

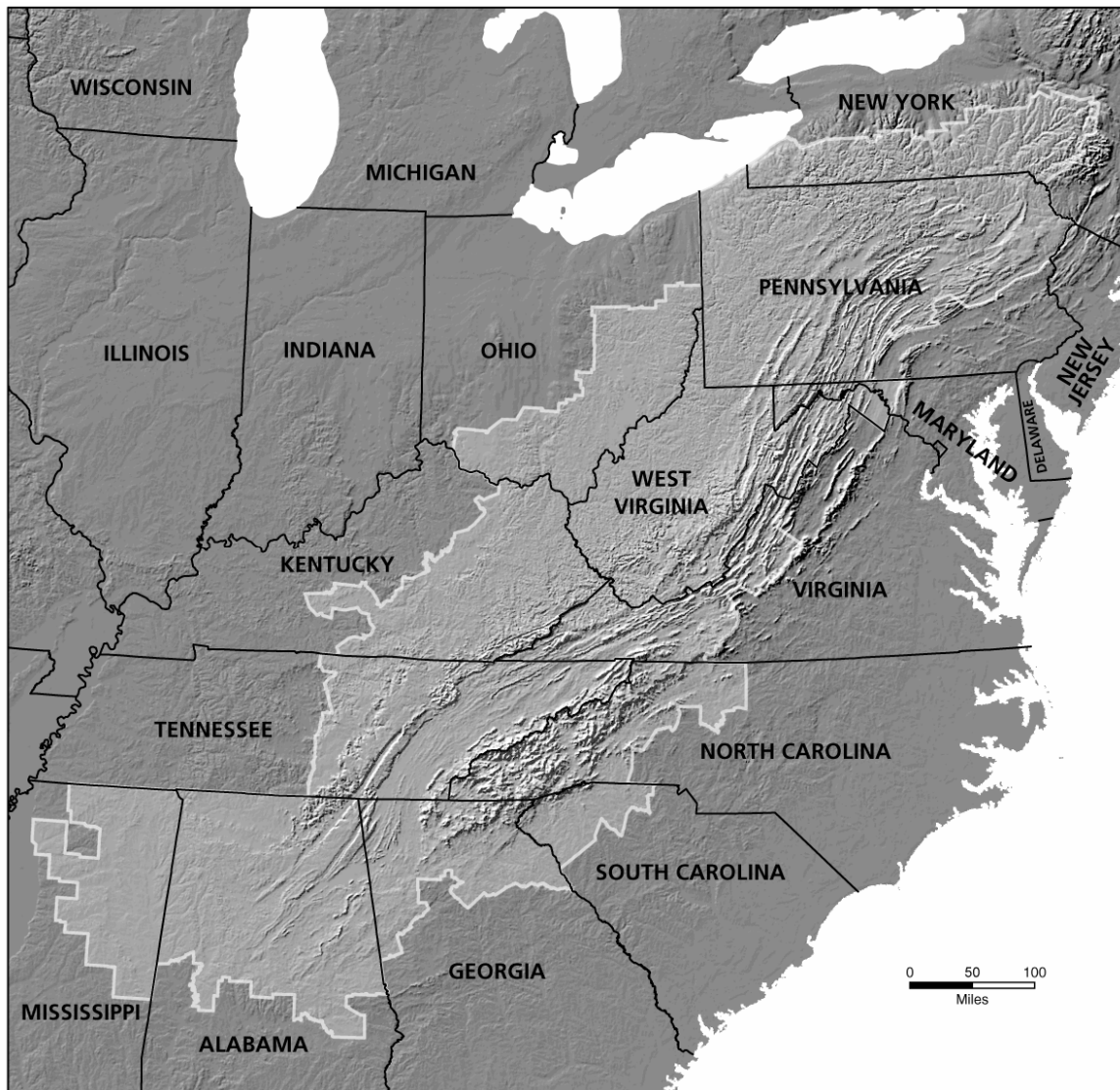


APPALACHIAN REGIONAL COMMISSION

FY 2007 Performance Budget Justification

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

February 2006



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Appalachian Regional Commission
FY 2007 Performance Budget Justification
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Appalachian Regional Commission FY 2007 Budget Request Summary and Highlights

The Federal Co-Chair requests \$64.817 million in direct appropriations for the Appalachian Regional Commission (ARC) in fiscal year 2007.

