APPALACHIAN REGIONAL COMMISSION

FY 2008 Performance Budget Justification

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

February 2007

Appalachian Regional Commission
FY 2008 Performance Budget Justification
As Submitted by the Federal Co-Chair

February 2007

Table of Contents

Appalachian Regional Commission
FY 2008 Budget Request Summary and Highlights

The Federal Co-Chair requests $65 million in direct appropriations for the Appalachian Regional Commission (ARC) in fiscal year 2008.

ARC was created to help close the profound socioeconomic gaps between the Region and the rest of the nation. The gaps are widespread and generational. The Region suffers distress largely because its economy is disproportionately dependent on extractive industries and manufacturing, infrastructure development lags, and human capital and leadership deficits persist, which result in concentrated areas of poverty and unemployment. Even though the long-term problems of Appalachia have cost the nation dearly, the Region continues to receive less federal assistance per capita for economic development than the rest of the country. [1] The compelling agency mission is clear in the strategic vision: to help Appalachia reach parity with the nation.

The challenges confronting Appalachia are in many ways even more complex and profound than they were even during the early days of the program. Then, the major concerns were to address the most basic of infrastructure, environmental, training, and health needs. Some of these third-world problems still exist in the Region, and they require continued focus. Appalachian counties require estimated investments of $11.3 billion for drinking water needs and $14.3 billion for wastewater needs[2], substantially more than the funding available from combined state and federal funding programs. However, the future of Appalachia remains very much at risk because both the nation and the Region must now compete in the global economy. This means there is a higher threshold for success: high technology jobs rather than manual labor; college education rather than basic literacy; and telecommunications arteries as well as the development highways.

No other agency of government is charged with the unique role of addressing Appalachian problems and opportunities. No other agency is charged to be simultaneously an advocate for the Region, a knowledge builder, an investor, and a partner at the federal, state, and local levels. Federal agencies are typically national in focus and narrow in scope, while ARC was created to be regional in focus and broad in scope. These special roles represent essential elements for making federal investments work best to alleviate severe regional disparities in the country: responsiveness to regional needs with a view to global competitiveness; an emphasis on the most distressed areas; breadth to address both human and physical capital needs; and flexibility in funding.

To carry out its distinctive mission, the Commission strategic plan focuses on four goals:

1. To i*ncrease job opportunities and per capita income* through business development and diversification strategies that will capitalize on the Region's unique assets, foster local entrepreneurship, expand trade, and encourage technology-related jobs.

---

[1] Analyses of the Consolidated Federal Funds Report for 2002 by ARC and the Census Bureau found that total direct federal expenditures and obligations in Appalachia were $783 less per capita than in the rest of the country. The total difference in federal grants alone is approximately $5.4 billion annually.

[2] *Drinking Water and Wastewater in Appalachia: An Analysis of Capital Funding Gaps*. Jeff Hughes, Richard Wisnant, et al., UNC Environmental Financing Center, June 2005.

2. To *strengthen capacity of the people to compete in the global economy* through increased workforce participation and productivity, with emphases on improving educational attainment and training, and reducing disproportionately high rates of certain chronic diseases.

3. To *develop and improve regional infrastructure*, particularly in economically distressed areas, as an essential step to increase potential for private sector growth. Infrastructure development will target the still widespread need for basic clean water and waste disposal, as well as the President's goal for universal access to high-speed telecommunications.

4. To *build the Appalachian Development Highway System* (ADHS), designed to reduce the historic physical isolation of the Region using current financing from national surface transportation legislation.

ARC is a performance-driven organization. The Commission continually evaluates regional economic progress and investment results, revises investment policies accordingly, and relies on clearly defined priorities and strategies. This performance based budget describes the linkages between the goals, strategies, and performance measures that ensure good value for the taxpayers.

ARC promotes economic and community development through a framework of joint federal and state initiatives. ARC's limited resources are necessary but obviously not sufficient for Appalachia to reach parity with the rest of the country. Therefore, ARC continues a long tradition of building alliances among private and public organizations to focus technical, financial, and policy resources on regional problems. The Appalachian program has involved not only governors' offices and agencies of the thirteen states, which control other substantial resources for investment, but also 72 multi-county development districts, up to 20 federal agencies, and a host of private organizations and foundations. The Commission further helps create alliances through research, regional forums, advisory councils, and community meetings. Examples of many of these relationships are documented in this budget. In FY 2006, across all investment areas, each dollar of ARC funding was matched by $3.14 in non-ARC project funding (public and private) and leveraged $11.55 in private investment attracted as a result of the project.

The unique flexible character of ARC program funding is a vital adjunct to its bottom-up partnership structure and flexible problem-solving approach. ARC can help fund innovative grass-roots initiatives that might otherwise languish as missed opportunities, and can jumpstart new projects that realize development opportunities. Especially in severely distressed areas, ARC is often a predevelopment resource, providing modest amounts of initial funding that are unavailable from other sources because the community cannot qualify for that support nor raise adequate matching funds. Congress recognized, and subsequent experience has shown, that Appalachia for many reasons often has a lower rate of using the grant resources of large federal line agencies. ARC has helped make other federal programs more effective in the Region through emphasizing joint funding, as the Appalachian Regional Development Act of 1965 (ARDA) envisioned. Under the ARDA, ARC can also allow other federal agencies to use ARC funds under their statutory authorities when their own funds are insufficient for important projects; in effect, ARC can provide sufficient match for federal grants on behalf of the poorest Appalachian communities. The Interagency Coordinating Council for Appalachia, chaired by the ARC Federal Co-Chair, has

highlighted interagency collaboration and shared funding opportunities, with the aim of increasing attention to Appalachian problems among the line federal agencies. ARC also emphasizes collaboration with the private sector whenever possible, as in recent initiatives with American Electric Power, the EBay Foundation, Microsoft, National Geographic, the Benedum Foundation, and Parametric Technology Corporation.

ARC shares project successes through its regional networking activities so that initiatives like ARC's Ohio Appalachian Higher Education Program, which received an "Innovations in American Government" award from the Harvard University Kennedy School of Government in 2003, can be replicated effectively across the Region. This program now operates in ten ARC states. In addition, ARC explicitly emphasizes putting its resources where they are most needed: in the most economically distressed counties and areas.

The Commission is a micro-agency with only 11 federal employees, plus a technical staff of 48 non-federal employees under a CEO appointed by the federal and state Commission members. This governance model ensures state/federal consensus on operating and investment policies and a high degree of oversight and economy in operation. Appendix E contains an organizational chart showing the structure of the Commission. The state members collectively pay half the costs of non-federal administrative operations. ARC aims to be a high-performance organization, using available technology to maximize productivity. Within its size and budget limitations, the Commission is committed to the President's Management Agenda and e-government initiatives.

OMB has conducted a PART review of the Commission program and issued a score of Adequate. The PART assessment awarded high scores for clarity of purpose, planning, and management. OMB noted progress in developing outcome-related measures, but acknowledged the difficulty of performance measurement because ARC co-funds projects with other agencies. ARC revised its metrics to include performance goals for targeting resources to areas of greatest distress, and for leveraging other public and private funds. The agency continues to share performance data and research to clarify the links between federal investment and community change.

Table 1 below summarizes the performance targets for each goal for FY 2008. Table 2 breaks out program, local development district, and administrative funding levels for each goal for the program. Subsequent sections of this document provide detailed justifications and appendix material.

There has been substantial and enduring payoff from the ARC program. The number of severely distressed counties and areas has been reduced dramatically. Basic education and health care are substantially improved. For every ARC dollar invested in infrastructure grants, Appalachia has gained about 33 dollars in long-term benefits. The Commission now welcomes the opportunity to extend this record of success and help make the Region globally competitive by capitalizing on the important assets of Appalachia: a rich cultural heritage, substantial natural resources and other physical assets, proximity to markets, a spirit of independence, and a dedicated workforce.

Table 1
ARC Goals and 2008 Targets

General Goals	Targets for 2008
Increase Job Opportunities and Per Capita Income	• Create/retain 20,000 jobs for Appalachians • Achieve a 4:1 investment ratio for economic diversification projects • Direct 50% of grant funds to benefit distressed counties/areas
Strengthen Capacity of the People to Compete in the Global Economy	• Position 20,000 Appalachians for enhanced employability • Achieve a 1:1 average investment ratio for employability projects • Direct 50% of grant funds to benefit distressed counties/areas
Develop and Improve Infrastructure	• Provide 20,000 households with basic infrastructure services • Achieve a 2:1 average investment ratio for infrastructure projects • Direct 50% of grant funds to benefit distressed counties/areas
Build the Appalachian Development Highway System to Reduce Isolation	• Open 25 miles of the ADHS

Table 2
Summary of FY 2008 Request by Performance Goal (Base Program)
($ Millions)

	Program Funding	Local Development District Planning	Salaries & Expenses	Total Request
Goal 1: Increase Job Opportunities and Per Capita Income	12.7	1.1	1.2	**15**
Goal 2: Strengthen Capacity of the People to Compete in the Global Economy	11.8	1.1	1.1	**14**
Goal 3: Develop and Improve Infrastructure	29.6	3.1	3.3	**36.0**
Goal 4: Build the Appalachian Development Highway System to Reduce Isolation				**[470]***
Total Current Request	**54.1**	**5.3**	**5.6**	**65.0**

* Financing from the Highway Trust Fund under 2005 SAFETEA-LU legislation

Appalachian Regional Commission
FY 2008 Performance Budget Justification

The vision of the Appalachian Regional Commission is that Appalachia will achieve socioeconomic parity with the nation.

The mission of the Appalachian Regional Commission is to be a strategic partner and advocate for sustainable community and economic development in Appalachia.

Introduction

The Appalachian Region is home to nearly 23 million people living in 410 counties in 13 Eastern states. Congress acknowledged the profound economic and social problems in the Region that made it "a Region apart" from the rest of the nation. It authorized the creation and funding of the Appalachian Regional Commission (ARC) to address the unusual economic and quality of life issues facing the people in Appalachia by serving as an advocate, knowledge builder, investor, and partner at the federal, state, and local levels. The goal of ARC is to help the Region reach parity with the rest of the country, contributing to the overall prosperity of the nation rather than being a drag on its resources.

Congress directed ARC, as a partnership of the federal government and the 13 governors of the Appalachian states, to tackle two major regional barriers to success—its isolated geography and the related socioeconomic deficits that have historically inhibited economic and social progress. The barriers were not seen as independent—even if isolation could be resolved by building major highways throughout the Region, the other deficits would continue to inhibit Regional progress. In fact, if federal highway investments were not accompanied by corresponding investments in socioeconomic

A "Region Apart"

Unemployment
Sixty-two percent of Appalachian counties have a higher unemployment rate than the national average.

Income
Appalachia trails the rest of the nation by 17.3 percent in per capita income, reflecting the difficulty in closing the income gap in the higher and middle-income brackets.

Education
The number of Appalachian residents possessing a college degree is about two-thirds of the national average.

Health
Appalachia has higher rates of cancer, heart disease, diabetes and chronic obstructive pulmonary disease compared to the nation as a whole.

Infrastructure
Twenty percent of Appalachian households are still not reached by community water systems vs. 10% for the nation. Forty-seven percent of Appalachian households are not served by public sewer, compared with a national average of 24%.

Poverty
Over one-fourth of the region's counties have a poverty rate in excess of 150% of the national average.

development, the highways could end up serving as an Appalachian "by-pass" that would exacerbate rather than remedy its problems.

The partnership between the Appalachian states and the federal government is crucial. Existing resources from various public and private organizations are necessary but not sufficient to address issues that are specific to Appalachia. By using a "bottom up" approach, ARC seeks input and solutions from local, regional, and state bodies that have knowledge of and access to other public resources. ARC provides funds to communities that cannot afford to meet other federal or state agency requirements.[3] In many cases, ARC is the predevelopment agency—it provides seed money unavailable elsewhere to stimulate activities that ultimately allow a community to make use of other public funding and attract private investment.

ARC has effectively used its funds to help communities make use of limited resources from other federal agencies. For that reason, the Commission provides partial funding for the 72 local development districts in Appalachia. The development districts prepare area-wide economic development plans and help communities package funding for local projects. The combination of ARC, other federal, state, local, and private funds provides a broad program of assistance to the Region. ARC grant dollars leverage other public and private resources. In short, ARC grants often serve as the "glue" that helps initiate or keep together projects that may not be viable otherwise.

The Congressional Mandate to the Appalachian Regional Commission is to:

- Provide a forum for consideration of problems of the Region and proposed solutions and establish and utilize citizens and special advisory councils and public conferences;

- Provide grants that leverage federal, state, and private resources to build infrastructure for economic and human resource development;

- Generate a diversified Regional economy, develop the Region's industry, and build entrepreneurial communities;

- Serve as a focal point and coordinating unit for Appalachian programs;

- Coordinate regional economic development activities and the use of Federal agency economic development resources;

- Make the Region's industrial and commercial resources more competitive in national and world markets;

- Improve the skills of the Region's workforce;

- Adapt and apply new technologies for the Region's businesses including eco-industrial development technologies;

- Improve the access of the Region's businesses to the technical and financial resources necessary to the development of business; and

- Coordinate the economic development activities of and the use of economic development resources by Federal agencies in the Region.

---

[3] The Commission is a partnership composed of the governors of the 13 Appalachian states and a presidential appointee representing the federal government. Grassroots participation is provided through 72 local development districts— multi-county organizations with boards made up of elected officials, businesspeople, and other local leaders.

ARC also provides important leadership, coordination, and advocacy to help local communities in Appalachia leverage other resources. This includes sponsorships of regional forums and workshops, publishing technical reports, conducting research to address regional problems and opportunities, and building alliances among public and private organizations both inside and outside the Region. Not only has ARC partnered with over 20 federal organizations in connection with ARC initiatives, but it has directly collaborated with at least 20 foundations and national associations (see Appendix D.) In addition, ARC currently maintains five advisory groups of regional leaders to assist program planning and development in the areas of health care, tourism, education, energy, and export trade.

Another important ARC distinction is its long-standing focus on results. As stated previously, over 50% of ARC grant funds are expended for projects that benefit severely distressed counties and areas. The ARC Strategic Plan is a framework and a decision making tool. Individual projects must demonstrate how they support the goals and strategies in the Plan. Grant applications must include a description of the benefits to be derived from the project with particular emphasis on the extent to which the benefits will be realized on a continuing rather than a temporary basis. Specific output, outcome and efficiency measures must be included. The results of each grant are reviewed to determine if the investment met its objectives. Project performance information is presented in the Commission's policy development meetings and is used to shape future ARC programs. Performance results are reported annually in the ARC Performance and Accountability Report, along with financial results, and are posted on the public ARC web site.

From a strategic perspective, macro indicators are reviewed to evaluate progress in improving the standard of living within the Region. Fine-grained analyses of decennial Census data are conducted to assess progress and changes throughout Appalachia compared with the rest of the U.S. The number of distressed counties is evaluated annually along with key indicators such as poverty, per capita income, and unemployment levels. In addition, needs assessments, program evaluations, and look-back studies are endemic to ARC's operations. Reviews of program initiatives are conducted every five years on a rotating basis. These studies are used to plan future projects, evaluate the results of ARC's programs, and adjust and develop new strategies for tackling difficult long-standing problems that are generational in scope.

ARC has made considerable progress since its inception through advocacy and leadership, research and knowledge building, targeted grant-making that has leveraged substantial other public and private funding, and partnerships with other agencies. It has:

- *Reduced the Region's isolation* by constructing over 2,500 miles of new highways, which represents nearly 82% of the Appalachian Development Highway System (ADHS) initiative. The ADHS replaces a network of worn, narrow, winding two-lane roads, snaking through narrow stream valleys or over high rugged mountains.

- *Enhanced the Region's economic progress* by improving the employability of the workforce (education, health care, skills training, school-to-work transition), improving living conditions (water and sewer and environmental quality), and strengthening the Region's basic infrastructure to support a growing workforce and encourage public and private sector organizations to locate in Appalachia.

- *Created and retained Appalachian businesses and jobs*, by providing business technical assistance, encouraging entrepreneurship, expanding access to capital markets, and marketing the unique cultural heritage and products of Appalachia.

These strategic investments have produced positive outcomes for the Region. For example, ARC's efforts have helped the Region:

- create over 1.6 million new jobs, in addition to 766,000 generated by the Appalachian development highways;

- reduce the poverty rate by one-half, from 31 percent to 13 percent;

- narrow the per capita income gap between Appalachia and the rest of the U.S. from 22 percent below the national average to 17 percent;

- reduce the infant mortality rate by two-thirds;

- strengthen rural health care infrastructure through the addition of over 400 rural primary care health facilities;

- increase the percentage of adults with a high school diploma by over 70 percent.

In the last five years alone, Commission-funded infrastructure projects have resulted in the creation or retention of 136,000 jobs, and over 183,000 households have the benefits of clean water and sanitation facilities.

Two independent studies found that ARC's coordinated investment strategy has paid off for the Region in ways that have not been evident in other parts of the country without a regional development approach. A study in 1995 funded by the National Science Foundation, now being updated and replicated by the Commission, compared changes in Appalachian counties with their socioeconomic twin counties outside the Region over 26 years, from 1969 to 1991. This analysis, controlled for factors such as urbanization and industrial diversification, found that the Appalachian counties grew significantly faster than their economically matched counterparts outside Appalachia. A more recent similar analysis by East Carolina University compared Appalachian counties with matched non-Appalachian counties in the southeastern states, with similar findings. "The Role of Highway Investments in Economic Growth in Appalachia Over 1969-2000: Update and Enhancement of Twin County Growth Study," conducted by the Economic Development Research Group in 2006 builds on the earlier twin county studies to examine the impact of the Appalachian Development Highway System (ADHS) on employment and income growth in Appalachian counties since 1969. The critical preliminary finding from this research is that ADHS investments are statistically significant in explaining higher income and earnings growth after controlling for other explanatory factors.

Yet ARC's mission has not been completed. Seventy-eight counties and several more smaller areas still are classified as severely distressed. Much work remains to leverage the federal investment in the ADHS and to position the Region to achieve socioeconomic parity with the rest of the nation.

This integrated budget and performance request for FY 2008 describes the outcomes that will be achieved, strategies for achieving them, and the funding necessary to do so. ARC will continue to provide leadership, analysis, and problem resolution approaches to make strategic investments in the Region. The Commission will work closely with its state and community partners, building on existing public and private sector partnerships and seeking new and innovative approaches for achieving desired results.

Current Challenges Confronting Appalachia that Require ARC Attention

Despite recent progress, Appalachia still does not enjoy the same economic vitality and living conditions as the rest of the country. The Region continues to battle economic distress, concentrated areas of high poverty, unemployment, low income, poor health, educational disparities, and population out-migration that are among the worst in the nation. Weakness in civic capacity in Appalachia has inhibited leadership, broad citizen involvement, local strategic planning, and collaborations that are necessary for a sense of empowerment and civic engagement. Civic capacity is vital for communities to be strategically ready to take advantage of economic opportunities. The role of the Commission is to help Appalachia reach parity with the rest of the nation, and, in an era of global competition, that requires a special emphasis on assisting the people of Appalachia to be a globally competitive workforce.

The Region's isolation and difficulty in adapting to changes over past decades and in retooling to be competitive are major factors contributing to the gap in living standards and economic achievement between the Region and the rest of the country.

Demographic shifts between 1990 and 2000 have led to a decline in the Region's share of the "prime-age" workforce, those between the ages 25 and 55, who are entering or reaching their peak earnings potential.[4] Erosion of the high-earnings potential of the workforce has reversed the Region's gains in per capita income, and at the local level led to declines in the tax base. Meanwhile, the Region still confronts significant concentrations of high poverty, unemployment, low income, and out-migration.

The Region has been battered by job losses and structural economic shifts because of global competition and its disproportionate reliance on extractive industries and manufacturing.

---

[4] *Appalachian Population Redistribution and Migration in the 1990's*, by Daniel T. Lichter, Jillian Wooten, Michael Cardella, and Mary R. Marshall, Initiative in Population Research, The Ohio State University, April 2005.

- The Region continues to face higher levels of exposure to low-wage imports than the rest of the country.[5] Figure 1 shows quartiles of Appalachian counties with manufacturing employment concentrated in industries ranked by exposure to low-wage import competition.

- Primary metals sectors, such as steel, have lost 21,000 since 1995. Many of these losses have resulted from import penetration and plant relocations overseas. The Appalachian apparel industry has lost 77,000 jobs between 1995 and 2005, and the textile industry has lost 30,000. Over that decade, one out of five jobs lost in textiles nationally occurred in Appalachia, and one out of three jobs lost in apparels occurred in Appalachia. An estimated one-third of the apparel losses and one-half of the textile losses are due to imports or plant relocations to other countries.

Figure 1

Appalachian Exposure to Manufacturing Imports from Low-Wage Countries

Quartiles of Exposure
- Counties in the 4th Quartile (High Exposure)
- Counties in the 3rd Quartile
- Counties in the 2nd Quartile
- Counties in the 1st Quartile (Low Exposure)

Data Source: Bernard, A.B., Jensen, J.B., and Schott, P.K. 2005. Assessing the Impact of Trade Liberalization on Import-Competing Industries in the Appalachian Region.

