



Message from Federal Co-Chair Anne B. Pope and 2007 States' Co-Chair Joe Manchin III

We are pleased to present the Appalachian Regional Commission's (ARC) Performance and Accountability Report for fiscal year (FY) 2007.

The Commission approved \$63.6 million in funding for 493 nonhighway projects during this fiscal year. Each of the projects advanced one or more of the four goals of ARC's 2005–2010 strategic plan: 1) increasing job opportunities and per capita income in the Appalachian Region to reach parity with the nation; 2) strengthening the capacity of the people of Appalachia to compete in the global economy; 3) developing and improving Appalachia's infrastructure to make the Region economically competitive; and 4) building the Appalachian Development Highway System to reduce Appalachia's isolation.

ARC's FY 2007 grant funds attracted an additional \$215.9 million in project funding, an investment ratio of more than 3 to 1, and \$768.6 million in leveraged private investment, a ratio of 12 to 1. The projects funded during the year will create or retain an estimated 28,642 jobs and train an estimated 20,876 students and workers in new job skills.

In FY 2007, the Commission continued to maintain a strong emphasis on job creation through asset-based economic development, focusing on the implementation of its October 2006 energy blueprint, *Energizing Appalachia: A Regional Blueprint for Economic and Energy Development*. The blueprint provides a strategic framework for the creation of energy-related job opportunities throughout the Region. Activities the Commission undertook to implement the blueprint during the year included a regional conference on the economic development potential of clean-coal technologies and a region-wide grant competition to help communities leverage renewable-energy and energy-efficiency resources to create jobs. The strong response to the



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\$600,000 competition, which provided funding for 12 proposals from throughout Appalachia, was an indication of the high level of interest in the economic development potential of alternate energy sources and efficiency practices.

An additional focus of ARC's asset-based development strategy this year was value-added agriculture. The Commission and the U.S. Department of Agriculture awarded grants totaling \$325,000 to the winners of a grant competition promoting value-added agricultural development. In September 2007, ARC supported a group of Appalachian hardwoods producers on a trade mission to India to boost the Region's sawn and kiln-dried lumber exports in emerging markets. The Commission also supported an encore visit of a multi-state delegation to China in FY 2007 to continue promoting the Region's wood products there. These missions underscored Appalachia's growing profile as a source of high-quality products and services.

ARC's mission is to be a strategic partner and advocate for sustainable community and economic development in Appalachia.

To bolster the Region's physical infrastructure, the Commission invested over \$29 million in FY 2007 in projects to bring new or upgraded water and sewer systems and other vital infrastructure to Appalachian communities. This investment was matched by \$149 million in other funding, primarily state and local, and leveraged over \$538 million in non-project private investment. The projects resulted in 23,107 households and 1,488 businesses being served by new or improved water or sewer systems. Infrastructure projects are some of the primary generators of new jobs in the Region.

A 2007 study of the economic development impacts of ARC-funded infrastructure projects found that the projects helped create jobs, increased tax revenue, and leveraged public investment in the surrounding areas. They also enhanced economic diversification, as evidenced by commercial development in industry sectors including tourism, distribution, and health care. The study, conducted by the Economic Development Research Group and BizMiner/Brandow Company, also found that there was a highly favorable perception of ARC-funded infrastructure projects among local development professionals and project stakeholders. Commission-funded projects were widely considered to be effective in achieving their objectives, and many respondents noted that projects could not have been undertaken without ARC grant funds.

Significant progress on the Appalachian Development Highway System continued in FY 2007, strengthening Appalachia's commercial links to the rest of the nation. As of September 30, 2007, 2,655.7 miles of the 3,090-mile system were complete or under construction. In FY 2007, the Commission completed a five-year estimate of the cost to complete the system, with the remaining federal funding that would be required set at \$6.5 billion (in 2005 dollars).

ARC invested \$5.8 million in 49 telecommunications and technology projects in Appalachia during the year. Activities included support of distance-learning and telemedicine applications, along with the promotion of broadband access through training workshops and rural deployment projects. The Commission's technology projects also included workforce development, training and education, and technology-related health-care activities.