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 needs², 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 *increase 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 increase 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. Across all investment areas in FY 2005, each one dollar of ARC funding leveraged \$2.57 in other public funding and \$8.46 in associated private investment.

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 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 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. 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 first 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 continues to focus on distressed counties and areas, revising its metrics, and sharing performance data and research to clarify the links between federal investment and community change.

The Federal Co-Chair will propose a special \$5 million challenge grant initiative for Commission adoption in 2007 to promote innovation in distressed counties of the region. The initiative is described on page 12. Funds would be made available to communities on a competitive basis to improve educational attainment, apply innovative and entrepreneurial approaches, or implement multi-jurisdictional and regional strategies to achieving ARC goals.

Table 1 below summarizes the performance targets for each goal for FY 2007. Table 2 breaks out program, local development district, and administrative funding levels for each goal. 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 2007 Targets

General Goals	Targets for 2007
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 to traffic

**Table 2 - Summary of FY 2007 Request by Performance Goal
(\$ Millions)**

		Local Development			
		District Planning	Salaries & Expenses	Total Request	
		Program Funding			
Goal 1	Increase Job Opportunities and Per Capita Income	12.8	1.1	1.1	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	29.5	3.1	3.2	35.8
Goal 4	Build the Appalachian Development Highway System				[470] *
Total Current Request		54.1	5.3	5.4	64.8

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

Appalachian Regional Commission FY 2007 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

A “Region Apart”

Unemployment

Sixty-six percent of Appalachian counties have a higher unemployment rate than the national average and 87 counties have an average 3-yr rate (2001-2003) of at least 150% of the national average.

Income

Appalachia trails the rest of the nation by 18% 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.

corresponding investments in socioeconomic 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 four advisory groups of regional leaders to assist program planning and development in the areas of health care, tourism, education, 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 website.

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 nearly 2,500 miles of new highways, which represents almost 81% 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:

- decrease the number of severely distressed counties by more than 65 percent, from 223 to 77 counties (see Appendix B);
- 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 18 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; and

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.

Yet ARC's mission has not been completed. Seventy-seven counties and many 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 2007 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.

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

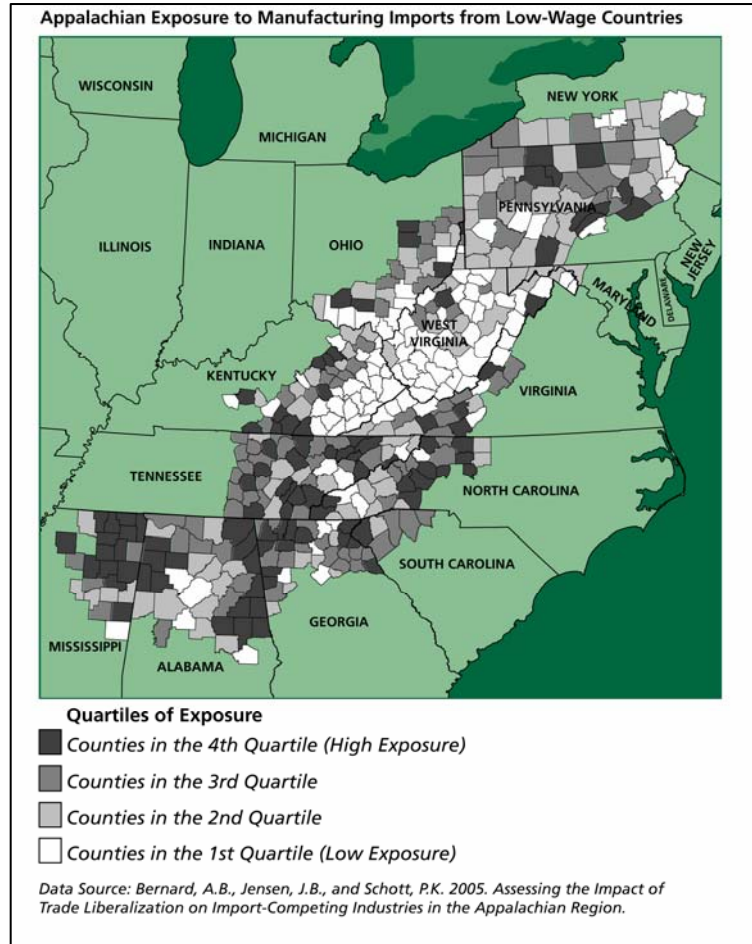
⁴ *Appalachian Population Redistribution and Migration in the 1990's*, by Daniel T. Lichter, Jillian Wooten, Michael Cardella, and Mary R. Marshall, Initiative in Population Research, The Ohio State University, April 2005.