- Appalachian coal-mining employment has fallen from 101,500 workers in 1987 to 49,000 in 2004, largely because of productivity gains. The Energy Information Administration is forecasting employment to stabilize over the next few years with the possibility of growth due to higher energy prices. New technologies in clean coal and advances in coal plant architecture result in increased efficiency and lower emissions. As a result, the demand for coal will likely increase and reverse the historical decline in coal mining employment in Appalachia. However, without a supply of workers adequately trained in new heavily computerized mining technologies and plant operations, Appalachia will be unable to meet the forecasted demand for its coal.

Research preceding the creation of ARC found that for many reasons, including dearth of leadership and lack of financial and technical resources, Appalachia had not been in a position to take advantage of many federal programs that could help mitigate long-standing problems, much less concentrate a range of investments on the greatest needs. In addition, the character of many

---

[5] *Assessing the Impact of Trade Liberalization on Import-Competing Industries in the Appalachian Region* by Andrew B. Bernard, Tuck School of Business at Dartmouth and NBER, J. Bradford Jensen Institute for International Economics, and Peter K. Schott, Yale School of Management and NBER, July 2005

programs better addressed mitigation of growth in parts of the nation rather than basic stimulation of growth. This situation has improved over time, but the Region still receives federal economic development assistance disproportionately smaller than its population and its needs. Analyses of the Consolidated Federal Funds Report for 2002 by ARC and Census Bureau staff found that per capita total direct federal expenditures and obligations in Appalachia were $783 less than in the rest of the country. In federal grants alone, the Region falls short of parity with the rest of the nation by $5.4 billion each year.

The coming years are critical. Considerable investment has been made in reducing Regional isolation through the funding and development of the ADHS. As the highway system progresses toward completion, the Region is positioning itself to take advantage of its new found accessibility. However, it must continue to address deficits in a number of areas to leverage the highway investment and the Region's assets to create and attract businesses, retain existing jobs, and draw development and visitors. Attention must also be given to overcoming the Region's gap in the "highways of the future," broadband telecommunications.

Special Focus on Distressed and At-Risk Counties

The Commission by law directs at least half its grant funds to benefit counties and areas that are the most severely economically distressed in the Region. Each year, the Commission uses strict criteria to specifically designate severely distressed counties and targets resources to the most lagging areas. In 2005, the Commission further designated counties that are considered "at-risk" of becoming distressed. This policy acknowledges that, while the distressed county designations are important for focusing on the counties and areas most clearly in need of pre-developmental assistance, there is also a need to monitor the economic performance of areas that are relatively disadvantaged, but are not considered severely distressed. In order to gauge its long-term progress toward achieving economic parity between the Region and the rest of country in terms of the gradual reduction of such areas over time, the Commission developed an index-based system for economic classification of its counties in FY 2006.

While the previous system is valid, ARC now utilizes an index-based county economic classification system which more closely aligns with the agency mission to achieve economic parity with the nation and is easily computable on an annual basis. The index monitors the economic status of the Appalachian counties relative to all counties in the nation. ARC's previous distress measures: the three-year average unemployment rate, the per capita market income, and the poverty rate are used to compute the index. The system consists of three analytical steps:

- A national index of distress is created that assigns to each county in the nation a ranked index value. The most current data for three year average unemployment rate, per capita market income and poverty rate for each county in the nation are compared with national averages and the resulting values are summed and averaged to create a composite index value for each county.
- The ranked index values are grouped into four quartiles. Each of the four quartiles contains an approximately equal number of counties.
- Counties are classified into one of five economic status designations—distressed, at-risk, transitional, competitive, and attainment—based on each county's position in the quartiles.

As Figure 2 shows, according to the index Appalachia has more of the worst performing counties and fewer of the best than it would have if Appalachia had the same proportion as the rest of the nation.
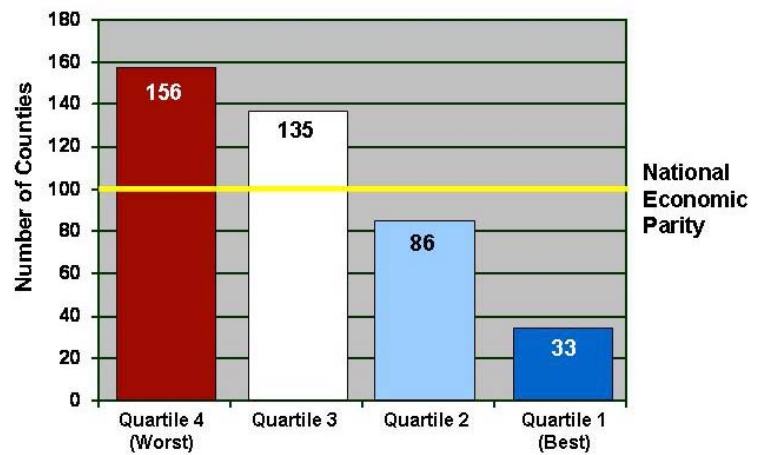
Distressed counties are determined by taking the worst 10 percent of the nation's counties and then identifying the Appalachian counties within this part of the worst quartile group. At-risk counties are similarly identified by taking the residual of the worst quartile counties and designating them accordingly. The second and third quartiles are combined to provide the designation of Transitional counties. Attainment counties are determined by identifying the best 10 percent of counties, and Competitive counties are determined by taking the residual of the top quartile. The five county economic status designations are then used for targeting program efforts.

Figure 2
Number of Appalachian Counties by Economic Status Fiscal Year 2007

- **Distressed** counties are the most economically depressed counties. In FY 2007, 78 counties in the Region are classified as distressed.
- **At-risk** counties are the counties at risk of becoming economically distressed. In FY 2007, 78 counties in the Region are classified as at-risk.
- **Transitional** counties compose the largest economic status designation and consist of counties transitioning between strong and weak economies. In FY 2007, 221 counties in the Region are classified as transitional.
- **Competitive** counties are counties with economies that compete in the national economy but have not reached the best 10 percent of the nation. In FY 2007, 26 counties in the Region are classified as competitive.
- **Attainment** counties are considered the strongest counties in the nation in terms of their composite economic index value. In FY 2007, 7 counties in the Region are classified as attainment.

Besides allocating funding to benefit the designated severely distressed counties, ARC has established other policies designed to reduce distress. ARC normally limits its maximum program funding contribution to fifty percent of project costs, but will increase its funding share to as much as eighty percent in distressed counties. Additionally, ARC has created in recent years a special opportunities fund and has set aside resources for technical assistance, capacity building, health care improvements, and educational enhancements including increasing college-going rates to benefit distressed counties and areas.

ARC Strategic Plan

The vision of ARC is for Appalachia to reach economic parity with the rest of the country. The Strategic Plan addresses the Region's deficits and opportunities in four strategic goals, as discussed below.

Goal 1: Increasing Job Opportunities and Per Capita Income in Appalachia to Reach Parity with the Nation

Appalachia's economic vitality and stability require a more diversified regional economy. The Region has a disproportionately high number of counties with underperforming economies and a dearth of counties with strong economies. In addition to attracting new industry and retaining and expanding existing businesses, the Region needs to nurture home-grown firms and encourage innovation and risk-taking, as well as foster greater private sector investment. Appalachia's rich assets, including its cultural heritage, natural resources, scenic beauty, products, and crafts, must be better harnessed to provide local economic opportunities. Community liabilities such as Brownfields must also be transformed into assets. To address the abundance of energy assets in the Region, the governors of the 13 Appalachian states and the Federal Co-Chair mandated development of a comprehensive blueprint that provides a strategic framework for the promotion of new energy related job opportunities. Strategies and objectives will be implemented that feature energy efficiency, renewable energy technologies such as biomass, and conventional energy sources such as clean coal. ARC's first-of-a-kind geotourism collaboration with the National Geographic Society over the past three years is an example of this asset based development.

The Region also faces entrepreneurial shortcomings that stem from Appalachia's longstanding dependence on extractive industries and branch plant manufacturing, and the presence of absentee landlords who, in some cases, have siphoned off value from the Region. Furthermore, the culture of entrepreneurship is neither broad nor deep and research findings indicate that there are many gaps in the infrastructure for supporting entrepreneurship, ranging from technical assistance to development finance. A key component of ARC's business development efforts has been the 41 Appalachian revolving loan funds that received ARC support. In addition to revolving loan funds, ARC has invested in international trade and market expansion for Appalachian companies; provided funds for downtown renewal and business incubators; supported tourism initiatives and industrial park development; and sponsored conferences on business issues.

ARC has encouraged and supported organizational efforts in the Region to take advantage of the Treasury Department's New Markets Tax Credit Program, designed to attract private sector capital investment in community development. The most recent success in this effort is the award of a $17 million tax credit allocation to the Southeast Local Development Corporation to make business loans in Appalachian Tennessee, Georgia, and North Carolina. The need for this ARC support is evident in that only a tiny proportion (less than three percent) of the Treasury program has been placed in Appalachian communities or states. ARC also collaborated with the Tennessee Valley Authority, several regional banks, and two foundations to launch the $12.5 million Southern Appalachian Fund, providing further access to venture capital for businesses.

Goal 2: Strengthen the Capacity of the People of Appalachia to Compete in the Global Economy

Jobs growth will not occur in places where there is an uneducated or unskilled workforce, or where health problems abound and access to care is poor. Global competition is reinforcing the economic premium on workers in knowledge-based industries, leaving low or unskilled U.S. workers increasingly vulnerable. ARC seeks to increase the employment rate and productivity of Appalachia's workers, and attract educated and skilled workers to the Region. This will attract desirable business to the Region. Doing so will require considerable investment in improving educational achievement at all levels, as is illustrated in Figure 3.

Economic forecasts for the Appalachian Region's occupational growth over the next

Figure 3

Appalachian Counties with Low College Completion Rates

Percent of Adults Completing a Bachelor's Degree or Higher
- Counties Below Half the U.S. Average
- Counties Between 50 and 99 Percent of the U.S. Average
- Counties At or Above the U.S. Average

Data Source: U.S. Department of Commerce, Census Bureau, Census 2000, Summary File 3.

seven years indicate substantial growth in many technically-oriented occupational groups. According to the Bureau of Labor Statistics the 30 fastest growing occupations will require post-secondary educational attainment levels, special post-secondary certification or moderate to short-term training.[6] In the Appalachian Region, the regional economy is forecast to add over 346,000 jobs in these high-growth occupations through the year 2012. These high growth occupations will require different types of training, ranging from the 12 high growth occupations with the greatest skill requirement such as computer and information services that require a Bachelor's Degree or

higher levels of educational attainment, to the seven occupations, principally in the health-related fields, that demand an Associate's Degree, to occupations that require post-secondary vocational awards or technical education beyond high school. In FY 2006, ARC partnered with American Electric Power and three community colleges from three Appalachian states to develop and implement a workforce training program to prepare workers for employment in the electric utility industry.

In the energy field, the increasing diversification of the nation's domestic energy industry has created new demands for technical education and skill development in the regional
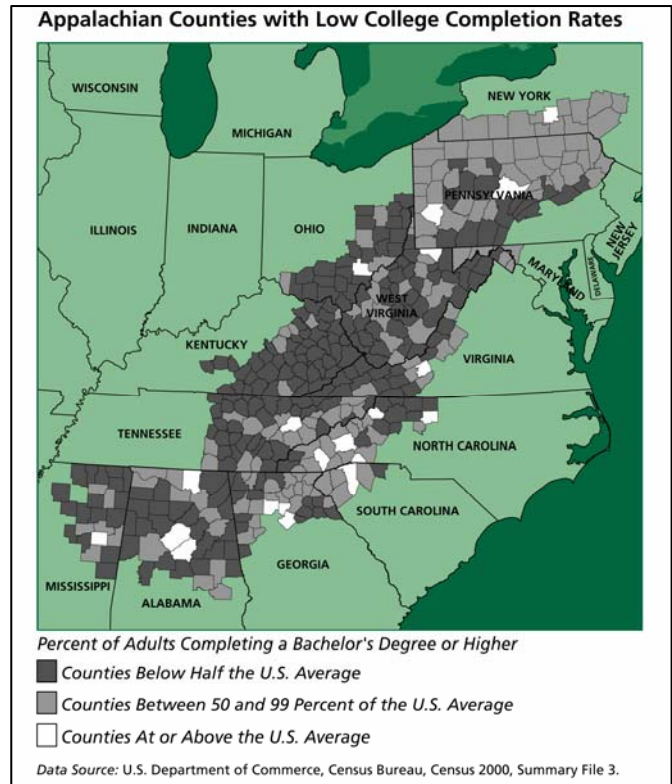
Educational Achievement Results

The ARC-funded Appalachian Higher Education Network initiative increased college-going rates for Appalachian high school graduates by double digits for only a few hundred dollars per student. This highly regarded program is being replicated in 100 schools in nine additional Appalachian states. The original Ohio program received the "Innovations in American Government Award" from the Harvard University Kennedy School of Government in 2003. Participating schools routinely report double-digit increases in their college-going rates.

---

[6] Bureau of Labor Statistics, *Occupational Statistics and Employment Projections to 2012.*

economy. In Appalachia, almost 150,000 jobs are generated by the energy industry. Hundreds of thousands more are involved in the production and distribution of products and services for the energy industry. Coal production alone stimulated an estimated 60,000 jobs in indirect supply and induced consumer spending in 2005.[7] Workers can enter the oil and gas extraction industry with a variety of educational backgrounds, with entry-level jobs usually requiring little training or experience, while positions such as engineering technician usually require at least a two-year Associate Degree in engineering technology. However, Appalachia's higher education attainment gap with the rest of the nation has widened in the last decade for those with a college degree or graduate degree. In 1990 the difference between the Region and the nation's share of adults with college degrees was 6.0 percentage points, but in 2000 the gap widened to 6.7 percentage points. ARC's regional expansion of its highly successful project to increase college going rates through higher education/school system partnerships is an example of the agency's work in this area.

Access to quality health care is also lacking, which makes Appalachia a less desirable place to live and work. Appalachia suffers from disproportionately high rates of chronic diseases such as cardiovascular disease, cancer, and diabetes. Although the Region has improved its health care infrastructure in recent years, it still needs to attract more physicians and medical facilities in order to be on par with the rest of the Nation. As evidenced by Figure 4, over two-thirds of the Region's counties are fully or partially designated by the Department of Health and Human Services as health professional shortage areas (HPSAs). Most Appalachian counties have had difficulty attracting basic services such as dentistry, outpatient alcohol treatment, outpatient drug treatment, and outpatient mental health services. Examples of ARC's action on health issues are its collaboration with the Centers for Disease Control regarding chronic diseases and its placement of foreign physicians in underserved areas of Appalachia through the J-1 visa program. ARC has increased its partnership with CDC to address regional prevention of diabetes and cancer.

Figure 4
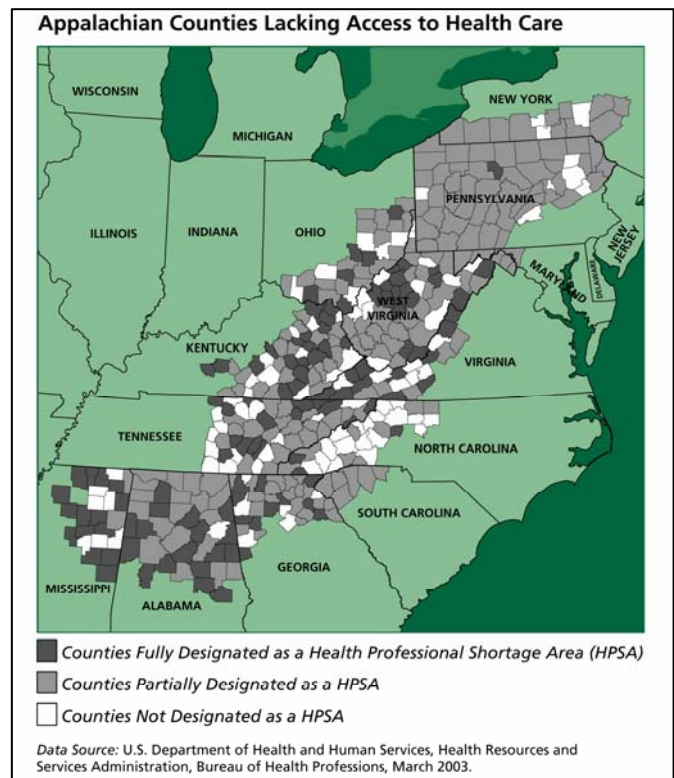
Appalachian Counties Lacking Access to Health Care

- ■ Counties Fully Designated as a Health Professional Shortage Area (HPSA)
- ▨ Counties Partially Designated as a HPSA
- □ Counties Not Designated as a HPSA

Data Source: U.S. Department of Health and Human Services, Health Resources and Services Administration, Bureau of Health Professions, March 2003.

Goal 3: Develop and Improve Appalachia's Infrastructure to Make the Region Economically Competitive

Many Appalachian communities, especially the most rural and economically distressed areas, lack basic infrastructure services that others take for granted. Data from Environmental Protection Agency (EPA) surveys show that 20 percent of Appalachian households are still not reached by

---

[7] U.S. Department of Labor, Bureau of Labor Statistics 2006; and Regional Economic Models, Inc. 2005

community water systems vs. 10 percent for the nation. Forty-seven percent of Appalachian households are not served by public sewer, compared with a national average of 24 percent. For many communities, this lack of service may force residents to haul water from springs or rain barrels; homes without sewers or septic tanks typically "straightpipe" their untreated waste directly to streams. These fundamental problems threaten public health, damage the environment, and undermine economic stability for families and the Region as a whole.

ARC has completed a study to document the Region's funding resources and funding gaps for drinking water and wastewater infrastructure.[8] The study found that, using EPA data, Appalachian counties require investments of at least $11.3 billion for drinking water needs and $14.3 billion for wastewater needs, substantially more than the funding available from combined state and federal funding programs. The study noted, however, that other national and state studies suggest that the EPA estimates substantially undercount the needs, so that the Appalachian estimates could be as high as $35 billion–$40 billion. Analysis of the EPA data shows that, on average, community water systems in distressed counties have greater needs per person served ($497) than systems in non-distressed counties ($191–$353). There is ample evidence that communities will actually have to pay far more than these estimates to ensure services that fully meet basic public health and environmental standards, since they do not include the billions of additional funds needed to address the thousands of substandard and failing individual wells, septic tanks, cesspools, and straight pipes. The surveys also do not include the funds that will be necessary to operate and maintain new facilities or facilities that have been neglected in the past.

Smaller rural Appalachian communities that have water and sewer systems face relatively higher investment costs, due to pressing economic development needs and increasing environmental requirements. Communities that are experiencing declining customer bases and low household incomes cannot rely on rate increases to meet capital investment needs. The local ability to pay is particularly low in 331 ARC counties where average household incomes were two-thirds or less of the national average, according to the 2000 Census. These communities need additional technical, managerial, and financial assistance to meet their future needs.

> ## Distressed County Infrastructure
>
> Small private water systems, originally built to serve coal camps, supplied six communities in a public service district in Wyoming County, West Virginia, that chronically violated water quality standards. At the same time, the city of Mullens used a temporary treatment plant installed after floods destroyed the previous facility in 2001. ARC, the West Virginia Small Cities Block Grant program, and the state's Abandoned Mine Lands program jointly financed the construction of a $3.6 million water treatment plant in 2003 that will finally allow consolidation of all seven local providers into a regional water system serving 1,549 households. The regional system will protect public health and encourage economic development in the area. The treatment plant funded by ARC and the state is the lynchpin to the coordinated investment of another $11 million project to replace water lines in the system, using other federal and state resources.

Appalachia has other environmental problems that inhibit economic development. For example, in addition to inadequate water and sewer services, the Region has many tracts of land known as

---

[8] *Drinking Water and Wastewater in Appalachia: An Analysis of Capital Funding and Funding Gaps. U*NC Environmental Financing Center, June 2005

Brownfields, properties that have been developed for industrial or commercial purposes, polluted, and then abandoned or underused. These properties are also some of the best in the Region for economic development purposes, but restoring them to productive use requires considerable effort and resources.

The Region lags in access to broadband telecommunications so essential to today's commerce. ARC research suggests that high-speed Internet access via cable, DSL or other means continues to grow at a substantially slower pace in the Region than in the nation as a whole.[9] While progress has been made in reducing geographic isolation, the information superhighway and the digital revolution have been slow in coming to Appalachia's businesses and 23 million residents. The Region lacks an adequate and affordable telecommunications infrastructure. Its people are less familiar with and therefore more easily intimidated by its complexity. Addressing these issues will require continued partnerships with the private sector to apply their resources and expertise, as ARC has recently done with Microsoft and with the EBay Foundation.

Communities across the Appalachian Region, especially those in rural areas, face serious challenges in using new information, computing, and telecommunications (ICT) technologies to expand their economic development horizons. The telecommunications infrastructure in the Region is underdeveloped, and compares negatively to national averages on various indicators. In addition, the capacities to use these technologies to improve performance in public and private sector institutions are often not as well developed as in urban centers. A recent study found that the lack of advanced telecommunications services at prices affordable to local businesses and public organizations is a significant barrier to economic and social development in parts of the Appalachian Region.[10] For example, growth from 1996 to 2000 in jobs related to telecommunications technology was only 21 percent in rural Appalachia, compared with the national average of 53 percent.

