2004 –4,000 Jobs Created/Retained	*To be reported*
FY 2003 - 15,000 jobs Created/Retained	*To be reported*
FY 2002 – 10,000 jobs Created/Retained	*FY 2002*- 9,150 Jobs Created/Retained
FY 2001 – 10,000 Jobs Created/Retained	*FY 2001*-18,114 Jobs Created/Retained
FY 2000 – 8,700 Jobs Created/Retained	*FY 2000*–15,511 Jobs Created/Retained
FY 1999 – 7,500 Jobs Created/Retained	*FY 1999*–14,018 Jobs Created/Retained

General Goal 5 - Improving access to Healthcare

Appalachian residents will have access to affordable, quality health care.

Current Status – Improving access to affordable, quality healthcare for Appalachian residents has been adopted as an ARC goal to help improve the following conditions which exist in the region:

Objective 5.1—The number of health professionals providing primary health care will substantially increase.

Objective 5.2—An increasing number of Appalachian counties will have integrated health-care delivery systems to improve the health status of their residents and provide them with universal access and comprehensive health-care services

Performance Goals for Improving Healthcare

Outcome Goals for recruiting healthcare physicians
- **FY 2004:** ARC will place *50 physicians* in the Region's health professional shortage areas.

Performance Measurement Information	
Projected **results based on past performance.**	*Actual* **results based on ARC's health activities.**
FY 2004 - 50 Physicians	*To be reported*
FY 2003 – 60 Physicians	*To be reported*
FY 2002 – 100 Physicians	*FY 2002* – 66 Physicians
FY 2001 – 100 Physicians	*FY 2001* - 68 Physicians
FY 2000 –140 Physicians	*FY 2000* – 104 Physicians
FY 1999 – 100 Physicians	*FY 1999* – 123 Physicians

Local Development Districts and Research, Regional Planning, and technical assistance: Providing Regional Advocacy and Coordination

ARC will provide regional advocacy and coordination for self-sustaining economic development and improved quality of life in Appalachia.

Output (Activity) Goals for Advocacy and Coordination

ARC will establish partnerships with 50 organizations and institutions across the region in order to promote regional development and improved quality of life.

ARC will convene 12 forums for assessment of regional issues and development of regional strategies utilizing ARC research and partnerships with public, private, and non-profit organizations.

Outcome (Results) Goals for Advocacy and Coordination.

ARC will assist grantees in securing $20 million in public funds for regional development and improved quality of life.

ARC will assist grantees in securing $10 million in private funds for regional development and improved quality of life.

ARC will assist grantees in securing $5 million in non-profit funds for regional development and improved quality of life.

REQUIREMENT 4:
Processes, Skills and Technology

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Overview:

The following section is presented to describe the operating processes, skills and technology, and the human, capital, information, and other resources required to meet the performance goals.

Operational Processes: The ARC implements projects that are developed locally, recommended and supported by the Governor of the State, and reviewed and supported by ARC's federal office.

Skills and Technology: ARC depends on the economic and community development skills and technology of the Region's 72 local development districts, the 13 Appalachian States, and the ARC Washington office to meet performance goals set forth in this plan.

Human Resources: A permanent staff member at the Commission will carry out the strategic plan in FY 2004 with the support of federal employees in the Federal Co-Chairman's office.

Capital Resources: With a proposed $33.1 million ARC budget, the ARC will be able to execute this plan.

Information and Other Resources: ARC will utilize socio-economic data and geographic information to track trends in the region and target resources.

REQUIREMENT 5:
Comparing program results with performance goals

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Overview:

This section provides a basis for comparing actual program results with the established performance goals.

Performance goals are established in this performance plan and the ARC will continue to monitor program results. Grantees are required to provide information on projected outputs and outcomes when projects are proposed, and the ARC will track actual results for outcomes and outputs. Depending on the time frame for achieving the results, actual outputs and outcomes will be reported after two, four, or six years. The Commission will compare actual results with the projected results and report the findings to the Federal Co-chairman and the 13 Appalachian governors.

REQUIREMENT 6:
Validating Performance Measures

Overview:

This section describes the means used to verify and validate measured performance values.

ARC will fund approximately 200 projects in FY2004, and the Commission will obtain output and outcome information from grantees on all of its FY 2004 projects. In order to verify the output and outcome information reported to the Commission, the ARC staff will conduct site review visits of approximately 10 percent of the FY 2002 project portfolio. During the review, ARC staff will determine whether the project has achieved the stated performance goals or is making progress toward the stated performance goals. This information will be reported to the 13 State representatives and the Federal Co-chairman at regular Commission meetings every year as an Annual Performance Measures Report.

In addition, the Commission will continue to evaluate the effectiveness of ARC projects and initiatives through program evaluations conducted by consultants.