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

- Primary metals sectors, such as steel, have lost over 20,000 jobs since 1993. Many of these losses have resulted from import penetration and plant relocations overseas. The Appalachian apparel industry has lost 110,000 jobs between 1994 and 2004, and the textile industry has lost 83,000. 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.

- Appalachian coal-mining employment has fallen from 101,500 workers in 1987 to 46,000 in 2003, largely because of productivity gains. The Energy Information Administration has projected that over the next decade mining jobs in Appalachia could fall to as low as 32,000 workers, even under a high energy growth scenario.

Figure 1



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 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. In part, ARC also gauges 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. Appendix B shows the 223 severely distressed counties in 1960 and the 77 counties designated for FY 2006. The change is dramatic.

Each year, the Commission uses strict criteria to specifically designate severely distressed counties and as a way to target resources to the most lagging areas. ARC uses a distinctive very conservative measure of severe economic distress. Distressed counties must typically meet three criteria: 1) per capita market income is not greater than two-thirds of the U.S. average, 2) three year unemployment rate is 150 percent of the U.S. average or greater, and 3) poverty rate is at least 150 percent of the national average. However, counties with at least twice the national poverty rate and meeting one other criterion for economic distress are also classified as distressed.

Using data similar to that for designating distressed counties, ARC identifies specific sub-county areas within transitional counties in accordance with the guidance in its authorizing legislation. For FY 2006, there are 640 distressed census tracts, an increase from 2005. The population of both distressed counties and distressed areas together is almost 3.6 million, or 16 percent of the region total.

Distressed county indicators are also used to identify the relative status of all the other counties in Appalachia:

- *at-risk counties* have economies operating below national norms but do not fully qualify as distressed;
- *transitional counties* have economic characteristics between the at-risk and competitive categories;
- *competitive counties* have economies approaching national averages; and
- *attainment counties* have per capita income, poverty and unemployment rates equal to or better than the national rates.

The analysis for FY 2006 found that, of the 410 counties in the region, 77 are distressed, 81 are at-risk, 222 are transitional, 22 are competitive, and only 8 are attainment counties. ARC policy stipulates that competitive counties may receive limited assistance, while funding for attainment counties is virtually eliminated.

While policies stress funding in the designated distressed counties and areas, ARC recognizes and closely monitors transitional counties that are “At Risk” of distress. This definition includes two categories of counties. The first have at least 125% of the U.S. three-year average unemployment rate, no more than 67% of the U.S. average per capita market income⁶, and at least 125% of the U.S. poverty rate. The second is any county that meets two of the three criteria for defining severely distressed counties. Currently the Commission has identified 81 counties which it considers At Risk. ARC works closely with its federal, state, local and private partners to identify and implement programs to improve the socioeconomic status of these counties. At-risk counties are discussed further in Appendix B.

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.

Challenge Grant Initiative for Regional Innovation in Distressed Counties

The Federal Co-Chair will propose for Commission adoption a reservation of up to \$5 million of area development funds for a distressed county program to seed regional innovation. ARC funds will be available on a competitive basis for projects that are multi-jurisdictional and engage the public and private sectors and the non-profit community. Grants would be awarded to distressed communities that have demonstrated significant ability to increase economic potential or remove barriers to economic development, and would include performance measures to track progress.

Capitalizing on the unique ARC network of federal, state, local and private sector partners, the challenge grant will result in significant regional impact. During the first six months of FY 2006, the Federal Co-Chair will work with the state partners to identify a sector or sectors that will be the focus of this grant competition to be launched in FY 2007.