Access roads serving enterprise sites and other important facilities are another historically important program for the Commission. While funds appropriated to ARC have long been used for this purpose, national surface transportation legislation (TEA-21 and SAFETEA-LU) has permitted the use of a portion of ADHS funds by the individual states for development access roads. In FY 2006, $1.2 million of TEA-21/SAFETEA-LU funds and $30,412 of ARC funds were obligated for access road construction.

Goal 4: Build the Appalachian Development Highway System to Reduce Appalachia's Isolation

The Region is well on its way to reducing geographic isolation by building the Appalachian Development Highway System (ADHS). ADHS is the first highway system designated by Congress to be built primarily for economic development purposes. As highways are constructed, considerable secondary and tertiary highway and road construction occurs. This "spider web" effect makes it significantly easier to move products in and out of the region, to travel longer distances for

---

[9] *2004 Update: Links to the Future—The Role of Information and Telecommunications Technology in Appalachian Economic Development.* Michael Oden and Sharon Strover, June 2004
[10] *Links to the Future—The Role of Information and Telecommunications Technology in Appalachian Economic Development*, Michael Oden and Sharon Strover, June 2002.

employment opportunities, and entice businesses to locate along major thoroughfares and therefore strengthen the economy of the region.

The Appalachian Regional Development Act of 1965 authorized the Commission to construct the Appalachian Development Highway System (ADHS), with assistance from the Secretary of Transportation, as a supplement to the Interstate System and other federal-aid highways programs. P.L. 108-199 added 65 miles to the system in 2004, for a new system total of 3,090 miles. Congress authorized this initiative because it recognized that regional economic growth would not be possible until the Region's isolation had been overcome.
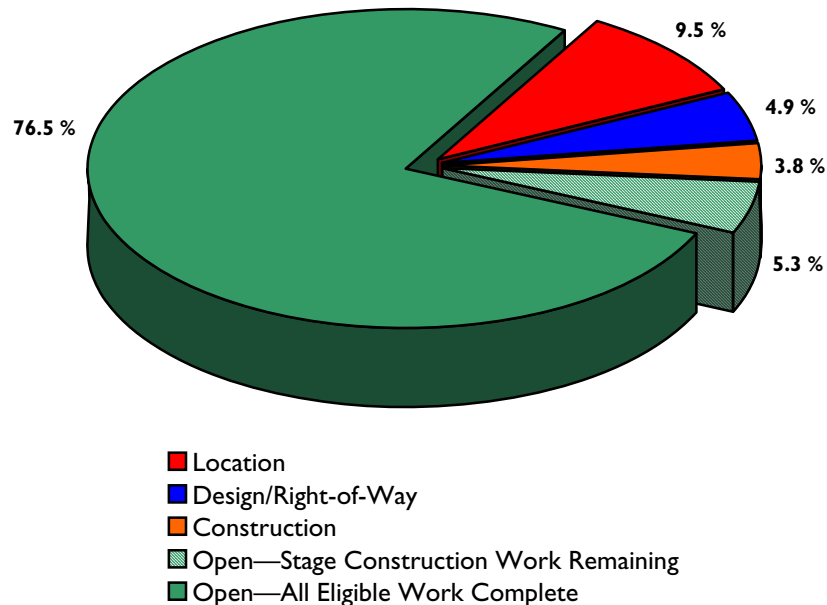
Because of the high cost of building roads through Appalachia's mountainous terrain, adequate roads had not been built in much of the Region. When the interstate system was built, large areas of Appalachia were simply bypassed, compounding the problems of the Region's already troubled economy. The ADHS was designed to link Appalachia with the US interstate system. The Region has significantly benefited from the ADHS. New jobs have been created as businesses have located along the system. Substantial time savings have occurred as isolation is reduced, and crash and injury rates have dropped as much as 60 percent as two-lane roads are replaced by modern and safe four-lane thoroughfares.

Nearly 82 percent (2,528.3 miles) of the total 3,090 miles of the ADHS authorized by Congress for construction are open to traffic, and another 116.8 miles are under construction. The remaining 445 miles are in the location or final design stages. The Commission continues its strong commitment to complete the ADHS, the centerpiece of ARC's strategic plan for the Region. Table 3 and Figure 5 below show progress on the system through the end of FY 2006.

Completion of the ADHS will permit the nation to realize the system-wide efficiencies of connecting with the interstate highway system and the nation's intermodal transportation networks, linking air, rail, road, and waterway freight shipments. The International Intermodal Center in Huntsville, Alabama is recognized as one of the most successful intermodal initiatives in the country, and ARC is helping to develop similar facilities at strategic locations in the Region. Appalachia's strategic location between the eastern seaboard and the Midwest enhances the national value of the ADHS as a transportation asset to channel increasing domestic and international freight traffic between metropolitan centers and trade gateways. Forecasts of national freight demand over the next ten to twenty years by the U.S. Department of Transportation underscore the potential of the ADHS to help relieve congestion along major transportation routes and offer new and more efficient freight flows to trade gateways.

	Table 3 Status of Completion of the ADHS (Miles) as of September 30, 2006					
State	**Miles Open to Traffic**		**Miles Not Open to Traffic**			**Total Miles Eligible for ADHS Funding**
	Complete	**Remaining Stage Construction**	**Construction Under Way**	**Design Stage**	**Location Stage**	
Alabama	146.9	46.7	32.2	6.4	63.5	295.7
Georgia	100.9	0.0	0.0	11.1	20.5	132.5
Kentucky	387.9	0.0	14.2	16.0	8.2	426.3
Maryland	77.0	3.7	0.0	0.0	2.5	83.2
Mississippi	90.3	6.0	0.7	20.5	0.0	117.5
New York	207.9	5.5	3.7	4.9	0.0	222.0
North Carolina	175.4	4.2	0.0	16.4	8.3	204.3
Ohio	177.7	0.0	0.5	0.0	23.3	201.5
Pennsylvania	275.7	7.6	48.2	10.3	111.3	453.1
South Carolina	18.6	0.0	0.0	4.3	0.0	22.9
Tennessee	212.6	90.7	0.0	2.2	23.8	329.3
Virginia	160.8	0.0	0.0	16.6	14.8	192.2
West Virginia	331.3	0.9	17.3	44.0	16.1	409.6
System Totals	**2,363.0**	**165.3**	**116.8**	**152.7**	**292.3**	**3,090.0**

Figure 5
Appalachian Development Highway System
Status of Completion as of 9/30/2006
3,090 Eligible Miles

- 76.5 %
- 9.5 %
- 4.9 %
- 3.8 %
- 5.3 %

■ Location
■ Design/Right-of-Way
■ Construction
■ Open—Stage Construction Work Remaining
■ Open—All Eligible Work Complete

FY 2008 Budget and Planned Performance

ARC's general goals and associated performance measures are displayed below in Table 4. These goals specifically address the Congressional mandate set out in the Appalachian Regional Development Act of 1965 as well as the Commission Strategic Plan. They are designed to ensure that investments in community and economic development accompany the large federal highway investment in the Region, benefiting not only the Region but the U.S. economy as a whole. During FY 2008 ARC will devote its resources to programs and actions that tie to and specifically support these goals. ARC will place significant emphasis on reducing regional deficits and building upon regional assets such as energy resources. This includes ensuring that the Region has an employable workforce, ensuring that non-highway infrastructure such as water and sewage meets basic standards, ensuring adequate access to broadband telecommunications, completing the ADHS, and encouraging and promoting entrepreneurship and business development throughout the Region.
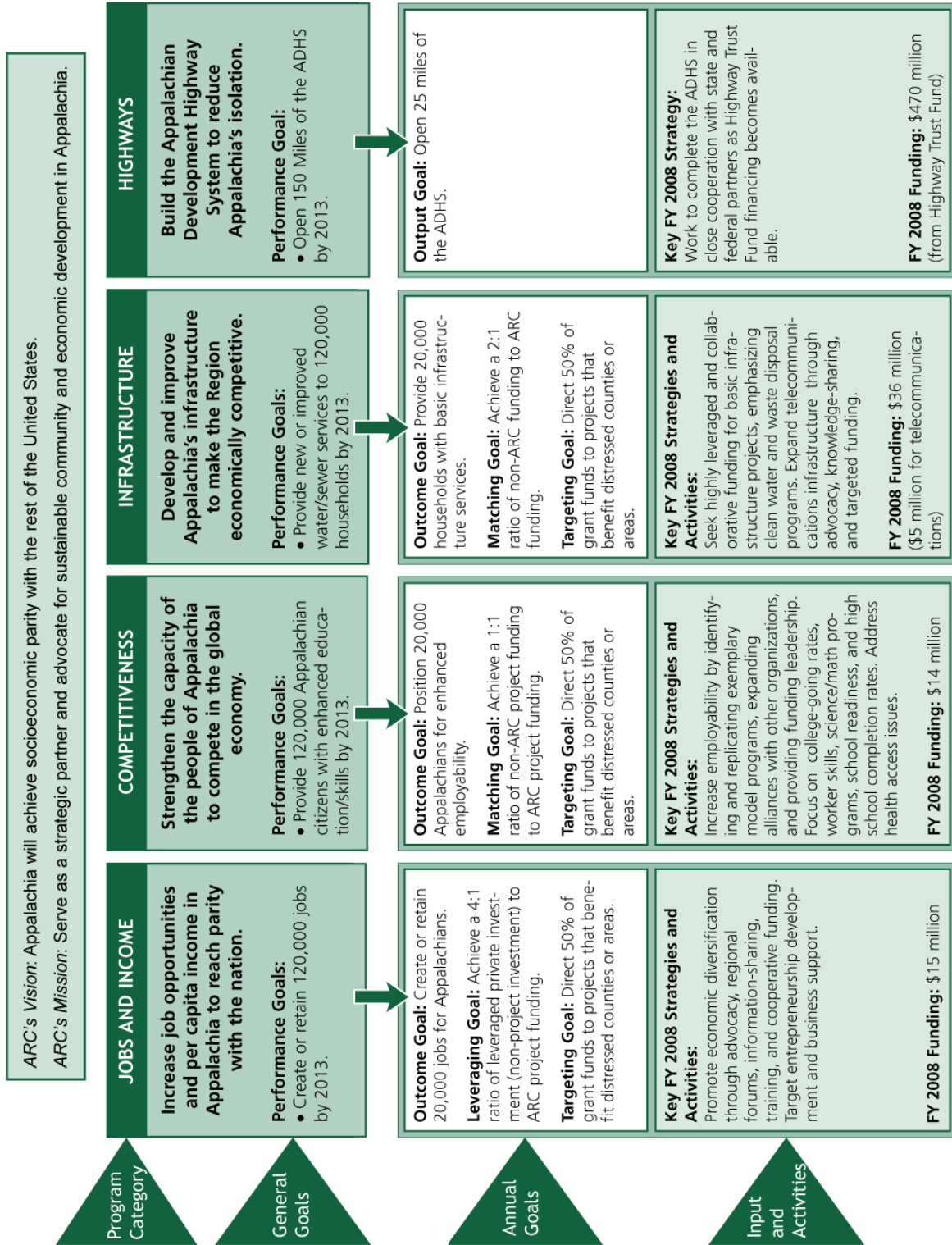
ARC Priorities in FY 2008

ARC's FY 2008 priorities are designed to help it achieve its long-term goals. At the highest level, ARC is determined to significantly reduce economic distress within the Appalachian Region and target the neediest areas to help close the socioeconomic gaps between the Region and the rest of the nation. Doing so requires successful achievement of four inter-related general goals, as shown in Table 4 below.

Table 4 ARC Goals and 2008 Targets	
General Goals	**Targets for 2008**
Increase Job Opportunities and Per Capita Income	• Create/retain 20,000 jobs for Appalachians • Achieve a 4:1 investment ratio for economic diversification projects • Direct 50% of grant funds to benefit distressed counties/areas
Strengthen Capacity of the People to Compete in the Global Economy	• Position 20,000 Appalachians for enhanced employability • Achieve a 1:1 average investment ratio for employability projects • Direct 50% of grant funds to benefit distressed counties/areas
Develop and Improve Infrastructure	• Provide 20,000 households with basic infrastructure services • Achieve a 2:1 average investment ratio for infrastructure projects • Direct 50% of grant funds to benefit distressed counties/areas
Build the Appalachian Development Highway System to Reduce Isolation	• Build 25 miles of the ADHS

Figure 6 provides a more detailed display of the ARC program logic model for program operations in 2008, including the alignment of annual performance targets, major strategies and activities, and the current funding request to the mission and goals of the Strategic Plan.

Figure 6

**ARC Performance Measurement Framework
Fiscal Year 2008**

ARC's Vision: Appalachia will achieve socioeconomic parity with the rest of the United States.

ARC's Mission: Serve as a strategic partner and advocate for sustainable community and economic development in Appalachia.

Program Category	**JOBS AND INCOME**	**COMPETITIVENESS**	**INFRASTRUCTURE**	**HIGHWAYS**
General Goals	**Increase job opportunities and per capita income in Appalachia to reach parity with the nation.**	**Strengthen the capacity of the people of Appalachia to compete in the global economy.**	**Develop and improve Appalachia's infrastructure to make the Region economically competitive.**	**Build the Appalachian Development Highway System to reduce Appalachia's isolation.**
	Performance Goals: • Create or retain 120,000 jobs by 2013.	**Performance Goals:** • Provide 120,000 Appalachian citizens with enhanced education/skills by 2013.	**Performance Goals:** • Provide new or improved water/sewer services to 120,000 households by 2013.	**Performance Goal:** • Open 150 Miles of the ADHS by 2013.
Annual Goals	**Outcome Goal:** Create or retain 20,000 jobs for Appalachians. **Leveraging Goal:** Achieve a 4:1 ratio of leveraged private investment (non-project investment) to ARC project funding. **Targeting Goal:** Direct 50% of grant funds to projects that benefit distressed counties or areas.	**Outcome Goal:** Position 20,000 Appalachians for enhanced employability. **Matching Goal:** Achieve a 1:1 ratio of non-ARC project funding to ARC project funding. **Targeting Goal:** Direct 50% of grant funds to projects that benefit distressed counties or areas.	**Outcome Goal:** Provide 20,000 households with basic infrastructure services. **Matching Goal:** Achieve a 2:1 ratio of non-ARC funding to ARC funding. **Targeting Goal:** Direct 50% of grant funds to projects that benefit distressed counties or areas.	**Output Goal:** Open 25 miles of the ADHS.
Input and Activities	**Key FY 2008 Strategies and Activities:** Promote economic diversification through advocacy, regional forums, information-sharing, training, and cooperative funding. Target entrepreneurship development and business support. **FY 2008 Funding:** $15 million	**Key FY 2008 Strategies and Activities:** Increase employability by identifying and replicating exemplary model programs, expanding alliances with other organizations, and providing funding leadership. Focus on college-going rates, worker skills, science/math programs, school readiness, and high school completion rates. Address health access issues. **FY 2008 Funding:** $14 million	**Key FY 2008 Strategies and Activities:** Seek highly leveraged and collaborative funding for basic infrastructure projects, emphasizing clean water and waste disposal programs. Expand telecommunications infrastructure through advocacy, knowledge-sharing, and targeted funding. **FY 2008 Funding:** $36 million ($5 million for telecommunications)	**Key FY 2008 Strategy:** Work to complete the ADHS in close cooperation with state and federal partners as Highway Trust Fund financing becomes available. **FY 2008 Funding:** $470 million (from Highway Trust Fund)

ARC strategic goals and performance goals for FY 2008, are summarized on the following pages. Objectives for achieving the goals are summarized below. The Area Development and Highway program sections of this budget justification describe specific strategies for achieving the strategic goals. The linkage between ARC's general goals, strategies, and performance targets is shown in Table 5 on page 29.

Goal 1: Increasing Job Opportunities and Per Capita Income in Appalachia to Reach Parity with the Nation

In partnership with other agencies, ARC will help local and state leaders diversify local economies, support entrepreneurship, increase domestic and global markets, and foster new technologies in order to address job shifts throughout the Region. In addition, ARC will encourage local leaders to build on the opportunities presented by Appalachian highway corridors and to examine heritage, cultural, and recreational assets that can create job opportunities while preserving the character of the Region's communities.

The Commission will build on its successful entrepreneurship initiative by engaging in place based or asset based economic development activities. Communities can develop assets and identify new and creative uses for perceived liabilities to generate revenue and create jobs. Successful strategies have positive economic impacts and help ensure sustained, long term benefits in a community. The Federal Co-Chair, along with the governors of the 13 Appalachian states, called for development of a comprehensive energy blueprint which featured strategies for the utilization of the Region's abundant energy resources in order to stimulate job creation. While asset based economic development is not a quick fix or a panacea for the Region, it can be part of a comprehensive solution for sustainable community and economic development.

ARC has jointly funded many business development projects over the years with federal agencies, and has vigorously reached out to both public and private partners in recent years to promote entrepreneurship in the Region. ARC intends to educate current and future entrepreneurs, both youth and adults; provide more access to capital for local businesses through loan funds, venture funds, and tax credits; strengthen local economies by building on strategic sectors and regional cultural heritage products through trade expansion; and nurture new and expanding businesses by providing technical assistance and creating and supporting rural business incubators and multi-tenant facilities. These regional strategies involve cooperating with the Federal Reserve, USDA, SBA, ITA, TVA and the NEA, among others, as well as with the private sector.

ARC has provided a forum for stakeholders and forged alliances with major financial institutions to pursue new business formation. Partner organizations include banking institutions, including the Federal Home Loan Banks in Atlanta and Cincinnati, the Federal Reserve Banks in Cleveland and Richmond, the Federal Deposit Insurance Corporation in Atlanta, and Wachovia/First Union Bank; and national foundations, including the Ford, Kauffman, Benedum, and Kellogg foundations, community colleges and local development organizations. The National Commission on Entrepreneurship, National Business Incubator Association, Distributive Education Clubs of America, and Future Farmers of America have also joined with the Commission in supporting Appalachian initiatives.

The Strategic Plan identifies seven objectives to increase jobs and income:

1.1: Foster Civic Entrepreneurship, building the capacity of three interdependent elements: individual leaders, organizations, and the community as a whole. Leadership development skills; broad citizen involvement; strategic planning processes; and collaborations among business, government, nonprofit, and philanthropic organizations contribute to a sense of empowerment and sustained economic well-being. These activities foster broad-based civic engagement and support strategic readiness to take advantage of economic opportunities.

1.2: Diversify the Economic Base to provide new employment opportunities. Prosperity and stability for Appalachian communities will depend on their ability to find new business and economic opportunities that can build on the Region's strengths while diversifying its base. This will include expanding workforce training and entrepreneurial development; export creation; and promoting applications of business technology and technology-related businesses and services. ARC will also help existing businesses modernize, retain jobs, and be competitive in the global economy.

1.3: Enhance Entrepreneurial Activity in the Region, because locally owned businesses are essential for sustainable local economies and improving the quality of life in Appalachian communities, especially in economically distressed areas. Many communities need assistance in developing support for business incubators and providing entrepreneurial training and financial services. This will require further access to investment capital for local businesses; promoting entrepreneurial training in middle schools, high schools, and community colleges; and supporting business technical assistance networks.

1.4: Develop and Market Strategic Assets for Local Economies. A recognized way of strengthening communities and their economies is through the identification and development of local cultural, heritage, and natural assets. This approach to development recognizes and builds on indigenous resources, experience, wisdom, skills and capacity that exist in Appalachian communities. Creating local homegrown economic opportunity is central to this asset-based approach. Appalachia's arts, crafts, music, and heritage resources and its natural and recreational assets can be leveraged for the economic benefit of the Region.

1.5: Increase the Domestic and Global Competitiveness of the Existing Economic Base. Many Appalachian communities have embraced not only new domestic business development strategies but also global strategies that promote increased international business activity in order to be competitive. By helping local firms find new markets at home and abroad, communities can assist in job creation. Foreign direct investment is another effective approach that can generate additional job opportunities and help communities enhance their competitive advantage. ARC will exploit research opportunities and support technical assistance to businesses as well as promote foreign direct investment where possible.

1.6: Foster the Development and Use of Innovative Technologies. Information technology represents an important opportunity to close the job gap in Appalachia through high-value-added industries such as telecommunications and computing services. Appalachian communities should partner with federal and private-sector research labs, research universities, and other technology organizations to help create and retain technology-related jobs through business assistance,

supporting and capitalizing on research in universities and elsewhere, and promoting public-sector science and technology programs.

1.7: Capitalize on the Economic Potential of the Appalachian Development Highway System. The ADHS presents perhaps the greatest community and economic development opportunity in the Region. To maximize its potential, programs and activities must be designed to capitalize on the system's connectivity. This will require supporting local and regional economic and community development initiatives that effectively use completed sections of the ADHS; encouraging strategic planning to guide appropriate development on the corridors; and promoting cooperative initiatives between economic development and highway officials.