In its ongoing efforts to improve rural health care in Appalachia, the Commission continued to expand its partnership with the Centers for Disease Control and Prevention on a diabetes education, prevention, and treatment program, which serves 50 economically distressed Appalachian counties. ARC also placed nine health-care professionals in the Region through J-1 Visa Waivers. In addition, through its partnership with the federal Office of Rural Health Policy, ARC helped 26 community groups from the Region's distressed counties develop and implement plans addressing substance abuse problems in their communities.

In FY 2007, ARC strengthened its focus on promoting higher levels of both educational attainment and achievement in Appalachia, particularly in the critical fields of science, technology, engineering, and math. Commission-supported projects included a partnership with community colleges and a private corporation to distribute engineering software to colleges and high schools throughout the Region. In addition, ARC held its 18th Summer Math-Science-Technology Institute at the U.S. Department of Energy's Oak Ridge National Laboratory in July. The institute was attended by 45 students and teachers from 11 Appalachian states.

The Commission also continued to promote increasing the college-going rate in the Region by supporting the Appalachian Higher Education Network, which served almost 10,000 high school seniors in nine states in FY 2007. The network has continued expanding its services to middle-school students in some Appalachian states, providing guidance earlier in the postsecondary-education decision process and encouraging students to choose more challenging academic courses in preparation for postsecondary education.

In support of the Commission's energy initiative, ARC invested over \$1.1 million in FY 2007 in energy-related education projects. Projects focused on workforce training and educational curricula related to both traditional and alternative energy industries as well as energy conservation.

ARC also continued its work to help boost the Region's tourism industry and the jobs it provides. Building on the success of its 2005 partnership with the National Geographic Society to produce a geotourism "map guide" to Appalachia's natural, cultural, and heritage attractions, ARC undertook a new project with National Geographic in FY 2007 that will highlight 28 driving trails. An April 2006 survey of the tourism sites included in the 2005 map guide indicated that 42 percent of the respondents experienced an increase in visitors after the guide was distributed.

We are pleased to note that Congress has continued to express its support for ARC's mission of bringing the Appalachian Region into economic parity with the rest of the nation: in FY 2007, both the House and the

Senate passed legislation reauthorizing the Commission for the next five years. The legislation would renew ARC's existing authorities and establish a new economic and energy development authority to focus on the creation of energy-related job opportunities as outlined in the Commission's 2006 energy blueprint. The bills also call for the designation of economically at risk counties in Appalachia, permit ARC to fund up to 70 percent of the cost of projects in at risk counties, and require earmarks to come out of the Appalachian states' funding allocations. The House version of the legislation would also add 13 counties to the Region. House and Senate negotiators will work out differences between the two versions of the legislation.

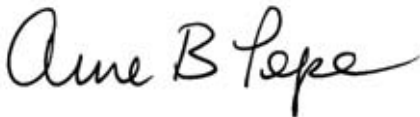
This report includes information on ARC's program actions and financial management during FY 2007. In FY 2007, a new OMB directive regarding parent agency/child agency reporting took effect, requiring ARC to report on financial activity related to funds allocated by ARC to other agencies and necessitating a change in the financial reporting format ARC had used in prior years.

Because of difficulties encountered in obtaining timely and complete financial data from ARC's much larger "child" agencies, the Commission was not able to verify the integrity of the data or gain an understanding of the internal controls in place at the agencies. As a result, ARC's independent auditor issued a disclaimer on the Commission's financial statements. ARC is working to implement new procedures to solve the parent/child agency reporting problems encountered this year.

ARC has made every effort to provide a complete and accurate report of its performance and stewardship of the public funds entrusted to it. This report is based on data that is as reliable and as comprehensive as possible. Congress and the American people can also be assured that the financial controls in place at the Commission reasonably meet the purposes of the Federal Managers' Financial Integrity Act of 1982.

The achievements reported here contribute significantly toward ARC's mission of helping the Region attain socioeconomic parity with the nation.

Sincerely,



Anne B. Pope
Federal Co-Chair



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July 24, 2008