



Message from Federal Co-Chair Anne B. Pope and 2006 States' Co-Chair Ernie Fletcher

We are pleased to present the Appalachian Regional Commission's (ARC) Performance and Accountability Report for fiscal year (FY) 2006.

This fiscal year the Commission approved 414 nonhighway projects, which totaled \$61.8 million in funding. Each of the projects advanced one or more of the four goals of the 2005–2010 strategic plan: 1) increasing job opportunities and per capita income in Appalachia 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.

In pursuing these goals, the Commission increased its leveraging ratio; became more performance based; focused on innovative, regional strategies to help communities help themselves; and expanded its partnerships.

ARC's grant funds attracted an additional \$194.2 million in project funding for the fiscal year, a ratio of 3 to 1, and \$713.8 million in leveraged private investment, a ratio of more than 11 to 1. The projects funded during the year will create or retain an estimated 28,866 jobs and train an estimated 17,578 students and workers in new job skills.

Maintaining a strong emphasis on job creation through asset-based economic development, the Commission worked to help develop the full range of the Region's natural energy resources, boost the export of wood products, enhance value-added agriculture, and establish "gateway communities" that attract tourism dollars.

A focal point of the Commission's work in FY 2006 was the development of an "Energy Blueprint" that provides a strategic framework for the creation of energy-related job opportunities throughout the Region. The Blueprint's development was mandated at ARC's February 2006 governors' quorum meeting by the governors of the 13 Appalachian states and the ARC federal co-chair in response to today's changing energy supply, policy, and use environment.

The Blueprint, entitled *Energizing Appalachia: A Regional Blueprint for Economic and Energy Development*, includes an assessment of the current energy landscape and an examination of both non-renewable and renewable energy opportunities, based on the competitive potential of Appalachia's energy resources and current and emerging energy technologies. It will guide the Commission in promoting efficiency and sustainable energy production.



*Federal Co-Chair
Anne B. Pope*



*States' Co-Chair
Ernie Fletcher,
Governor of Kentucky*

This year ARC also launched a grants competition, in partnership with the U.S. Department of Agriculture, to provide support to value-added agricultural projects throughout the Region. This \$325,000 grants program will support projects designed to create jobs in rural communities. In addition, ARC continued its partnership with the National Endowment for the Arts, funding an \$80,000 project to promote the development of Appalachian gateway communities. The project, which will be undertaken by the Conservation Fund and the National Trust for Historic Preservation with support from the National Park Service and the Forest Service, will help communities located near state or national parks or other protected natural recreational areas support enterprises that protect local landscapes while promoting economic growth.

In September, ARC organized and led a group of more than 50 business and civic leaders from Appalachia to an international trade show in Shanghai, China, to boost Appalachia's presence in the increasingly important Asian marketplace. The mission underscored the Region'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 \$28.3 million in projects to bring new or upgraded water, sewer, and waste-disposal systems to Appalachian communities. This investment was matched by \$130.6 million in primarily state and local funding and \$577.4 million in non-project leveraged private investment and resulted in 30,148 households being served by new or improved water or sewer systems.

In FY 2006, 30.8 more miles of the Appalachian Development Highway System were opened to traffic, strengthening Appalachia's commercial links to the rest of the nation. As of September 2006, 2,645.1 miles of the 3,090-mile system were open to traffic or under construction.

ARC made further investments in telecommunications and technology in Appalachia this year. Program activity through the Information Age Appalachia initiative, which promotes the development of telecommunications in the Region, 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 FY 2006 technology projects included workforce development, training and education, and technology-related health-care activities. ARC also continued a partnership with Microsoft Corporation to expand the use of technology in the Region, and launched a new partnership with the eBay Foundation to provide computer equipment, software, and technical assistance to entrepreneurs across Appalachia. The Commission invested a total of \$5.9 million in telecommunications- and technology-related activities this year.

In its ongoing efforts to improve rural health care in Appalachia, ARC expanded its partnership with the Centers for Disease Control and Prevention (CDC) on a diabetes education, prevention, and treatment program. The program serves 50 economically distressed Appalachian counties. ARC and CDC also partnered to develop an action plan for implementing cancer control programs at the county level. ARC also placed 23 health-care professionals in the Region through its J-1 Visa Waiver Program. 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.

ARC also continued to promote higher education attainment in Appalachia this fiscal year. A study completed in March 2006 validated the effectiveness of the ARC Math-Science-Technology Summer Institute held in partnership with the Oak Ridge National Laboratory in Tennessee, showing it to help address critical workforce shortage areas in the Region by attracting students to careers in science, technology, engineering, and math. More than 96 percent of the student participants surveyed were either enrolled in a post-secondary institution or had already received their degrees, over half of which were in a science, technology, engineering, or math field.

In addition, ARC's workforce training programs continued to address the critical energy workforce needs of the nation. Training programs created in FY 2006 in partnership with American Electric Power and with Southern Company and Georgia Power are preparing workers for the electric utility industry. Community colleges in Ohio, Kentucky, West Virginia, and Georgia, in partnership with local utilities, are updating workforce training programs to better reflect industry specifications, and placing trainees in paid internships, to give students the technical skills needed in critical high-growth job sectors.

To further address America's workforce needs, ARC maintained its support for the Appalachian Higher Education (AHE) Network. Since 1998, the AHE Network has provided funding, training, and assistance to high schools for programs that encourage students to undertake post-secondary education. In FY 2006, the network assisted more than 4,000 high school seniors, with more than 3,000 continuing on to a technical program or two- or four-year college or university.

This report includes information on ARC's program actions and financial management during FY 2006. We are pleased to report that independent auditors have once again pronounced an unqualified opinion that the financial statements in this document fairly present the fiscal status of ARC.

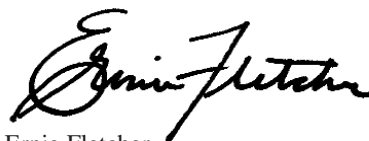
ARC has made every effort to provide a complete and accurate report of its performance and stewardship of the public funds entrusted to it. This report is based on data that is reliable and as comprehensive as possible. Congress and the American people can also be assured that the financial controls 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



Ernie Fletcher
*2006 States' Co-Chair
Governor of Kentucky*

November 15, 2006