The performance target for Goal 1 in 2008 is to create or retain 20,000 jobs and direct at least 50 percent of grant funds to distressed counties and areas. In addition, the Commission has set a target investment ratio of at least four private sector dollars for each ARC dollar invested.

General Goal 2: Strengthen the Capacity of the People of Appalachia to Compete in the Global Economy

The people of Appalachia must have the skills and knowledge required to develop, staff, and manage globally competitive businesses. In addition, the Region's communities must provide adequate health care in order to keep existing businesses and develop new ones.

ARC will continue to support local efforts to make all of the Region's citizens productive participants in the global economy. In education, the Commission's focus will be to raise the level of educational attainment by addressing a range of educational issues, such as workforce skills, early childhood education, dropout prevention, and improved college attendance. In health care, the focus will be on recruitment and retention of health-care professionals in areas with documented shortages and the promotion of better health through wellness and preventive measures. In addition, ARC will develop partnerships with other organizations to address the high incidence of life-threatening diseases in the Region.

ARC will work to improve educational capabilities and attainment. With its state and local partners, it will upgrade the Region's education climate, improving educational capabilities and providing re-entry programs, school-to-work transition programs, and skills training for specific employers located in or moving into the Region. The Department of Education and the Public Health Service have longstanding agreements in place with the Commission to support projects in the Region.

Strategic Plan objectives are as follows:

2.1: Foster Civic Entrepreneurship to strengthen collaborative relationships among communities, agencies, and individuals, that encourage innovative and achievable first steps, and that provide an increase in awareness of and dialogue on strategic opportunities contribute to improved community responsibility and use of resources. Collaboration must be expanded between businesses and training institutions, schools and community development, and youth and their communities. Community-based dialog must also be promoted on critical health issues.

2.2: Enhance Workforce Skills through Training. As the changing global economy affects Appalachian communities and businesses, many adults in the Region find it difficult to retain their jobs or seek new ones without significant retraining and additional education. Most new jobs are in sectors that require a higher level of education. To respond to new economic opportunities and weather economic uncertainty, workers must have the opportunity to continually build skills and experience through vocational schools and other training resources.

2.3: Increase Access to Quality Child Care and Early Childhood Education to enable parents and guardians to take advantage of job opportunities. In addition, studies have shown that the benefits of high-quality early childhood education programs, especially for children from low-income families, last at least into early adulthood. Facilities are lacking, and, where they are available, many families in Appalachia do not have the time or money to take full advantage of them.

2.4: Increase Educational Attainment and Achievement. Research has shown that high levels of educational attainment and achievement are associated with better health for individuals and their children, longer life expectancies, and higher salaries. While progress has been made in improving levels of educational attainment and achievement in Appalachia, the Region has not kept pace with the nation as whole. Resources are still needed to close this widening gap. More Appalachians need to graduate from high school and continue with post-secondary education at community colleges, universities, or professional schools.

2.5: Provide Access to Health-Care Professionals. Activities and policies that improve the supply and distribution of Appalachia's professional health-care workforce (physicians, nurse practitioners, psychologists, dentists, medical technicians, etc.) can help ensure that health care is comprehensive, affordable, and tailored to the specific needs of each community. Many communities in remote areas of the Region find it difficult to recruit and retain health-care professionals. ARC's experience has shown that this problem can be addressed effectively by recruitment strategies such as the J-1 Visa Waiver Program, and by supporting primary care systems and training of health care professionals.

2.6: Promote Health through Wellness and Prevention. Appalachia suffers from disproportionately high rates of chronic diseases such as cardiovascular disease, cancer, and diabetes. This has a significant adverse effect on workforce participation and productivity, and impedes opportunity for economic growth. Education on positive health behaviors is critical to developing a stronger workforce and ensuring the long-term viability of the Region.

The performance targets for Goal 2 in 2008 is to position 20,000 Appalachians for enhanced employability and direct at least 50 percent of grant funds to distressed counties and areas. In addition, the Commission has set a target investment ratio of at least one non-ARC dollar for each ARC dollar invested.

***General Goal 3: Develop and Improve Appalachia's Infrastructure to Make the Region
Economically Competitive***

To compete in the global economy, Appalachia must have the infrastructure necessary for economic development, including water and sewer systems, telecommunications systems, and efficient connections to global transportation networks. But barriers such as rugged terrain and low population density have hindered the Region from developing adequate infrastructure. ARC will continue to address the lack of adequate water and sewer systems and telecommunications systems and services in the Region, and will build partnerships to address the critical issue of intermodal connections to improve access to the global market.

It is hard for most Americans to fathom that in the 21st century basic water and sewer problems remain a critical issue, but this is true for many smaller, poorer communities of Appalachia. And without the basics, business and industry simply are not interested in locating in the Region. A fundamental feature of the Commission since its creation has been to coordinate with and make best use of all public and private resources to assist Appalachian community development. The scope and flexibility of ARC funding enables the Commission to supplement, extend, and attract other federal program funds to address local priorities.

ARC has collaborated with federal agencies to support water resource management and cooperative solutions among providers; promote multi-county approaches and private sector partnerships to manage solid waste disposal, water, and wastewater treatment; support waste recycling and new disposal technologies; ensure that remote rural area needs are represented in infrastructure policy formulation and funding; and identify innovative ways to address unmet needs in Appalachian communities and sub-regions.

Currently, the Economic Development Administration, Rural Development, the Department of Housing and Urban Development, the U.S. Army Corps of Engineers, the Environmental Protection Agency, and the Tennessee Valley Authority are administering active projects under the supplemental grant provisions of the Appalachian Regional Development Act. Agreements are also still in place with other agencies that have conducted substantial program activities with ARC in the past, including the Federal Aviation Administration, the Federal Railway Administration, the Natural Resources Conservation Service, and the National Park Service. The Commission will also work to make developable prime sites that have not been available due to environmental problems such as pollution.

The Strategic Plan identifies the following five regional objectives:

3.1: Foster Civic Entrepreneurship. Developing the regional infrastructure necessary to make Appalachia competitive requires visionary leaders and effective organizations that are able to strategically mobilize communities toward their goals. Infrastructure improvements are especially important in distressed areas and along the completed ADHS corridors. Partnerships among local and state governments and among other organizations engaged in infrastructure issues should be promoted. In addition, expansion of the kinds of "self-help" water and wastewater projects that ARC pioneered in parts of Appalachia can apply the skills and commitment of local communities to solving local infrastructure needs.

3.2: Build and Enhance Basic Infrastructure. Communities must have adequate water and wastewater treatment systems and decent, affordable housing to sustain businesses, generate jobs, protect public health, and ensure a basic standard of living for residents. Many Appalachian communities continue to lack this very basic infrastructure, compromising the Region's ability to pursue basic development activities. Investing in basic infrastructure is an investment in the wellness, as well as the economic potential, of Appalachia.

3.3: Increase the Accessibility and Use of Telecommunications Technology. Communities across the Appalachian Region, especially those in rural or economically distressed areas, face serious challenges in taking advantage of new information, computing, and telecommunications technologies that have the potential to expand their economic development horizons. Changing regulations have resulted in access issues for rural communities and reluctance on the part of service providers to make capital investments in less-dense areas where it is more difficult to generate adequate returns on investments. ARC has developed a broad base of experience with such approaches as telemedicine, telecommunication applications in business, education and government, and acting strategically to increase local and regional broadband connectivity.

3.4: Build and Enhance Environmental Assets. Cleaning up defunct industrial sites, promoting environmentally sensitive industries, and providing responsible stewardship and use of Appalachia's natural assets can play a vital part in putting the Region on an equal economic footing with the rest of the nation. This includes the reclamation of former industrial sites and mine-impacted lands for viable use. ARC's statute also encourages eco-industrial development that can responsibly take advantage of the Region's natural-resource assets

3.5: Promote the Development of an Intermodal Transportation Network. In the twenty-first century, growth and prosperity depend on the ability to develop intermodal transportation systems with fast, efficient, and dependable access to worldwide suppliers and markets. Appalachian communities and businesses must continue to strengthen support for intermodal transportation strategies designed to improve access to Appalachia's transportation network (including aviation, local transit systems, railway systems, and inland waterways) as well as to increase the responsiveness of that network to the needs of businesses, communities, and residents. ARC sees the value of regional forums and studies of specific intermodal opportunities in the Region to support inland ports and other facilities. Access roads providing better linkages to completed ADHS corridors will also be important.

ARC will build on its past successes in joint efforts with various agencies and organizations such as the Small Business Administration and National Business Incubator Association, supplementing the work of other federal programs, facilitating technology ownership in the home, funding community learning/technology access centers, and assisting in providing enhanced telecommunication services to facilitate smart parks and IT incubator development opportunities.

The performance targets for Goal 3 in 2008 are to provide basic infrastructure services to 20,000 households and to direct at least 50 percent of grant funds to distressed counties and areas. In addition, the Commission has set a target investment ratio of at least two non-ARC dollars for each ARC dollar invested.

General Goal 4: Build the Appalachian Development Highway System to Reduce Appalachia's Isolation

For Appalachia to compete economically with communities across the nation, it must have a safe and efficient transportation system connecting it to national transportation networks. Because of its difficult terrain, Appalachia was largely bypassed by the national interstate highway system, leaving the Region with a network of winding, two-lane roads, which presented a major barrier to development. Congress, recognizing the importance of overcoming the Region's geographic isolation, authorized the construction of an interstate-quality highway system in Appalachia. The Appalachian Development Highway System (ADHS) was created, and is being built, to enhance economic development opportunities in the Region by providing access to markets for goods, to jobs for workers, to health care for patients, and to education for students.

The strong partnership of ARC, the U.S. Department of Transportation, and state departments of transportation will continue to oversee the planning and construction of the Appalachian Development Highway System. ARC will work to identify and overcome barriers to the timely completion of the ADHS.

There are three objectives in the Strategic Plan supporting completion of the development corridor system:

4.1: Foster Civic Entrepreneurship. Long-term strategic planning by local and regional leadership is critical to taking full advantage of the economic and community-building opportunities presented by existing and planned ADHS corridors. New outreach and awareness efforts are needed to help communities fully integrate the ADHS into their economic development planning. ARC is positioned to continue to serve as a focal point for removing barriers to ADHS completion and ensuring collaboration among the U.S. Department of Transportation, and other state and federal agencies involved in the Region's economic development.

4.2: Promote On-Schedule Completion of the ADHS. Timely completion of the ADHS is essential for fostering economic growth and connecting the 13 states in the Region with national and global economic opportunities. ARC will continue to work with federal and state departments of transportation and other entities to expedite location studies, solve design problems, and accelerate construction while working to preserve the cultural and natural resources of the Region.

4.3: Coordinate Work on ADHS State-Line Crossings. Completing the ADHS expeditiously will require close coordination of activities on those segments of the system that cross state lines. ARC will coordinate technical information, funding disbursements, and construction scheduling between adjoining states to facilitate completion of state-line crossings of ADHS corridors.

The performance target for Goal 4 in 2008 is to open 25 additional miles of the Appalachian Development Highway System to traffic.

Table 5 summarizes the performance indicators for all the major strategies in FY 2008. Table 6 and Figure 7 show the requested resource levels by goal and program. Additional detail and discussion is included below.

Table 5 ARC Goals and Measures				
Program Area	**General Goal And Strategies**	**Long-Term Performance Measures**	**Short-Term Performance Measures**	**Expected Benefits**
Area Development $ 15 million	**Goal 1: Increase Job Opportunities and Per Capita Income** **Strategy:** Promote Economic Diversification	200,000 jobs created/retained by 2018* Achieve 15:1 private sector to ARC investment ratio for business infrastructure projects	Annual: 20,000 jobs created/retained– 10% of long-term goal* Achieve initial average 4 to 1 private sector to ARC investment ratio in projects Direct 50% of grant funds to benefit distressed counties/areas	Enhanced economic competitiveness
Area Development $ 14 million	**Goal 2: Strengthen Capacity of the People to Compete in the Global Economy** **Strategy:** Increase Workforce Employability	200,000 Appalachians with enhanced employability by 2018** Achieve 1:1 average non-ARC to ARC investment ratio for employability projects	Annual: 20,000 Appalachians with enhanced employability—10% of long-term goal** Achieve initial average 1 to 1 non-ARC to ARC investment ratio in projects Direct 50% of grant funds to benefit distressed counties/areas	Enhanced economic competitiveness
Area Development $ 36 million	**Goal 3: Develop and Improve Infrastructure** **Strategy:** Ensure basic infrastructure/services and increased telecommunications access/deployment	200,000 households served by 2018 Achieve 3:1 average non –ARC to ARC investment ratio for water/sewer projects	Annual: 20,000 households served—10% of long-term goal Achieve initial average 2 to 1 non-ARC to ARC investment ratio in projects Direct 50% of grant funds to benefit distressed counties/areas	Enhanced economic competitiveness Reduced isolation and improved regional access
Appalachian Development Highway System (ADHS) $470 million	**Goal 4: Build the Appalachian Development Highway System to Reduce Isolation** **Strategy:** Complete the ADHS	Complete the ADHS by 2021 For every dollar invested, $1.10 in increased travel efficiency benefits	Open 25 miles of the ADHS to traffic	Enhanced economic competitiveness Reduced isolation and improved regional access

* *ARC reports total target jobs of funded projects; related validation studies and ROI data are separately reported.*
** *Measured in higher educational attainment, increased access to health care, or employment after training.*

	FY 2006 *	FY 2007 CR	FY 2007 President's Budget	FY 2008 Request
Table 6 **Summary of Goals and Resource Levels**[11]				
Goal 1: Increase Job Opportunities and Income by diversifying the Appalachian economy	$15 million	$8 million	$15 million	$15 million
Goal 2: Strengthen Capacity of People by increasing employability	$14 million	$7 million	$14 million	$14 million
Goal 3a: Increase Competitiveness by improving basic infrastructure	$30.817 million	$16.475 million	$30.817 million	$31 million
Goal 3b: Increase Competitiveness by expanding broadband telecommunications capacity	$5 million	$2 million	$5 million	$5 million
Goal 4: Reduce isolation by building 25 miles of highway in FY 2008	$470 million**	$470 million**	$470 million**	$470 million**
Total by Fiscal Year (Non-ADHS)	$64.817 million	$35.472 million	$64.817 million	$65 million

Appropriation after rescission
*** Funding for the Appalachian Development Highway System is included in the Federal Highway Trust Fund and therefore is not included in the total requested FY 2008 appropriation.*

---

[11] FY 2007 and FY 2008 program levels estimated based on grant applications to be submitted.

Figure 7

FY 2008 Budget Request by Investment Area
(Millions, Excluding ADHS)
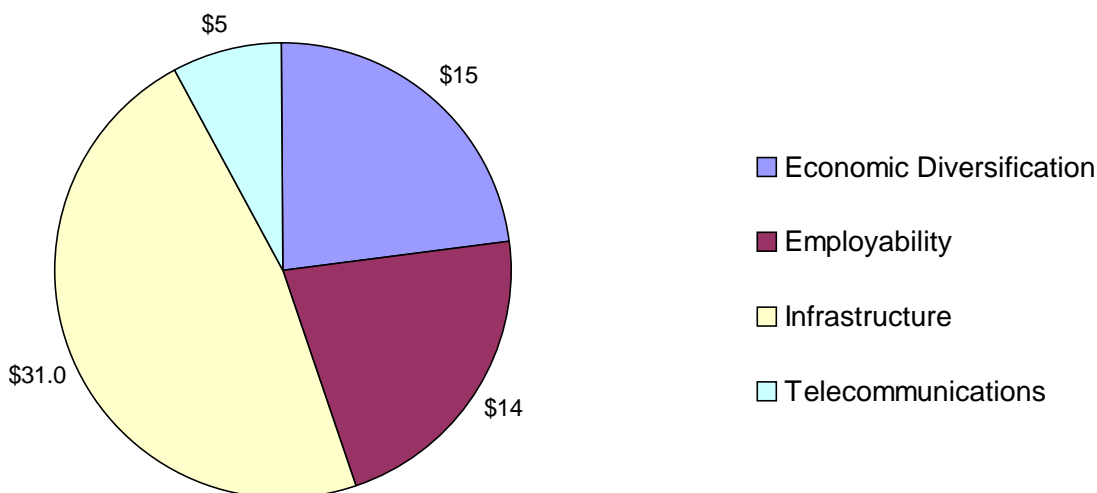
Performance Challenges

ARC can effectively and efficiently implement its FY 2008 strategies and achieve its performance targets, assuming that it obtains sufficient resources and is able to carry out its planned activities. However, several external and a few internal factors might affect ARC's ability to achieve its goals. These risks are discussed below.

External Challenges

Economic down turns could adversely impact ARC performance goal achievement. Economic down turns are felt acutely in the Appalachian Region. They typically hit more deeply and last longer. This may have an impact on what ARC is able to accomplish in the Region. Success is very dependent on both state and regional cooperation and having flexibility to shift funds when new and promising projects are identified. A value of the ARC partnership is being able to act in response to changing conditions in the Region. Investment priorities may be shifted if necessary from original projections.

Sustained funding levels consistent with amounts authorized by Congress are essential for ARC's strategies to be effective. Any significant reduction in funding could have an impact on the willingness of the states to cooperate and partner with the ARC. Although ARC achieves more than 10 to 1 leverage ratio of the funds it invests in the Region, the seed money must be sufficient to make cooperative efforts worthwhile.

Macro-economic conditions can affect relative regional economic performance. National and global economic changes can significantly alter the competitiveness of Appalachian businesses and can influence demographic and structural shifts that could pose new barriers to closing the socioeconomic gaps with the rest of the country.

Internal Challenges

ARC is a small streamlined organization and therefore faces challenges in preparing staff to succeed current leadership. ARC has a streamlined organizational structure. There are 11 federal employees and 48 FTE non-federal trust fund employees. Although this means that ARC is able to operate efficiently, with extremely modest administrative costs, it also means that key ARC staff members have no "back ups"—in sports parlance, "no bench." This creates potential challenges when considering succession planning and addressing expanding roles for staff in performance measurement and restructuring business processes.

Early or forced retirements or poor market performance could substantially accelerate the requirement for contributions to the Commission's retirement fund from the federal Appropriation or from member states to keep the fund actuarially sound. ARC is under a separate retirement system that is not fully funded. A large number of retirements could impair the financial health of the system. Additionally, should a reduction in funding necessitate a reduction in staff size, ARC would not have sufficient monies to fund severance benefits.

Limited money for administrative/IT expenses creates challenges in keeping pace with government-wide requirements and initiatives. Implementing e-government initiatives can be an expensive undertaking for small agencies with very limited resources. ARC will need to integrate with the e-grants system and the e-travel system.

ARC Performance Assessment

ARC assesses the overall progress of the Region over the long term through special research, fine-grained analyses of decennial census data, and monitoring the number of severely distressed counties over time. That information is essential for understanding remaining gaps between the Region and the rest of the country in terms of jobs, income, educational attainment, and quality of life. In addition to long term assessments, the Commission has conducted a program of performance measurement linked to the strategic plan under the GPRA process. ARC's performance measurement program can be discussed in three areas:

- Return on investment, documenting how well ARC leverages other resources;
- Project performance, using data collection and analysis in a management information system validated by site visits to document actual outcomes; and
- Independent project evaluations.

ARC performance is published annually in the Performance and Accountability Report, which is available to the general public on the ARC website.
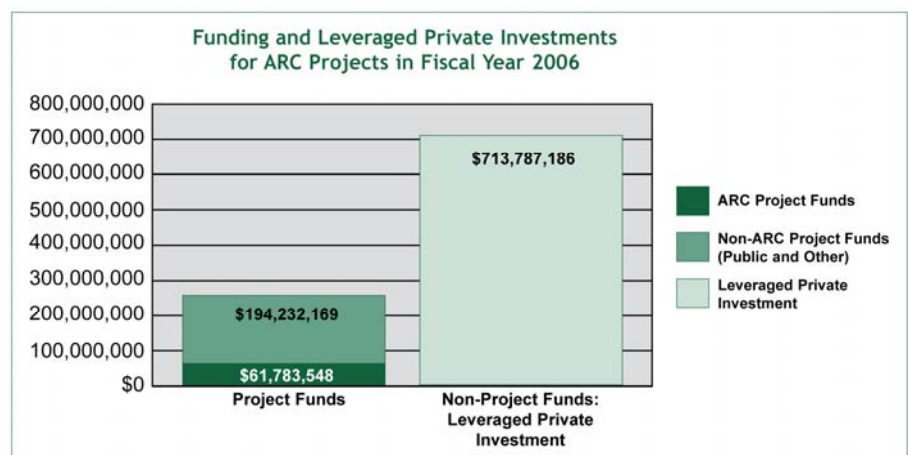
Leveraged Public and Private Investment

ARC has a statutory responsibility to use its advocacy and grant activities to increase investment of public and private funds in the Region. Underinvestment of federal program funds and private sector resources in Appalachia was a fundamental concern when the Commission was founded, and it continues to be a barrier to self-sustained economic growth. Accordingly, the Commission stresses leveraging of all other resources to the maximum extent possible in its grant initiatives and undertakes to regularly monitor leveraging efficiency within and across grant areas by goal. ARC values how well its grants provide seed money for local investments that leverages other federal, state and local funds as well as private funds. For example, for public works projects completed during the 1990's, each dollar provided by ARC helped to make possible a package of $2.61 in other public funding and every dollar of public funding brought in $16.65 of private investment.[12] As shown in Figure 8, in 2006 each dollar of ARC funding across all investment areas leveraged $3.14 in non-ARC funding and leveraged $11.55 in private investment attracted as a result of the project.

Project Performance

ARC has structured a systematic program of performance measurement for its grants in accordance with the strategic plan, and it tracks individual grant information and performance in an intranet database available to program managers. Data elements for specific project grants are linked to the measures in the annual performance plan for each strategic goal. The system not only provides a means to document output and outcome performance for each fiscal year and over time, but also provides management information that strengthens project oversight and troubleshooting. In addition, the system provides a means to identify lessons learned and best practices that can be shared across the Region. Site visits two years after funding are used to validate performance information reported in the project management system, based on a sample of 50–60 projects annually.

The Commission is developing web-based resources for grant development that will be enable prospective grantees to incorporate strong project performance measurement in project designs. [13] This innovative effort will not only improve performance measurement and outcomes, but support efficiency in ARC grant business processes and enhance reporting capabilities at all levels.

Figure 8

Funding and Leveraged Private Investments for ARC Projects in Fiscal Year 2006

- ARC Project Funds
- Non-ARC Project Funds (Public and Other)
- Leveraged Private Investment

$713,787,186

$194,232,169

$61,783,548

Project Funds

Non-Project Funds: Leveraged Private Investment

---

[12] Evaluation of the Appalachian Regional Commission's Infrastructure and Public Works Program Projects, the Brandow Company and Economic Development Research Group, June 2000.

[13] *Development of Web-Based Resources for Grant Development, Performance Measurement, and Business Process Improvements*, with contract assistance from Silosmashers, Inc.

Since initiating its project measurement system under GPRA, the Commission has established a solid record of performance. Appendix C includes a summary of many of the measurements used in the past several years for various program objectives.

Independent Evaluations

Closely aligned with project performance tracking is a multi-year plan whereby ARC uses independent or external evaluations to determine how well projects have achieved their objectives. These evaluations place a special emphasis on assessing the utility and validity of output and outcome measures. Results provide important management information to the Commission for policy development purposes. Findings are also made available to state and local organizations that are in a position to affect future programming. Evaluation reports are typically published on ARC's website. The following are highlights of recent evaluations by goal area.

Goal 1: Increasing Job Opportunities and Per Capita Income

Expanding entrepreneurship, which increases job opportunities, and supporting business development is essential to improving the viability and diversity of the Region's economy. A study issued in March 2001 of the initial stage of ARC's Entrepreneurship program found that the program has leveraged funds from other sources, helping businesses develop new products, expanding new businesses and creating jobs.[14] This initial study found that three-quarters of the projects had assisted firms to develop new products or upgrade new technologies. In addition, half of the projects reported starting new businesses that led to the creation of 304 new firms—46 new firms with employees and 258 firms that were sole proprietors. There were 377 new jobs created according to the survey, with 69 jobs in new firms, 50 in existing firms, and 258 through self-employment. Furthermore, there were 74 jobs saved by project interventions.

ARC awarded a contract to conduct a program evaluation of the Commission's Entrepreneurship Initiative to date. This evaluation will examine the project outcomes of a sample of projects that have been closed since 1997, including projects that promote the access to capital and financial assistance; technical and managerial assistance; technology transfer; entrepreneurial education and training; and entrepreneurial networks. Through the Entrepreneurship Initiative and ARC Area Development funds, the Commission has currently funded 462 entrepreneurial projects, excluding research and conferences, which provided a total of over $47 million of support for a range of program activities. In addition to ARC funds, these programs have leveraged $76.7 million from state and local government and other sources to support activities targeting the Region. In addition, the projects have leveraged a projected total of $108 million in follow-on private investment, with $72.7 million for projects that are closed. Collectively, the funded projects are projected to create 3,197 new businesses and for closed projects are documented to have created 1,784 new businesses.

The Commission is preparing to release its report on *Access to Capital and Credit for Small Business in Appalachia,* which found significant credit gaps in portions of Appalachia but also reasons to be cautiously optimistic for stakeholders to work together to close credit gaps. Despite signs of progress, significant disparities continue to exist in small business lending in Appalachia.

---

[14] An Early Stage Evaluation of ARC's Entrepreneurship, Regional Technology Strategies, March 2001.

In particular, within Appalachia small business lending is less accessible in non-metropolitan counties and counties experiencing economic distress. In addition, the smallest businesses with assets under $1 million and businesses in low- and moderate-income communities experience the least access to credit.

Goal 2. Strengthening the Capacity of the People to Compete in the Global Economy

A 2000 study of the results of 84 ARC education projects funded during the 1990's found that most of the projects in the study reached those segments of Appalachia that are most economically disadvantaged or geographically isolated and that the projects were successful in achieving the outcomes they set forth in their original requests for ARC support.[15] Case Studies provided convincing evidence that the sample projects resulted in a broad range of educational, economic, and social gains. Moreover, the study found that 67 percent of these education projects reported that they would never have been implemented without their ARC award.

An evaluation of ARC/Oak Ridge National Laboratory Summer Institute Math / Science / Technology program assessed the effectiveness of the program in encouraging more Appalachian high school students to continue their studies beyond high school and to pursue careers in science, technology, engineering, and math.[16] Furthermore it assessed how the program has assisted participating teachers in raising the level of math, science, and technology instruction in their high schools. The findings are based on data collected from eight cohorts of participants attending the Summer Institute between 1997 and 2004. For the student cohort, the study found that participation in the Summer Institute influenced 24% of students to take more science classes and 22% to take more math classes when they returned to high school. Somewhat more than half the students reported that their experience at ORNL reinforced prior decisions about the science and math courses they had already chosen to take (56% and 52%, respectively). In addition, students reported that the institute reinforced their intentions to go to college and reduced some of the barriers. Fully 96% of student participants who had graduated from high school at the time of the survey had continued their formal education. Of the 23 students who attended the institute in summer 1997 and 1998, all reported having attained higher education—26% had some college, 39% had earned a bachelor's degree, and 35% went on to graduate work. Participating teachers reported that they incorporated activities and approaches learned at the Summer Institute into their classrooms with 77% reporting that they drew on their experience at the institute for explanations and examples, and 52% did so for classroom demonstrations, and 50% incorporated new knowledge in their lab experiments.

ARC's contractor is completing its work on *An Analysis of the College-going and Perseverance Rates in Appalachia* which is analyzing school-level data on actual college going rates or college-going plans for participating schools and from every Appalachian state and obtaining student-level information for all of the participating schools and comparing these outcomes to a sample of non-participating schools. Once this data analysis and additional data gathering process is done, the analysts will use statistical techniques to assess the impact of participating schools as compared to non-participating schools in terms of college-going outcomes.

---

[15] *Evaluation of ARC's Educational Projects*, Westat Corporation, 2000.
[16] *Evaluation of the Appalachian Regional Commission Oak Ridge National Laboratory Summer Institute for Math/Science/Technology,* Academy for Education Development, March 2006.

Goal 3a. Developing and Improving the Region's Infrastructure—Clean Water

ARC non-highway infrastructure projects, which typically include infrastructure investments such as the development of industrial parks and sites, water and sewer systems, access roads, and business incubators, have been highly successful. A study of ninety-nine projects initiated and completed between 1990 and 1997, found a 33:1 return for every ARC dollar invested in terms of income from jobs created. For a one-time public investment in these economic development projects, there was approximately $9 of annual recurring personal income per public dollar invested.[17] As indicated earlier, preliminary estimates of investment requirements are $11.3 billion for safe drinking water systems, and $14.3 million for wastewater infrastructure in Appalachia.[18]

ARC awarded a contract to conduct a program evaluation of ARC infrastructure projects to examine a representative sample that have been closed since 1998, including projects such as access roads, housing, industrial parks/sites, and water/sewer projects. Infrastructure projects totaled over $243 million in investments during the 1998–2004 period—exclusive of investments in the Appalachian Development Highway System and administrative grants—accounting for about 49 percent of area development projects. There were 1,015 projects classed as infrastructure during this period, of which 39 percent are now closed and account for $95 million of ARC investments over the period. The contractor delivered a draft of the study to ARC in September, 2006.

Goal 3b. Developing and Improving the Region's Infrastructure—Expanding Telecommunications Capacity

A total of 240, or 59 percent, of the counties in the Appalachian Region that are underserved by high speed Internet services. An ARC report, *Program Evaluation of the Appalachian Regional Commission's Telecommunications Projects* (2003), examined 70 projects that were started and completed between 1995 and 2001. Investments involving information technology based training, e-learning/distance learning, e-commerce, telemedicine, network and infrastructure initiatives, and community access centers were among the projects evaluated. The study measured the extent to which the projects enhanced access to telecommunication services and improved the use of these services to meet communities' needs. Also, the study assessed the degree to which projects involved and served community stakeholders.

Most projects reported fulfilling their goals to the same or greater extent than projected. For example:

- Of skills training and educational applications, 69 percent indicated that their success was the same as expected, 23 percent indicated that it was more than expected and 8 percent reported that it was less than expected.

---

[17] *Evaluation of the Appalachian Regional Commission's Infrastructure and Public Works Program Projects*, The Brandow Company and Economic Development Research Group, June 2000.
[18] *Drinking Water and Wastewater in Appalachia: An Analysis of Capital Funding Gaps*, by Jeff Hughes, Richard Wisnant, et al., UNC Environmental Financing Center, June 2005.

- Of economic development applications, 71 percent reported their success to be the same as expected, 14 percent indicated that it was more than expected, and 15 percent indicated that it was less than expected.

Goal 4. Building the ADHS

An independent study has documented the benefits of the completed portions of the Appalachian Development Highway System (ADHS.) An extensive independent study found that:

- A net increase of 16,000 jobs that would not have existed without the completed portions of the ADHS; the study estimates that these twelve corridors will, by the year 2015, have created a net increase of 42,000 Appalachian jobs, and will rise to 52,000 by 2025.

- Travel efficiencies valued at $4.89 billion over the 1965–2025 period.

- Efficiency benefits of $1.18 for each $1 invested; and economic development benefits of $1.32 for each $1 invested.[19]

- Crash and injury rates drop as much as 60 percent, with fatality rates reduced over 40 percent, when a two-lane highway is replaced with a four-lane divided controlled access highway.

During FY 2006, ARC 's contractor completed a study which focused on *The Role of Highway Investments in Economic Growth in Appalachia, 1969–2000: Update and Enhancement of Twin County Growth Study*. This study builds on earlier twin county studies to examine the impact of the Appalachian Development Highway System on employment and income growth in Appalachian counties since 1969. The critical finding from this research is that ADHS investments are statistically significant in explaining higher income and earnings growth after controlling for other explanatory factors.

ARC recently awarded a contract to conduct *An Economic Impact Study of Completing the Appalachian Development Highway System.* The Commission's purpose in conducting this study is to determine the extent to which the ADHS have achieved or contributed to the attainment of the Commission's economic development objectives identified in its strategic plan.

Across All Goals. Building Community Capacity

ARC community capacity-building projects can be classified into one of four strategies: vision and direction, including strategic planning; community involvement; developing skills and knowledge; and support activities. A Weststat study in March 2004 evaluated 100 of ARC's 168 capacity-building projects from the 1995–2002 period. It included a review of the literature, assessment of project files and reports, and follow-up validation data collection in the field. Almost two-thirds (62 percent) of projects employed a skills-related strategy, while 47 percent conducted an involvement-

---

[19] Appalachian Development Highways Economic Impact Studies, Wilbur Smith Associates, July 1998. (Note—This study was unique in that the results of the investments in public highways are rarely examined to determine if original stated objectives were met.)

related strategy. Thirty-nine percent of projects focused on a single strategy type (most notably skills)—while 55 percent employed activities that cut across two or more strategies.

Implementation and outcomes of the 42 projects were reviewed in detail with respect to the projects' original objectives. Seventy percent of the 179 outcomes proposed by the projects telephone interview projects were successfully achieved. Of the remaining 53 outcomes, 16 were not achieved, 17 could not yet be categorized as successful or unsuccessful, and 20 lacked information regarding level of attainment. However, only 37 percent of the outcome statements involved a numeric benchmark that could be used to determine the scope of the intended impact and assess whether the outcome had been achieved.

In contrast, qualitative evidence from across the site visits and telephone interviews support the view "that projects in many cases had far-reaching effects in communities. Besides important psychological and attitudinal changes, projects gave rise to more concrete benefits, including the development of individual skills and knowledge, increased collaboration, the strengthening of community organizations and infrastructure, increased volunteerism, and improved planning."

The study found the program generally achieved its objectives, and made recommendations about how to improve the performance measurement process, principally through the use of a computer-based performance assessment tool for community capacity-building. As a result of this evaluation, ARC is now developing a web-based project design tool to incorporate performance measurement into the entire project life cycle.[20]

Program Assessment Rating Tool (PART) Results and Corrective Actions

In 2004, the Office of Management and Budget (OMB) conducted its first review of the ARC program using the Program Assessment Rating Tool (PART) and issued a score of adequate. ARC received high scores for clarity of purpose, planning, and management. OMB noted ARC's progress in developing outcome related measures, but acknowledged the difficulty of performance measurement since ARC co-funds projects with other agencies. ARC revised its metrics to include performance goals for targeting resources to areas of greatest distress, and for leveraging other public and private funds. The agency continues to share performance data and research to clarify the links between federal investment and community change.

---

[20] *Analysis of the Appalachian Regional Commission Grants Administration Process*, by SiloSmashers Inc., Washington DC, January 2006.

Appalachian Regional Commission
FY 2008 Performance Budget

Major Program: Area Development

The Federal Co-Chair requests $65 million for Area Development. Table 7 illustrates the three related goals, measures, and benefits that will be realized from this investment. These funds would be heavily targeted to designated distressed counties and areas in the Region.

Table 7				
ARC Goals and Measures				
Program Area	**General Goal And Strategies**	**Long-Term Performance Measures**	**Short-Term Performance Measures**	**Expected Benefits**
Area Development $ 15 million	**Goal 1: Increase Job Opportunities and Per Capita Income** **Strategy:** Promote Economic Diversification	200,000 jobs created/retained by 2018 Achieve 15:1 private sector to ARC investment ratio for business infrastructure projects	Annual: 20,000 jobs created/retained– 10% of long-term goal Achieve initial average 4 to 1 private sector to ARC investment ratio in projects Direct 50% of grant funds to benefit Distressed counties/areas	Enhanced economic competitiveness
Area Development $ 14 million	**Goal 2: Strengthen Capacity of the People to Compete in the Global Economy** **Strategy:** Increase Workforce Employability	200,000 Appalachians with enhanced employability by 2018 Achieve 1:1 average non-ARC to ARC investment ratio for employability projects	Annual: 20,000 Appalachians with enhanced employability— 10% of long-term goal Achieve initial average 1 to 1 non-ARC to ARC investment ratio in projects Direct 50% of grant funds to benefit Distressed counties/areas	Enhanced economic competitiveness
Area Development $ 36 million	**Goal 3: Develop and Improve Infrastructure** **Strategy:** Ensure basic infrastructure/services and increased telecommunications access/deployment	200,000 households served by 2018 Achieve 3:1 average non –ARC to ARC investment ratio for water/sewer projects	Annual: 20,000 households served—10% of long-term goal Achieve initial average 2 to 1 non-ARC to ARC investment ratio in projects Direct 50% of grant funds to benefit Distressed counties/areas	Enhanced economic competitiveness Reduced isolation and improved regional access

The Area Development program has historically been a necessary complement to the Commission's long-range Appalachian Development Highway System. The Program addresses, with flexible funding and a partnership approach to policy, both the human and physical capital requirements for regional change.

ARC implements the Area Development program by allocating most funds directly to states by formula to carry out priorities they establish in accordance with the ARC strategic plan. The Commission also allocates funds for special regional initiatives.

Seventy-two regional planning and development districts or local development districts (LDDs) serving the Appalachian Region work closely with the states and ARC in developing multi-county plans and project packages. These LDDs receive ARC funding to partially support their operations. ARC plans to maintain LDD funding at $5.3 million. The Commission also provides administrative fees for program administration to EDA, HRSA, RD, and TVA to cover the costs of transferring the obligation and management of ARC funds under the supplemental grant provisions of the ARDA. In FY 2008, that cost is estimated at $450,000.

The Area Development program in 2008 will include activities that promote the agency's natural resources and grassroots community capacity to develop an energy cluster in the Region. Projects that demonstrate progress in job creation through development of energy resources, innovative approaches to achieving ARC goals, or implementing multi-jurisdictional or regional strategies will be funded.

FY 2008 Goal 1: Increase Job Opportunities and Per Capita Income - $15 Million

As described earlier, Appalachia's economic vitality and stability require a more diversified regional economy. In addition to attracting new industry and retaining and expanding existing businesses, the Region also needs to nurture home-grown firms and encourage innovation and risk-taking, as well as foster greater private sector investment. Appalachia's rich cultural heritage, which includes the Region's natural resources, scenic beauty, products, and crafts, must be better harnessed to provide local economic opportunities.

The Commission has long supported retention and formation of businesses at many levels. For example, it has fostered homegrown businesses in rural and small town Appalachia as an alternative to branch plant recruitment. This regional initiative has involved educating current and future entrepreneurs, both youth and adults; improving access to investment capital for local businesses; creating and supporting rural business incubators; and advancing other forms of business assistance. More recently, ARC has focused on strengthening local economies by capitalizing on the Region's rich natural and cultural assets, and opportunities to adapt underused facilities and lands for productive use. ARC has provided a forum for stakeholders and forged alliances with major financial institutions, national foundations, community colleges and local development organization to pursue this strategy. In FY 2006, ARC partnered with the U.S. Department of Agriculture to fund a value-added agriculture grant competition in the Region. The Commission has also encouraged the transfer of new processes and product technologies that increase productivity and create new entrepreneurial opportunities, and promoted industry

networks and trade organizations that support inter-firm collaborations, resource sharing, and the coordination of business-assistance services;

In FY 2008, ARC will:

- Diversify the economy by promoting asset based development, entrepreneurship, and business vitality through advocacy, regional forums, information sharing, training, and cooperative funding. Work in 2008 would continue a regional initiative, started in 2005, to encourage asset-based development and creation of related indigenous businesses to expand the economic base. Creation of home-grown jobs is essential to mitigate the effects of industrial declines and business out-migration from the Region. Special focus will be devoted to creating and retaining jobs by utilizing the agency's natural resources and grassroots community capacity to develop an energy cluster in the Region.

- Promote export development by increasing the number of firms engaged in exporting and increasing the volume of exported goods and services;

- Conduct policy discussions among Commission members on ways to increase global competitiveness through better coordination of the Region's transportation resources, and specifically through addressing 21st century needs for rapid, reliable, and efficient intermodal transfers of containerized goods. The Region can no longer rely solely on the massive bulk movement of mineral and agricultural commodities that characterized previous eras.

- Support leadership, marketing and planning efforts to enhance local strategies for economic development that make effective use of other federal and non-federal funds.

FY 2008 Goal 2: Strengthen Capacity of the People to Compete in the Global Economy - $14 Million

The Commission has always understood that job-producing private sector businesses can neither start nor thrive without an educated, skilled, and healthy workforce. ARC has conducted major and pioneering efforts in rural Appalachia in education and health care. Over the years, ARC has tailored its program policies and funding to focus on unmet education and health priorities.

Education and Training

ARC has long emphasized upgrading educational capabilities, providing re-entry and school-to-work transition programs, training for job skills. These efforts have required collaboration among businesses and local school districts, the non-profit sector, and federal and state education agencies. Since ARC cannot be a primary funding source for systems of education, the ARC role has been concentrated on nurturing partnerships among these diverse organizations. ARC partnered with American Electric Power, a public utility, and the U.S. Department of Labor on a workforce training initiative.

In FY 2008 ARC will:

- Maintain and expand alliances with other organizations; identify and replicate exemplary model programs, and

- Provide regional leadership to increase the college-going rate in Appalachia, especially in distressed areas.

- Expand worker skills and math/science programs.

- Enhance school readiness and high school completion. This work will include continuing ARC's successful partnership with the Department of Energy for student/teacher technology workshops, as well as collaboration with the Department of Education, National Science Foundation, and other agencies.

- Promote workforce training for high growth high demand industries.

Health Care Infrastructure

Appalachians suffer from disproportionately high rates of chronic disease. Employee absences for medical reasons can be a major drain on productivity and good preventive health care inevitably means less chronic illness and fewer sick days. Also, access to affordable, quality health care can be a major consideration when considering where to locate a new business, a branch office, a new plant, etc., and therefore can impact the economic vitality of the Region. Although Appalachian communities have improved the health of their citizens through expanded access to quality health-care services, affordability remains a problem. Additionally, there are significant challenges related to manpower shortages and persistent health-care problems in isolated and distressed communities. The Centers for Disease Control (CDC) and the National Cancer Institute (NCI) have committed funds to special initiatives in Appalachia in recent years as a result of ARC advocacy. ARC intends to continue developing its relationships with the CDC and NCI to focus on chronic diseases such as diabetes, cancer, and heart disease.

In 2008, ARC will:

- Identify health care delivery gaps in chronic diseases, oral health, mental health, and substance abuse.

- Continue partnerships with the CDC, medical centers, and health care organizations to address gaps through screening, prevention, and control programs, especially in distressed counties.

- Increase the supply of health professionals in underserved communities through the J-1 Waiver program and by collaborating with the Region's medical schools and other health profession institutions.

- Support telemedicine as a means of universal access to comprehensive health care;

FY 2008 Goal 3a: Develop and Improve Infrastructure - Clean Water and Other Basic Services - $31 Million

Inadequate water and sewer service is still a critical issue in Appalachia—particularly in smaller, poorer communities. Without these basic services, business and industry are simply not interested in locating in the Region, and the health of citizens is endangered. Essential community facilities, a safe environment, and access roads are required for economic and community vitality. Supplemental funding authority in the ARDA is historically a tool for effective use of ARC funds in combination with Rural Development, EDA, HUD, EPA, DOT, and other national providers.

In FY 2008, ARC will:

- Develop basic infrastructure through highly leveraged and collaborative funding of projects, with an emphasis on essential clean water and waste disposal in distressed counties and promotion of cost-effective approaches to rural infrastructure design and financing.

- Support water resources management and cooperative solutions among providers.

- Promote multi-county approaches and partnerships with the private sector to manage solid waste disposal, water, and waste treatment.

- Support waste recycling and new disposal technologies.

- Advocate for the needs of remote rural areas in infrastructure policy formulation and funding.

- Use authority in surface transportation legislation and ARC funds to construct needed access roads.

- Support environmental quality, especially through cleanup of Brownfield areas.

FY 2008 Goal 3b: Develop and Improve Infrastructure - Improve Telecommunications Capacity - $5 Million

Appalachia must meet the President's goal for universal, affordable access to modern telecommunications. Businesses in the Region must also be able to make use of this tool through business solutions that increase productivity and market access. Unfortunately, there is a growing gap in high-speed telecommunications between Appalachia and the rest of the country that is hindering economic growth. ARC has been involved with aspects of telecommunications development in the Region for many years, ranging from early work with NASA satellite capabilities to distance learning projects reaching rural areas with new educational and health care technology. In recent years, ARC has maintained a regional initiative to promote broadband Internet access and e-commerce applications. Primary national funders of telecommunications—FCC, RUS, NTIA, EDA, - are seen as partners with the Commission in assisting Appalachian

communities. ARC has also collaborated with TVA in this area. The specific focus of ARC efforts is to prepare the groundwork and develop community readiness to make use of other resources effectively.

In FY 2008, ARC will:

- Expand private sector telecommunications infrastructure through advocacy, knowledge-sharing, and targeted collaborative funding that facilitate aggregation of demand in rural areas. Aggregation of demand is the key to marketing rural communities to broadband providers. In some cases, direct investment in services may be necessary as a precursor to private sector investment.

- Continue to provide regional workshops and training in e-commerce and e-government applications to make full use of telecommunications capacity where it is available. ARC will work jointly whenever possible with the Small Business Administration, National Business Incubator Association, Industrial Development Authorities, Chambers of Commerce, Local Development Districts, Small Business Development Centers, and other organizations that promote IT sector development.

- Assist local strategic planning to identify gaps, assess demand, and establish priorities as a way to guide orderly and effective development of infrastructure and applications.

- Continue to partner with Microsoft and the EBay Foundation to distribute hardware and software throughout the Region.

Major Program:
Appalachian Development Highway System

Congress expressly created the Appalachian Development Highway System (ADHS) to provide economic growth opportunities for the residents of the Region—the same benefits afforded the rest of the nation through the construction of the Interstate Highway System, which largely bypassed the Region due to its rugged terrain. The program has been reauthorized under the Safe, Affordable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU.) ADHS funding is authorized from the Highway Trust Fund at $470 million per year from 2005 through 2009, with additional funding for portions of some ADHS corridors that have been identified has high priority projects.

Table 8 Appalachian Development Highway System $470M for FY 2008			
General Goal	**Long-Term Performance Measure**	**Short Term Performance Measures**	**Expected Benefits**
Goal 4: Build the Appalachian Development Highway System to Reduce Isolation **Strategy:** Complete the ADHS	Complete the ADHS by 2021 For every dollar invested, $1.10 in increased travel efficiency benefits	Open 25 miles of the ADHS to traffic	Enhanced economic competitiveness Reduced isolation and improved regional access

The Appalachian Regional Development Act of 1965 as amended authorized the Commission to construct the Appalachian Development Highway System (ADHS), a 3,090-mile road system, with assistance from the Secretary of Transportation as a highway system that supplemented the Interstate System and other federal-aid highways programs. Congress authorized this initiative because it recognized that regional economic growth 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. The ADHS was designed to link Appalachia with the US interstate system. New jobs have been created as businesses have located along the system. Substantial time savings have occurred as isolation is reduced, and crash and injury rates have dropped as much as 60 percent as two-lane roads are replaced by modern and safe four-lane thoroughfares.

In 1998 ARC completed a study to objectively measure, in retrospect, the extent that completed portions of the ADHS had contributed to the Region's economy. The study found the ADHS has been instrumental in creating thousands of new jobs and generating economic benefits that will exceed highway construction cost and maintenance cost by more than a billion dollars. The ADHS corridors generate economic development benefits in the Region by improving the competitive position of existing and new industries through lower transportation costs and higher productivity. In addition, the new corridors will increase access to health care, education, and cultural amenities that improve the quality of life in the Region they serve and will indirectly boost labor productivity.

Moreover, the corridors increase roadside business and significantly boost the opportunities for tourism development in the Region through improved access. The ADHS corridors improve travel efficiency by reducing travel time, lowering vehicle-operating costs, and reducing the number of accidents. These efficiencies are the result of:

- An increase in the number of lanes and lane and shoulder widths,

- Improved grades and road conditions with fewer curves,

- Restricted access and egress and more freeway miles,

- Overall, higher operating speeds, and

- An increased emphasis on highway safety improvements.

The study determined that over the life of the ADHS, each dollar invested is expected to result in $1.32 in economic benefits and $1.10 in travel efficiency benefits.

Almost 82 percent (2,528 miles) of the total 3,090 miles of the ADHS authorized by Congress for construction are open to traffic, and another 116.8 miles are under construction. The remaining 455 miles are in the location or final design stages. Figure 9 indicates the location of completed and uncompleted sections. The Commission continues its strong commitment to complete the ADHS, the centerpiece of ARC's strategic plan for the Region. Table 3 and Figure 5 on page 19 show the progress by state on the system and the overall status of the ADHS through FY 2006.

The Safe Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU) authorized $470 million annually out of the Highway Trust Fund for each of the years 2005 through 2009 for construction of the ADHS and local access road projects. This yields dependable and substantial source of funding toward the completion of the Appalachian Development Highway System.

The ARC 2002 cost-to-complete study estimated the federal share of the eligible work to complete the ADHS at $6.2 billion in year 2000 dollars. The 2002 cost-to-complete study does not include the cost of the additional 65 miles added to the system in 2004. During FY 2007, the Commission and the Federal Highway Administration are cooperating with the member states to complete a new cost-to-complete study to be delivered in 2008.

Figure 9

APPALACHIAN DEVELOPMENT HIGHWAY SYSTEM

September 30, 2006
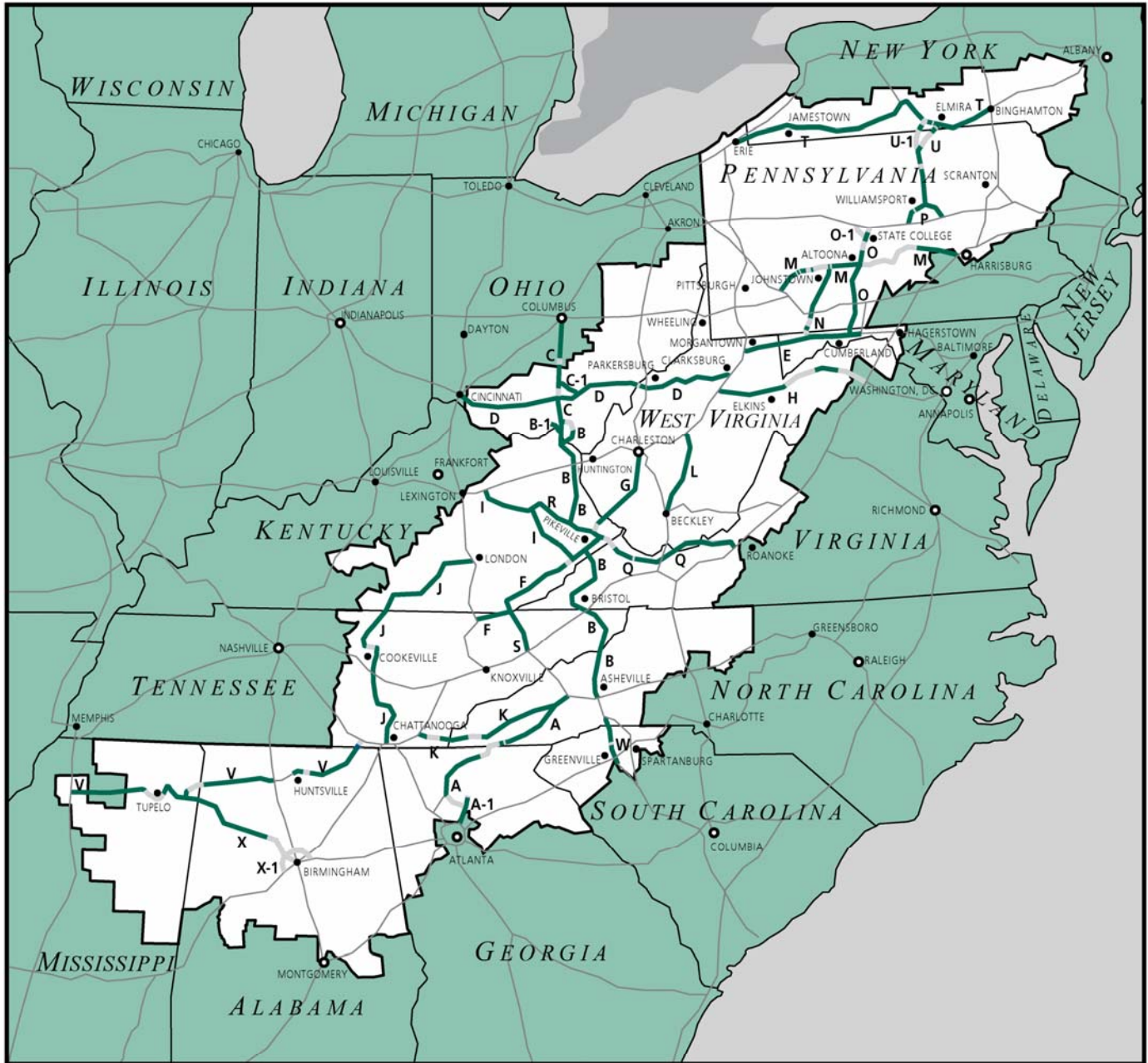
Section 201(a) of the ARDA authorized the construction of up to 1,400 miles of local access roads to complement the ADHS by providing new or improved access to local areas. A state may spend a portion of their ADHS funds or Area Development funds each year on access to industrial and commercial sites to create/retain jobs as well as provide access to recreational areas, educational facilities, health care facilities, residential areas, and timber access areas.

The ADHS program is a major factor in the Commission's success in reducing the Region's isolation and providing mobility and access to its residents. It is an essential complement to the Commission's Area Development Program.

FY 2008 Initiative: Support Completion of the ADHS - $470 Million from the Highway Trust Fund

The economic impetus to complete the system has never been more compelling. A modern system of highways is an essential first step toward fostering economic growth and enabling Appalachia to become a significant contributor to the national economy. Completion of the ADHS will permit the nation to realize the system-wide efficiencies of linking with the interstate highway system and the nation's intermodal transportation networks. Appalachia's strategic location between the eastern seaboard and the Midwest enhances the national value of the ADHS as a transportation asset to channel increasing domestic and international freight traffic between metropolitan centers and trade gateways. Forecasts of national freight demand over the next ten to twenty years by the U.S. Department of Transportation underscore the potential of the ADHS to help relieve congestion along major transportation routes and help develop new and more efficient freight flows to trade gateways. During FY 2006, the Commission and the Federal Highway Administration are cooperating with the member states to complete a new cost-to-complete study to be delivered in 2007. The cost-to-complete study, normally done every five years, guides the allocation of ADHS funds allocations to the states to complete the system.

In FY 2008, ARC will:

- Continue to build the ADHS in close cooperation with state and federal partners as Highway Trust Fund financing becomes available.

- Consider any necessary changes in terminal points or alignments within the system.

- Finalize the cost-to-complete estimates and status reports for the ADHS.

Appalachian Regional Commission
Salaries and Expenses

The following summarizes the total request for salaries and expenses in 2008, compared with prior years.

Salaries and Expenses
(Thousands of dollars)

	2006 Actual*	2007 Budget	2008 Request	Change
Appropriation	4,997	5,437	5,597	160

* Reflects rescission

The requested totals for FY 2008 are based on maintaining staffing levels in effect since FY 2004 and to implement the base program of $65 million.

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 Table 9. Appendix E is an organizational chart showing the federal and non-federal staff organization of the Commission.

Table 9
Salaries and Expenses
(Thousands of dollars)

	2006 Actual	2007 Budget	2008 Request	Change
1. Federal Co-Chair				
Immediate Staff	1,242	1,487	1,503	16
Inspector General	539	472	486	14
Subtotal:	1,781	1,959	1,989	30
2. Commission Administrative Expenses *(50% federal contribution)*	3,216	3,478	3,608	130
Total Request:	**4,997**	**5,437**	**5,597**	**160**

As required by 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 $1.503 million for the Office of the Federal Co-Chair provides for an immediate staff of eight positions, with related benefits, rent, 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 provided in the ARDA; serving as the Commission's liaison to the Congress and the Administration; representing the Administration in working with the Member states to formulate regional strategies and other policy; and reviewing projects for final approval by the Federal Co-Chair.

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. For certain investigations and legal issues, the OIG uses reimbursable agreements and Memoranda of Understanding with other federal OIGs.

The OIG requests $486,000 for the expenses of a three-person staff, related expenses, 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. Audit activities enable the Commission to produce audited financial statements, as other agencies are required to do under the Accountability of Tax Dollars Act. 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.

Tables 10 and 11 show object class estimates for the request for the Offices of the Federal Co-Chair and the Inspector General, respectively.[21]

---

[21] Tables 10 and 11 reflect rescission of $66,520 in 2006.

Table 10 - Federal Co-Chair's Office Administrative Expenses
(Thousands of dollars)

	2006 Actual	2007 Budget	2008 Request	Change
Personnel Compensation	824	975	1,002	27
Personnel Benefits	228	257	260	3
Travel & Transportation	85	85	95	10
Rent, Communications	81	125	100	-25
Printing	1	5	5	0
Services	7	20	20	0
Supplies	15	10	11	1
Equipment	1	10	10	0
Total:	**1,242**	**1,487**	**1,503**	**16**

Table 11 - Inspector General's Office Administrative Expenses
(Thousands of dollars)

	2006 Actual	2007 Budget	2008 Request	Change
Personnel Compensation	270	278	295	17
Personnel Benefits	38	41	44	3
Travel & Transportation	4	9	9	0
Rent, Communications	25	36	30	-6
Printing	1	1	1	0
Services	199	100	100	0
Supplies	2	2	2	0
Equipment	--	5	5	0
Total:	**539**	**472**	**486**	**14**

Commission Non-Federal Operating Expenses

Annual appropriations for 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 a Treasury trust fund account. Together with prior year balances, these resources finance all non-federal Commission operating expenses.

The Commission's authorizing 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. Table 12 shows the plan for financing Commission operations.

Table 12 - Financing for ARC Non-Federal Operating Expenses
(Thousands of dollars)

	2006 Actual	2007 Budget	2008 Request	Change
State Contribution	3,216	3,478	3,608	130
Federal Contribution	3,216	3,478	3,608	130
Prior year balances used	0	0	0	0
Total:	**6,432**	**6,956**	**7,216**	**260**

The request would provide minimum operations to support regional planning and programs at the requested level and to manage the approximately 2,000 ARC grants in force. Staff operations have included a significant effort by ARC to assure performance accountability and strong financial management, as well as to implement e-government business processes.

Each year, the states and the Federal Co-Chair must approve the Commission's operating budget. Following completion of appropriations action, final non-federal staffing 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 estimates of amounts by object class for 2008 in Table 13. [22]

The ARC management goal remains to develop effective and efficient management systems and processes and to promote a high-performance organizational culture supporting 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.

Table 13 - ARC Non-Federal Operating Expenses
(Thousands of dollars)

	2006 Actual	2007 Budget	2008 Request	Change
Personnel Compensation	3,693	4,149	4,267	118
Personnel Benefits	1,732	1,483	1,794	311
Travel & Transportation	75	89	100	11
Rent, Communications, Utilities	531	743	650	-93
Printing	20	51	37	-14
Services	276	317	284	-33
Supplies	59	79	60	-19
Equipment	47	45	23	-22
Total:	**6,432**	**6,956**	**7,216**	**260**

[22] Table 13 reflects rescissions of $66,520 in 2006.

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 few 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 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 remains in effect for some staff, and that plan will continue to require periodic infusions of funds to remain actuarially sound. In recent years, the poor performances of investment markets have from time to time required additional funding significantly above plan assumptions and the assumptions in this budget estimate.

APPENDIX A
President's Management Agenda

The PMA is a sound agenda for government reform that resonates with the Commission's long-standing focus on responsiveness and effectiveness. As a small partnership organization, ARC has capitalized on its unique advantages for 40 years:

- The intrinsic and active involvement of state members in investment and operating policy, as well as the use of public-private advisory groups, assures a high degree of responsiveness to governments, grantees, citizens, and changing conditions in Appalachia.

- Sharing operating costs between state funds appropriated by state legislatures and federal funds appropriated by Congress ensures that the Region's economic well-being is coordinated with state and national economic policy.

- Its small size leads to greater levels of flexibility and communication, and provides for a simplified internal control structure.

- Co-financing of non-federal operating costs by the member states and the federal appropriation introduces a high degree of budgetary discipline and oversight.

- The organization of non-federal technical and professional staff under a CEO appointed by the Federal Co-Chair and the member states provides a corporate-style structure for command and control and enhances stability as individual state and federal Commission members change.

- The nature of the agency provides greater management flexibility than that available to executive agencies under federal personnel and administrative policies.

While ARC's small, specialized organization works well to address its mission, it also imposes certain limitations. Increasing external demands for detailed planning and compliance reporting seldom distinguish between micro-agencies and very large executive agencies. For example, ARC can and does provide appropriate state-of-the-art IT security and testing envisioned by FISMA and similar requirements under an internal IT security plan. However, the formal internal studies, documentation, and compliance reporting primarily intended for large agencies are inordinately expensive and disruptive in an organization with an IT staff of one or two. The management challenge to ARC is to respond to such requirements within its resources.

Human Capital

ARC recruits successfully from both the private and public sectors to fill its nonfederal vacancies. The Appalachian Act specially provides that federal employees leaving a federal agency may

accept a nonfederal ARC position and retain federal employee benefits. ARC nonfederal human resource policies also provide employment packages that are reasonably competitive with the private sector. For example, ARC instituted as early as 1992 a banded salary structure with performance-based pay incentives very similar to those that the National Academy of Public Administration (NAPA) recommended in 2004 for reforming federal compensation, and that the Administration is now implementing in some major departments of the executive branch. ARC also has an excellent record of employee retention. Succession planning for senior management and technical staff is an issue for relatively few positions, and it can be addressed on a predictable basis. The Commission has also gradually adapted staff skills and makeup in anticipation of increased use of technology in business processes. The state and federal members expect a high degree of technical competence, so the organization values and promotes employee training and professional development in relevant program fields.

Competitive Sourcing

ARC has only eleven federal positions, all performing work in direct support of the Office of the Federal Co-Chair and the OIG. Two of these positions are PAS and two are Schedule C. ARC's inventory of federal positions is posted on the agency website. While not directly relevant to FAIR, it is important to note that ARC consistently employs competitive sourcing in major procurement, especially in its research business function.

Financial Performance

Unlike many small agencies, ARC maintains written guidelines for financial management and internal control, and has moved aggressively in recent years to update core accounting and financial management functions. During FY 2003, the Commission engaged KPMG to review and reassess accounting policies. ARC also engaged another accounting firm to conduct an audit in accordance with the recommended standards. In addition, ARC conducts routine assessments of internal control procedures in keeping with FMFIA. Although the Accountability of Tax Dollars Act does not technically apply to ARC because it is not an executive agency under U.S.C. 5 and 31, the Commission is prepared to produce timely and accurate audited financial statements as directed by OMB. ARC included timely audited statements in the Commission's Performance and Accountability Reports for fiscal years 2003, 2004, 2005, and 2006. Both contained an unqualified opinion from the independent auditor. The Commission OIG has been closely involved in all these developments in financial management.

Budget and Performance Integration

ARC moved promptly in 1995 to complete a strategic plan under GPRA based on extensive policy meetings, field hearings, workshops, and consultancies. Concurrently, ARC worked with member states, some of which already had performance measurement systems in place, to design and conduct performance assessments for GPRA reporting. The Commission formally submitted annual performance plans and reports as part of the budget for the 2003, 2004, 2005, and 2006 budget cycles. During FY 2002 and 2003, ARC trained key staff in current developments in performance measurement, continued discussions with the state and federal policymakers, and

examined measurements used by other agencies. The Federal Co-Chair then initiated additional discussions with OMB to further strengthen measurement for the 2005 cycle and has incorporated those changes to date. The Commission also engaged outside experts to advise on integration of budget and program performance. ARC has prepared a new strategic plan for the period 2005-2010, along with additional performance measurement protocols. This performance-based budget request is based explicitly on the strategic plan.

E-Government

The commission does not invest in any IT systems that qualify as capital assets. In addition, IT systems are not federal systems to the extent that the member states finance half the cost of such Commission operating expenses, and they must collectively approve operational budgets along with the Federal Co-Chair. ARC accordingly seeks to apply appropriate and affordable off-the-shelf technology to improve services in all its business processes. For example, an on-line grant information system now provides real-time detailed information to staff professionals and state partners. A revamped web site provides all major public documents in electronic form, as well as technical resource that make staff expertise readily available to community leaders in Appalachia. Virtually all vendor and grantee payments are electronic. An on-line time and attendance system simplifies HR management, eliminates paperwork, and interfaces directly and accurately with the USDA National Finance Center for payroll purposes. ARC fully participates in the Treasury GOALS I and GOALS II on-line reporting systems and routinely receives a "green" rating from FMS/Treasury for reporting accuracy and timeliness. The Commission continues to monitor major cross-agency information technology projects, particularly Grants.gov and eTravel. ARC obviously does not have the resources or mission to absorb the initial development costs of such large-scale cross-agency products, but will be able to deploy them expeditiously when they are available and if client costs are not prohibitive. The Commission is also participating in the government-wide HSPD-12 initiative.

APPENDIX B
Designated Distressed and At-Risk Counties

The Commission has targeted special assistance to severely distressed counties in the Region since 1983. For the 2007 program year, there are 78 counties so designated, and they receive a special allocation of one-third of all the ARC grant funds allocated to the states. States invest additional funds in these areas from their allocations under the Area Development program. At the same time, ARC allows up to 80 percent participation in grants in the severely distressed areas, 50 percent in areas considered transitional, 30 percent in areas that are considered competitive, and it virtually eliminates funding to areas that have attained at least parity with the rest of the country.

In 2005, the Commission further designated counties that are considered at risk of becoming severely distressed. This policy acknowledges that, while the distressed county designations are important for focusing on the counties most clearly in need of pre-developmental assistance, there is also a need to monitor the economic performance of areas that are relatively disadvantaged but not considered severely distressed.

In FY 2007, the Commission adopted a new policy for the economic classification to its counties. While the previous system is valid, ARC now utilizes an index-based county economic classification system which more closely aligns with the agency mission to achieve economic parity with the nation and is easily computable on an annual basis. The index monitors the economic status of the Appalachian counties relative to all counties in the nation. The Commission's previous distress measures: the three-year average unemployment rate, the per capita market income, and the poverty rate are used to compute the index.

Figure 1 is a map of the Region that shows the location of distressed, at-risk, transitional, competitive, and attainment counties for fiscal year 2007.

Distressed Counties

Distressed counties are determined by taking the worst 10 percent of the nation's counties and then identifying the Appalachian counties within this part of the worst quartile group.

For FY 2007, 78 counties, or 19 percent of the 410 counties in the Appalachian Region, are designated as economically distressed. Designations for FY 2008 will be made in February of 2007. Counties designated for FY 2007 are as follows:

> **Alabama** (4) - Franklin, Hale, Macon, and Pickens
>
> **Kentucky** (34) - Bell, Breathitt, Carter, Casey, Clay, Clinton, Cumberland, Elliott, Estill, Floyd, Harlan, Jackson, Johnson, Knott, Knox, Lawrence, Lee, Leslie, Letcher, Lewis, Magoffin, Martin, McCreary, Menifee, Monroe, Morgan, Owsley, Perry, Powell, Rockcastle, Russell, Wayne, Whitley, and Wolfe

Mississippi (10) - Benton, Chickasaw, Choctaw, Clay, Kemper, Montgomery, Noxubee, Panola, Webster, and Winston

North Carolina (1) - Graham

Ohio (4) - Athens, Meigs, Pike, and Vinton

Pennsylvania (1) - Forest

Tennessee (7) - Cocke, Fentress, Grundy, Hancock, Johnson, Pickett, and Scott

Virginia (1) - Dickenson

West Virginia (16) - Barbour, Braxton, Calhoun, Clay, Fayette, Gilmer, Lincoln, Logan, Mason, McDowell, Mingo, Roane, Summers, Webster, Wirt, and Wyoming

At-Risk Counties

ARC recognizes and closely monitors transitional counties that are "At Risk" of distress. At-risk counties are identified by taking the residual of the worst quartile counties and designating them accordingly.

For FY 2007, 78 counties have been designated as at-risk:

Alabama (8) **-** Bibb**,** Clay, Coosa, Fayette, Lamar, Marion, Randolph, and Winston

Kentucky (11) - Adair, Bath, Edmonson, Fleming, Green, Hart, Laurel, Lincoln, Pike, Pulaski, and Rowan

Mississippi (10) - Alcorn, Calhoun, Lowndes, Marshall, Monroe, Oktibbeha, Prentiss, Tippah, Tishomingo, and Yalobusha

North Carolina (6)—Alleghany, Cherokee, Mitchell, Rutherford, Swain, and Yancey

Ohio (9) **-** Adams, Gallia, Guernsey, Jackson, Lawrence, Monroe, Morgan, Noble, and Scioto

Pennsylvania (1) - Fayette

South Carolina (1) - Cherokee

Tennessee (12) - Bledsoe, Campbell, Carter, Claiborne, Clay, Grainger, Jackson, Meigs, Morgan, Pickett, Union, and White
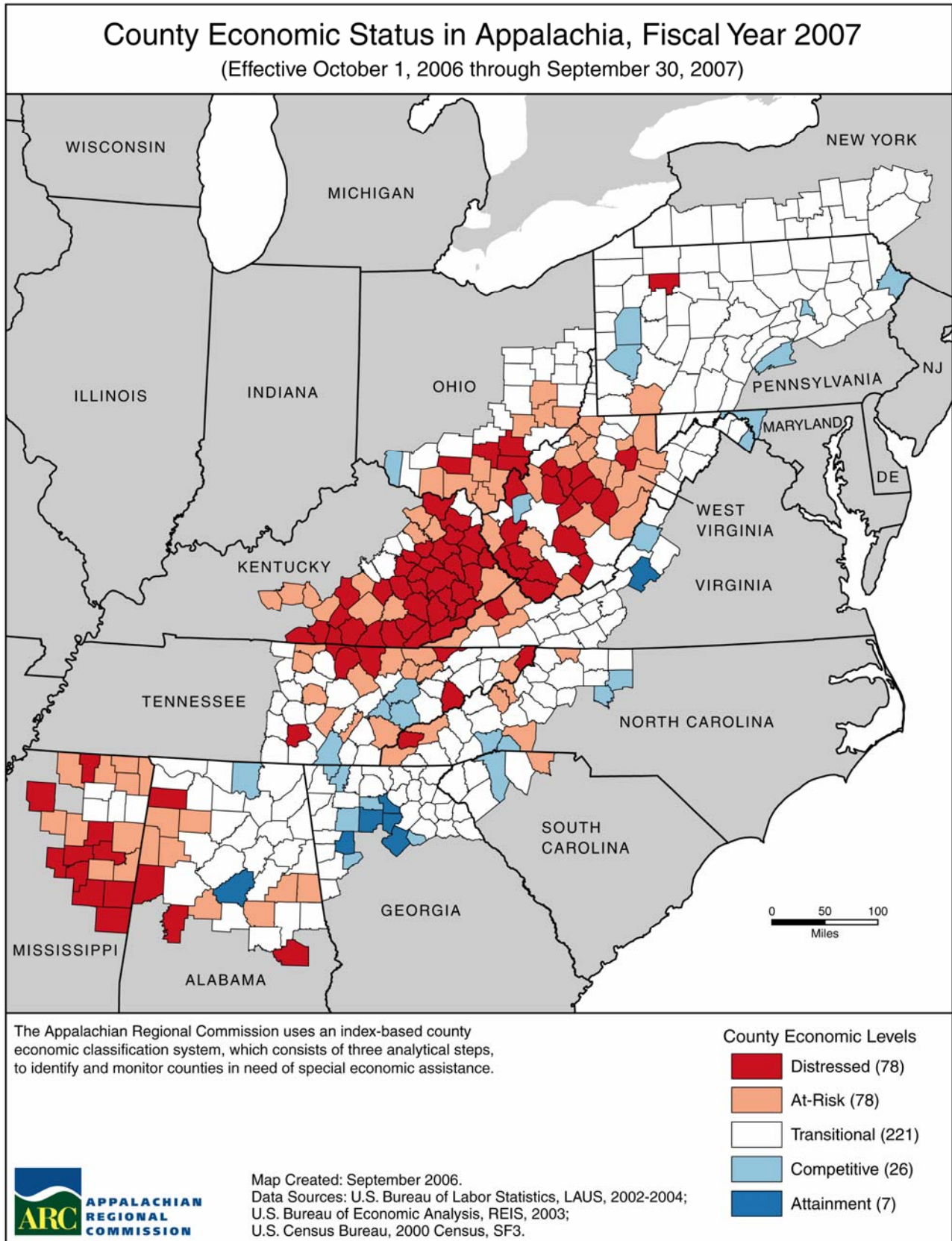
Virginia (4) - Buchanan, Lee, Russell, and Wise

West Virginia (16) - Boone, Doddridge, Jackson, Lewis, Mercer, Nicholas, Pocahontas, Preston, Randolph, Ritchie, Taylor, Tucker, Tyler, Upshur, Wayne, and Wetzel

Transitional, Competitive, and Attainment Counties

The second and third quartiles are combined to provide the designation of Transitional counties. Attainment counties are determined by identifying the best 10 percent of counties, and Competitive counties are determined by taking the residual of the top quartile.

Figure 1

County Economic Status in Appalachia, Fiscal Year 2007
(Effective October 1, 2006 through September 30, 2007)

The Appalachian Regional Commission uses an index-based county economic classification system, which consists of three analytical steps, to identify and monitor counties in need of special economic assistance.

County Economic Levels

- Distressed (78)
- At-Risk (78)
- Transitional (221)
- Competitive (26)
- Attainment (7)

Map Created: September 2006.
Data Sources: U.S. Bureau of Labor Statistics, LAUS, 2002-2004;
U.S. Bureau of Economic Analysis, REIS, 2003;
U.S. Census Bureau, 2000 Census, SF3.

APPALACHIAN REGIONAL COMMISSION

APPENDIX C
Project Performance Review

ARC's project performance measurement program was designed to accomplish two primary objectives. The first is compliance with the GPRA in measuring the outputs and outcomes of ARC projects. The second objective is creation of a process that allowed for both feedback from grantees and analysis of funded projects in an effort to help improve programming.

Measuring project performance involves three components:

- Project data collection and analysis through use of a management information system;
- Site visits to validate actual outcomes of a sample of projects; and
- Independent project evaluations.

These three components together support GPRA reporting and compliance, as well as help ARC glean "lessons learned" from previously funded grants. By structuring the program in this manner, ARC has made the GPRA a management tool and a valuable resource in determining program effectiveness.

Performance results for each of ARC's goal areas across recent years are presented on page C-3.

SUMMARY OF ACHIEVEMENTS
Performance Goals and Results for FY 2006 Projects

| ANNUAL PERFORMANCE GOAL	FISCAL YEAR 2006 INTERMEDIATE ESTIMATES	RESULTS ACHIEVED
Jobs and Income		
Key Outcome Goal: 20,000 jobs created or retained	28,866 jobs created or retained	Exceeded goal
Leveraging Goal: Achieve a 4:1 leveraged private investment to ARC investment ratio for projects in Goal 1	Achieved a 7:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in Goal 1	Directed 46% of funds*	Met 92% of goal
Competitiveness		
Key Outcome Goal: 20,000 students/ trainees with improvements	17,578 students/trainees with improvements	Met 88% of goal
Matching Goal: Achieve a 1:1 non-ARC to ARC investment ratio for projects in Goal 2	Achieved a 2:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in Goal 2	Directed 71% of funds*	Exceeded goal
Infrastructure		
Key Outcome Goal: 20,000 households served	30,148 households served	Exceeded goal
Matching Goal: Achieve a 2:1 non-ARC to ARC investment ratio for projects in Goal 3	Achieved a 5:1 ratio	Exceeded goal
Targeting Goal: Direct 50% of grant funds to benefit distressed counties or areas for projects in Goal 3	Directed 70% of funds*	Exceeded goal
Highways		
Key Outcome Goal: 25 miles of the ADHS opened to traffic	30.8 miles of the ADHS opened to traffic	Exceeded goal

* ARC exceeded its overall goal of investing 50% of total ARC nonhighway funds in projects that benefit distressed counties or areas. Project funds are included if the project primarily or substantially benefits distressed counties or areas.

LEVERAGING, MATCHING, AND TARGETING SUMMARY for All ARC Nonhighway Projects Fiscal Year 2006		
Leveraged private investment	$713,787,186	12:1 ratio of leveraged private investment to ARC investment
Non-ARC matching project funds	$194,232,169	3:1 ratio of non-ARC project investment to ARC project investment
ARC project funds targeted to distressed counties or areas	$37,955,658*	61% of total ARC project funds directed to projects that benefit distressed counties or areas*

*Project funds are included if the project primarily or substantially benefits distressed counties or areas.

Progress toward ARC Strategic Plan Ten-Year Performance Goals
Fiscal Years 2005–2014
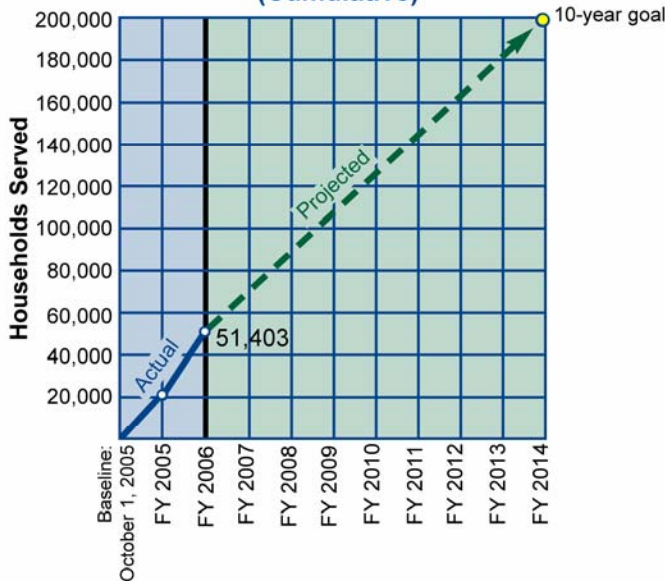
Goal 1: Jobs Created or Retained (Cumulative)
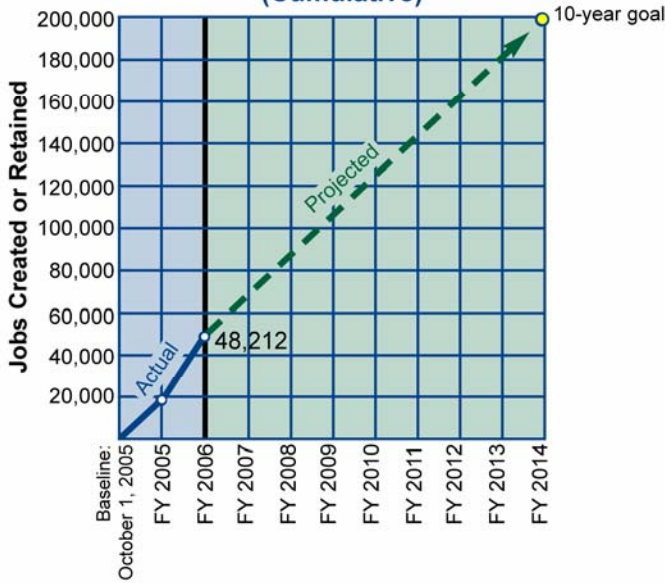
Ten-Year Performance Goal:
200,000 jobs will be created or retained.
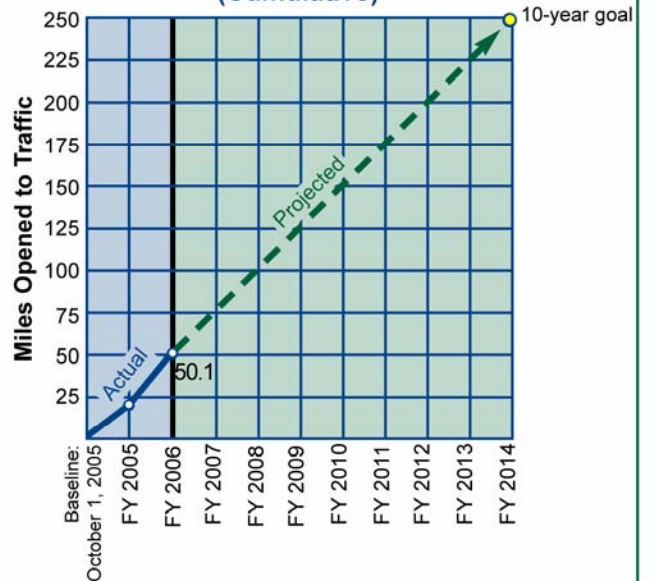
Goal 2: Students/Trainees with Results (Cumulative)
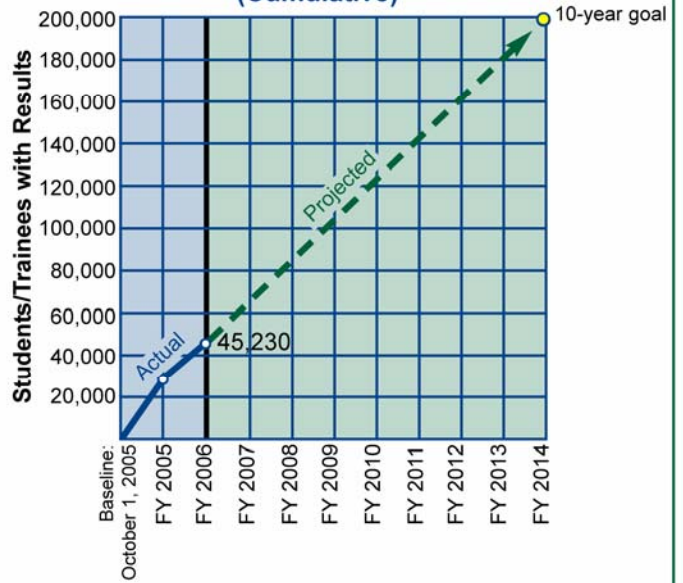
Ten-Year Performance Goal:
200,000 citizens will benefit from enhanced education and job-related skills.

Goal 3: Households Served (Cumulative)

Ten-Year Performance Goal:
200,000 households will be served with new or improved water and sewer infrastructure.

Goal 4: ADHS Miles Opened to Traffic (Cumulative)

Ten-Year Performance Goal:
250 miles of the Appalachian Development Highway System will be opened to traffic.

APPENDIX D
ARC Public and Private Partnerships

The Commission has consistently carried out the directive in the Appalachian Regional Development Act and the Strategic Plan to collaborate with both public agencies and the private sector in carrying out the agency mission. This Appendix describes some of the more recent cooperative arrangements that ARC has formed in the last several years.

Capacity-Building

Capacity building and community leadership is an element of all the Commission's strategic goals. The Commission has long supported community leadership and development capacity-building as a critical foundation for Appalachia's sustained long-term success. This work has involved several private organizations as well as the states and other public entities. Because of ARC's track record in this area, the Pew Partnership for Civic Change invited ARC to be a national partner in launching in Leadership Plenty (LP) Training Program, including initiatives in Mississippi and West Virginia. The LP program trains the trainers in local problem-solving and leadership. Since 2001, the Claude Worthington Benedum Foundation has partnered with ARC's West Virginia distressed county assistance program to increase community leadership capacity and strategic economic and community development planning.

Goal 1: Job Opportunities and Income

The Commission has reached out vigorously in connection with it efforts to promote capital formation, business formation, and entrepreneurship in Appalachia.

At the federal level, ARC has a long history of cooperation and involvement with agencies supporting business development in Appalachia. Most recently, ARC reached out to other agencies to support development of entrepreneurship in the Region. ARC held joint conferences with the U.S. Treasury Department to promote Appalachian community participation in the New Markets Tax Credit program, and served as a reader/reviewer for CDFI Fund and New Markets Tax Credit Program. The Department of Education sponsored ARC's Springboard Youth Entrepreneurship Award program. The US Small Business Administration joined with ARC in discussions on strategic direction of the $180 million New Markets Venture Capital Company program. The U.S. Department of Agriculture partnered with ARC to fund a value added agriculture grant competition. TVA co-sponsored conferences on rural business incubation. And ARC co-sponsored with the National Endowment for the Arts (NEA) a national conference on arts and economic development, *Building Creative Economies*. ARC and NEA also co-published best practice white papers on that topic. Philanthropic partners joined this effort as well. ARC also partnered with the Overseas Private Investment Corporation (OPIC) to promote international sales opportunities for Appalachian businesses, and with the Department of Commerce's U.S. and Foreign Commercial Service to help small and medium sized firms in Appalachia enter new international markets for their products. Throughout the Region, business development revolving loan funds and loan guarantee programs from EDA, Rural Development, ARC, CDBG, Treasury, and SBA are housed

together in lending intermediary organizations to provide capital for hundreds of firms each year. Local banking institutions typically participate in these business loan programs.

Financial institutions partnered with ARC on a number of efforts to develop entrepreneurship in Appalachia. The Federal Home Loan Bank (FHLB) in Atlanta and member banks invested $1.8 million a five-state New Markets Opportunity Fund and co-sponsored ARC/Treasury conferences on the New Markets Tax Credit program in Appalachia. FHLB in Cincinnati supported a *Tools for Entrepreneurship* conference and best practice publication with ARC, and signed a Memorandum of Understanding (MOU) with ARC to support development finance organizations in a three-state Region. Similarly, the Federal Reserve Banks of Richmond and of Cleveland co-sponsored Appalachian New Markets Workshops and a publication *Capitalizing on Rural Communities*. The Federal Deposit Insurance Corporation (FDIC) in Atlanta helped promote ARC's four regional development finance conferences. Wachovia/First Union committed to invest $5M in underserved portions of Appalachia in 2000 and was a participant on the ARC Development Finance Steering Committee

Foundations also participated in ARC's multi-year regional entrepreneurship initiative. The Ford Foundation helped fund the *Tools for Entrepreneurship* publication. The Kauffman Foundation co-funded ARC's publication on national best practices in youth entrepreneurship development, and was a sponsor of and selection committee member of the Springboard Youth Entrepreneurship Award program. The Benedum Foundation co-funded the *Capitalizing on Rural Communities* publication. ARC has been a participant in the Kellogg Foundation rural policy networks initiative, and has co-funded identified grantees. The Sapelo Foundation joined with ARC to provide grant and administrative support to implement the Northeast Georgia Philanthropy Forum. The Hitachi Foundation, the Mary Reynolds Babcock Foundation, the Mott Foundation, the Z. Smith Reynolds Foundation, and Levi Strauss Foundation provided grant support for one or more ARC projects to develop entrepreneurship. ARC participated with the Ms. Foundation for Women and 13 other funding organizations to support a grant pool targeting women entrepreneurs in Appalachia. ARC supported formation of a new Foundation for Appalachian Ohio, which in turn ha**s** provided support for the ARC Entrepreneurship Conference and has made numerous grants to projects in Appalachian Ohio. ARC brokered a relationship among the Rural Development and Community Foundations Initiative (RDCFI) and ARC related community foundations in Appalachian New York and Alabama. ARC reviewed Appalachian related applications submitted to The National Rural Funders Collaborative for the 2001 funding cycle, and the Collaborative provided grant support to several community-based organizations in Appalachia. The Hearst Foundation co-sponsored the Funders Forum in New York and West Virginia.

National associations have been recent partners with ARC as well. The National Commission on Entrepreneurship co-sponsored the ARC Springboard Youth Entrepreneurship Award. The National Business Incubation Association co-sponsored three conferences on rural business incubation and joined ARC in an Appalachian Mentor program. The Distributive Education Clubs of America (**DECA**) and the Future Farmers of America were co-sponsors of Springboard Youth Entrepreneurship Award. ARC has collaborated with the National Mining Association and the National Association of Homebuilders to promote the awareness of Appalachian suppliers to international buyers at their trade shows. During 2004 and 2005 the Commission partnered with the National Geographic Society on a significant geotourism project, the first of its kind, to identify

and map cultural, recreational, and other sites in Appalachia. The resulting National Geographic geotourism map of Appalachia was published nationally and internationally with over 1.3 million copies issued. Initial evaluation of the economic benefits to the areas highlighted in the map revealed an increase in tourism activity. As a result, in FY 2007, ARC collaborated with National Geographic on a second project which features multiple driving tours throughout the Region.

State and local public organizations, particularly the 72 local development districts and regional planning and development districts, actively sponsor and assist business development. Development districts are typically the managers of revolving loan funds from ARC, federal agencies, and the state governments.

Goal 2: Capacity of the People to Compete in the Global Economy

ARC's 40-year involvement with pioneering health and education programs in rural Appalachia have been successful largely as a result of cooperation with major partners like the Department of Health and Human Services (DHHS) and the Department of Education and the state departments of health and education, as well as partnerships with private organizations along the way at the national and community levels.

Federal agencies are still co-funders and administering agencies for many ARC-initiated health and education projects under long-standing MOUs. There have also been special collaborative efforts to assist agency missions in the Appalachian area under the ARC strategic plan. For example, the Department of Justice/Office of Juvenile Justice worked with ARC to provide a grant for an after-school and summer recreation program to a community-based organization in Appalachian Kentucky. The Department of Health and Human Services/Healthy Tomorrow's Program worked with ARC to support a community-based organization in eastern Kentucky. The Department of Education/21st Century Learning Center program cooperated with ARC to make grant funds available to another community-based organization in Appalachian Kentucky.

For several years, ARC and the Centers for Disease Control (CDC) have maintained a continuing relationship to address chronic diseases that disproportionately affect Appalachians. ARC and CDC Division of Diabetes Translation jointly funded a project in Appalachian distressed counties aimed at mobilizing communities to develop local strategies that best address quality of life for people with diabetes. By 2003, ARC had launched diabetes projects in 15 distressed counties. Beginning in FY 2002, the CDC Division of Cancer Prevention and Control and ARC and CDC have also jointly funded a project addressing cervical cancer in the Region by increasing outreach for Appalachian women who are rarely or never screened for cervical cancer. The National Health Service Corps and Substance Abuse and Mental Health Services Administration of DHHS collaborated with ARC in a regional conference on mental health and substance abuse at Meharry Medical College in Nashville. It was the first conference ever to focus on mental health and substance abuse problems in Appalachia.   In 2006, ARC partnered with the Federal Office of Rural Health Policy, to assist 26 distressed communities in designing and implementing programs to combat substance abuse.

Private-sector organizations have joined with ARC in a number of noteworthy education and health initiatives in Appalachia. The PowerUP Foundation and ARC executed a MOU in 2001 to

identify sites in rural distressed counties/areas where PowcrUP agreed to install and assist at least one computer technology center with a focus on youth in each ARC state. The 17 centers identified by the Commission received over $800,000 in equipment and services in FY 2002, and the continued AOL internet service provided is valued at over $100,000 per year. The Kellogg Foundation and the Phil Hardin Foundation awarded funds to help ARC assist in expanding and operating the Appalachian Higher Education Network. The Microsoft Foundation cooperated with ARC to provided support to the Buckhorn Family Life Center in Appalachian Kentucky. The Local Initiative Support Corporation (LISC) gave grant and in-kind support to implement several foundation workshops in Appalachia. The James Graham Brown Foundation made a substantial challenge grant to build a recreation/healthcare facility in Appalachian Kentucky. The Bill and Melinda Gates Foundation joined ARC as a funding partner with the West Virginia Library Commission to train public library staff in 27 distressed counties in the use of IT resources. ARC has also supported the implementation of the Dolly Parton Foundation's Imagination Library to improve reading skills of preschool children in several distressed counties of central Appalachia. First Book, which promotes reading among low-income families, worked with ARC to strengthen community based advisory boards, literacy training, and mentoring programs. The Utility Business Education Coalition and the American Association of Community Colleges sought and received ARC funding partnership to design and locate training for future utility workers in Georgia. Public utility, American Electric Power, partnered with ARC and the U.S. Department of Labor in a workforce training program.

Corporations have also been involved with ARC's regional efforts. Parametric Technology Corporation has provided over $24 million in software to high schools and colleges in Appalachia, and Eastman Corporation has provided co-funding for the ARC-sponsored Tennessee Appalachian Centers for Higher Education Program.

Goal 3: Infrastructure Development

At the federal level, ARC maintains memoranda of understanding (MOUs) with a range of federal agencies to help optimize coordination of resources in infrastructure development in Appalachia. Currently, MOUs with Economic Development Administration (EDA), the Department of Housing and Urban Development (HUD), the Tennessee Valley Authority (TVA), the Environmental Protection Agency (EPA), the Ohio EPA office, and Rural Development (RD), the Federal Highway Administration, and the U.S. Army Corps of Engineers provide for transfer of ARC approved projects and funding to the federal agency to administer, often in conjunction with its own project grants. Typically, the partner agency shares project review responsibility, provides engineering oversight, and otherwise administers ARC funds transferred to it. As appropriate in the past, ARC has also had similar arrangements with the Federal Railroad Administration (FRA), the Federal Aviation Administration (FAA), Oak Ridge National Laboratories, the Soil Conservation Service (now National Resource Conservation Service), the U.S. Forest Service, the National Park Service, the Office of Surface Mining (OSM), the National Endowment for the Humanities, and the National Endowment for the Arts.

Special collaborative initiatives have also been conducted with federal agencies. For example, ARC and EPA have a formal agreement that coordinates programmatic efforts to increase Appalachian

participation in EPA's brownfields program. Both ARC and EPA Regions 3 and 4 provided funding to the National Association of Local Government and Environmental Professionals (NALGEP) to carry out a series of training workshops on brownfields clean-up and redevelopment in the Appalachian Region. The initiative involved working with the Appalachian Development District Association, the National Association of Development Organizations (NADO), and the state chapters of the Municipal League of Cities. ARC is also a member of EPA's federal brownfields partnership. Another example of special collaboration was the partnership with EPA and HUD to provide special technical assistance in Appalachia for strategic planning and application development under the Empowerment Zone/Enterprise Community (EZ/EC) Program. For that initiative, ARC provided local capacity-building mini-grants. ARC was a member of the White House interagency working group on empowerment zones/enterprise communities in the early rounds of the program. ARC assisted the Department of Commerce/National Telecommunications and Information Administration (NTIA) by reviewing all Appalachian-related applications submitted to the NTIA for the 2002 funding cycle. ARC assists the Office for the Advancement of Tele-Health of the Department of Health and Human Services (OAT/DHHS) in a similar capacity. In addition, the Department of Agriculture/Rural Utilities Service cooperated with ARC to obtain funding for broadband service to a community based organization in Appalachian Kentucky.

At the state and local levels, organizations that control or influence resource utilization are involved in the ARC program. Various offices of state government are also closely involved in ARC development efforts, particularly the State CDBG offices that implement community development projects and the state revolving loan programs that administer EPA funds for construction of water and wastewater facilities. The 72 multi-county local development districts and planning and development commissions across the 13 states provide essential coordination of funding plans for projects in their areas.

The private sector has also partnered with ARC on special aspects of infrastructure development. The W.K. Kellogg Foundation, for example, joined with ARC to fund and implement the MIRA telecommunications initiative between ARC and Kellogg in Appalachian Ohio and Appalachian Pennsylvania. ARC is a participant in the Kellogg-sponsored National Rural Policy Development consortium. At the 2005 Appalachian Regional Commission meeting of the 13 state governors, the Microsoft Corporation made a $2 million commitment to provide telecommunications software for schools, community technology centers, nonprofits, and local agencies across the Region. Each of the 13 Appalachian states has received support to date. Building on the success of the Microsoft partnership, ARC partnered with the EBay Foundation in 2006 to provide hardware to underserved areas throughout the Region.
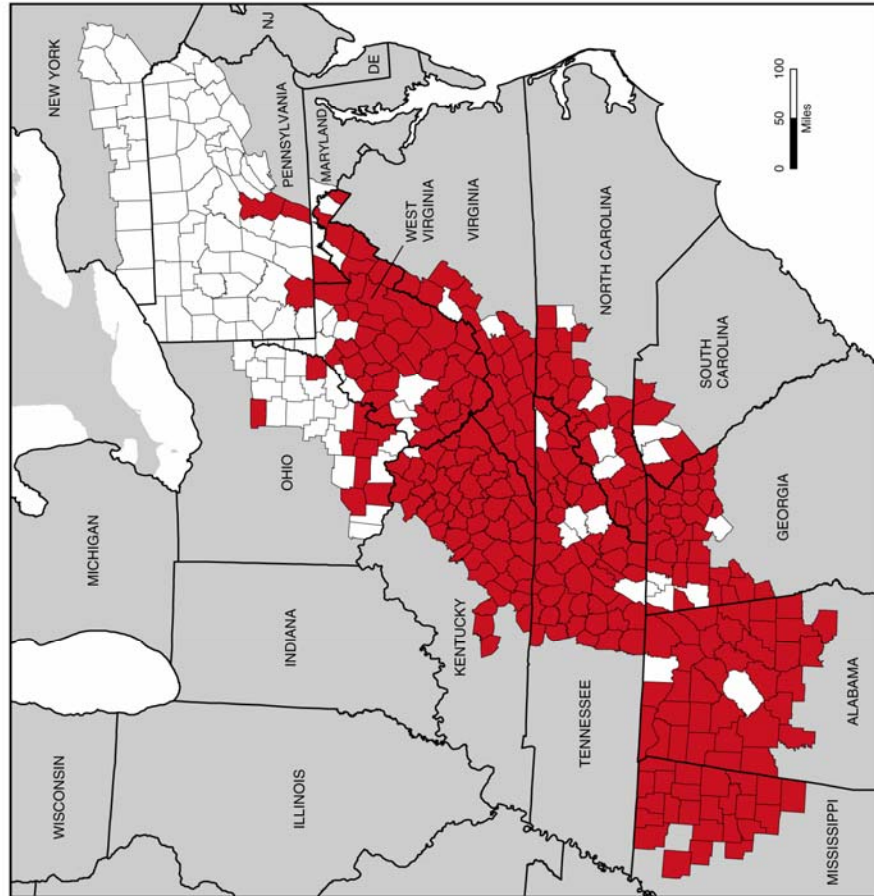
APPENDIX E
ARC Organizational Chart
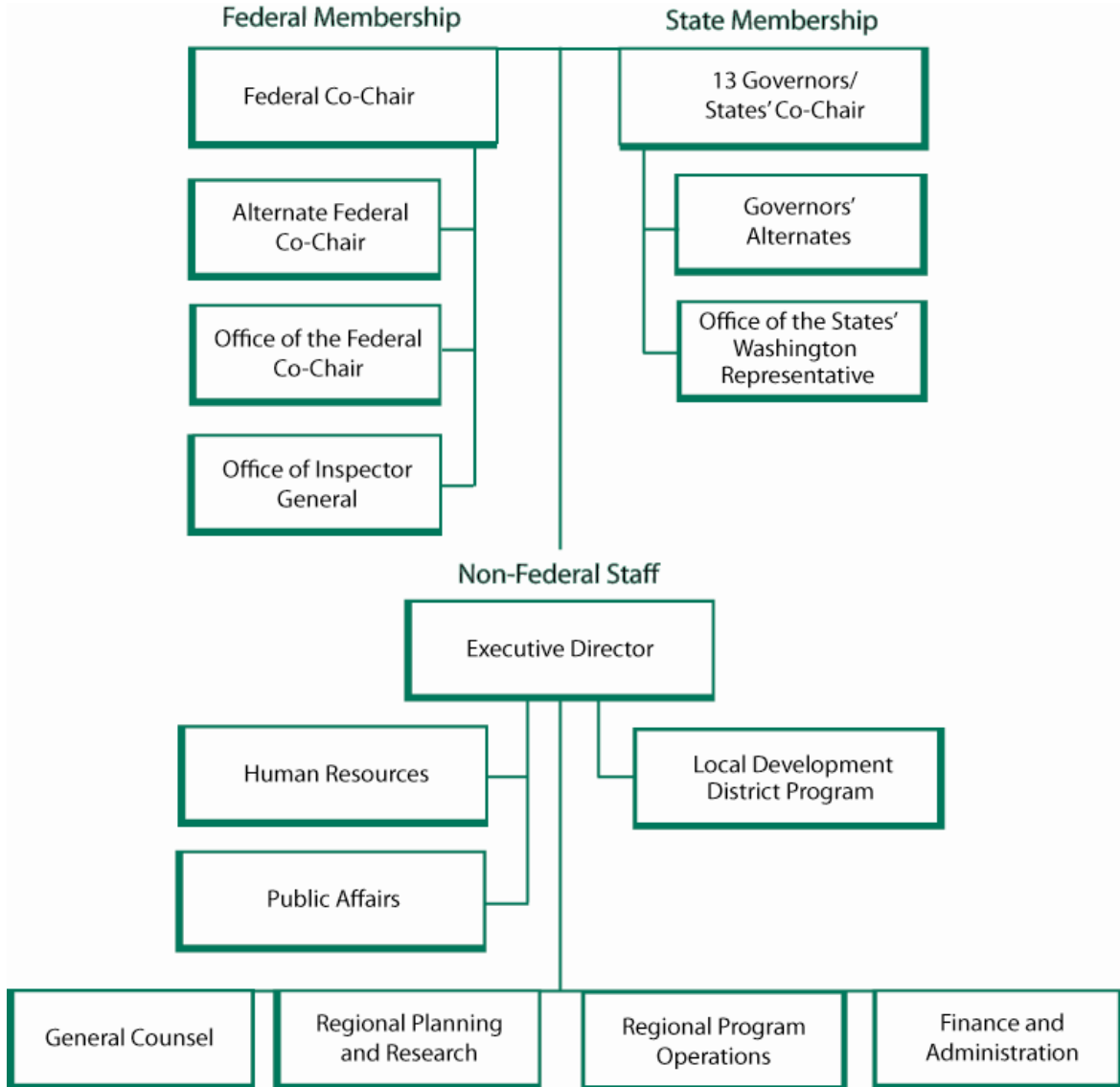
APPENDIX F

High-Poverty Counties in the Appalachian Region
(Counties with Rates At Least 1.5 Times the U.S. Average)

FY 2007

114 High-Poverty Counties

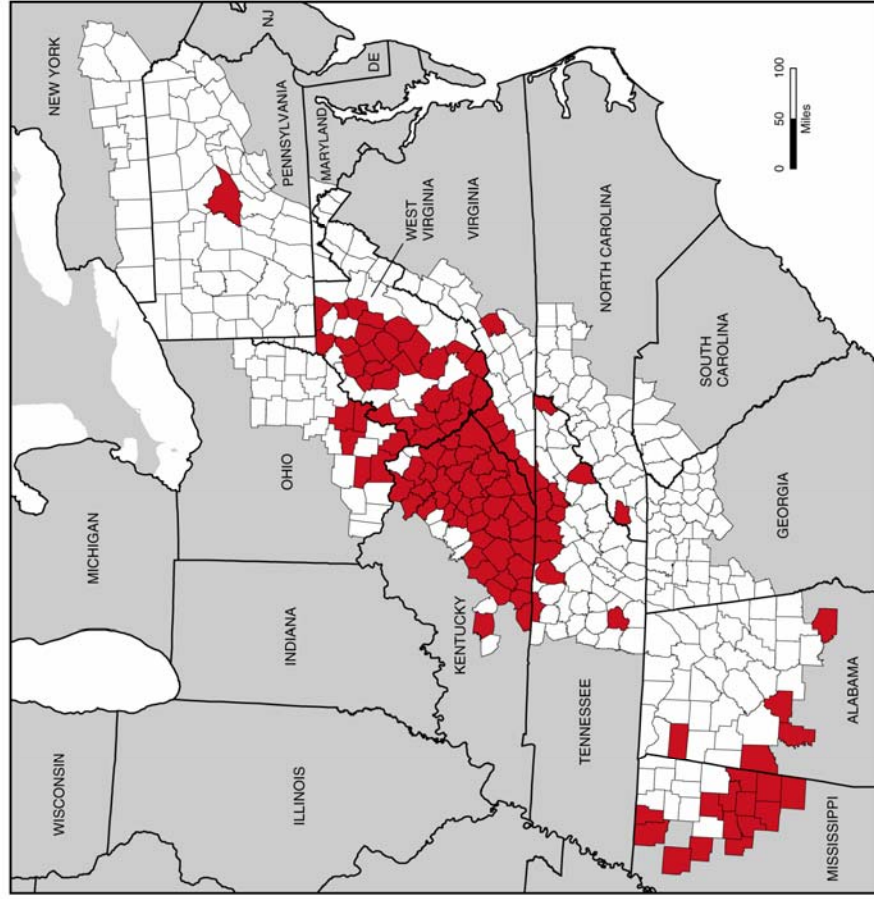Data Source: U.S. Department of Commerce, Census Bureau, 2000.

1960

289 High-Poverty Counties

Data Source: Office of Economic Opportunity data from U.S. Dept. of Agriculture, Economic Research Service, 1960.