Primary selection criteria will be that communities demonstrate progress in:

- Educational attainment;
- Innovative and entrepreneurial approaches; or
- Implementation of regional or multi-jurisdictional strategies

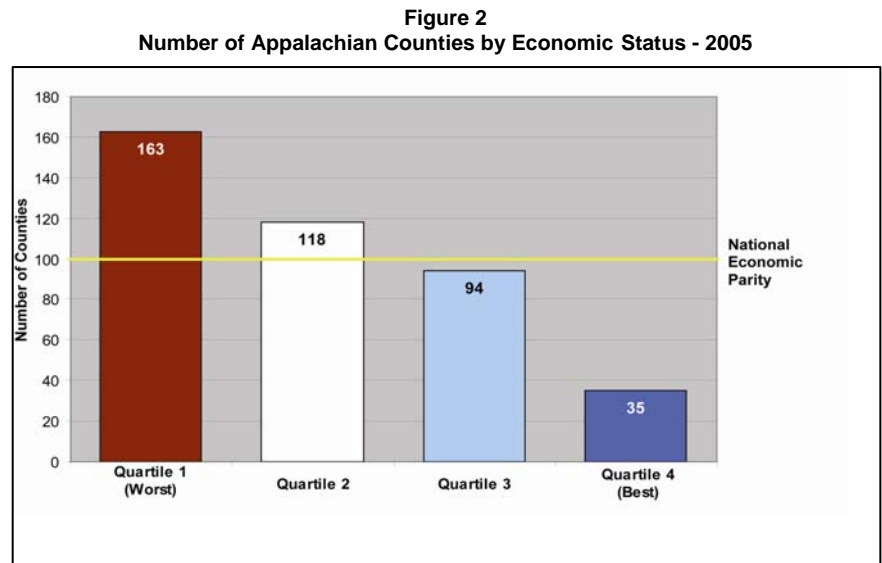
⁶ Total personal income minus income from transfer payments

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. As Figure 2 below shows, 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. ARC's first-of-a-kind geotourism collaboration with the National Geographic Society over the past two years is an example of this asset based development.

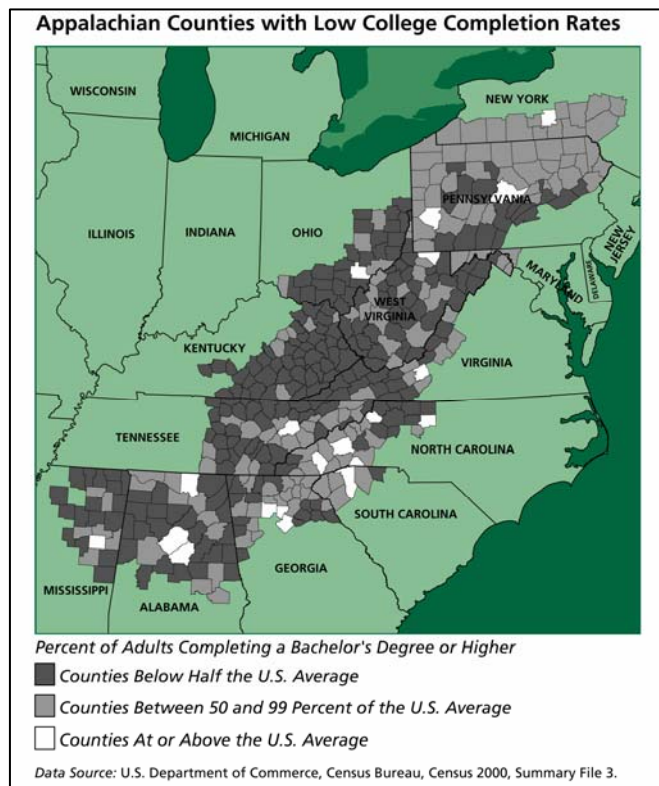
The region also faces entrepreneurial shortcomings that stem from Appalachia's longstanding dependence on extractive industries and branch plant manufacturing, and the presence of absentee landlords who, in some cases, have siphoned off value from the region. Furthermore, the culture of entrepreneurship 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. For example, closing the job gap in telecommunications and information services industries will require an additional 200,000 information technology workers over the next seven years. The current education and technical skill level of the regional workforce cannot meet this need. According to the Bureau of Labor Statistics (BLS), 80 percent of the fastest growing jobs require some level of postsecondary education. 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.

Figure 3



Educational Achievement Results

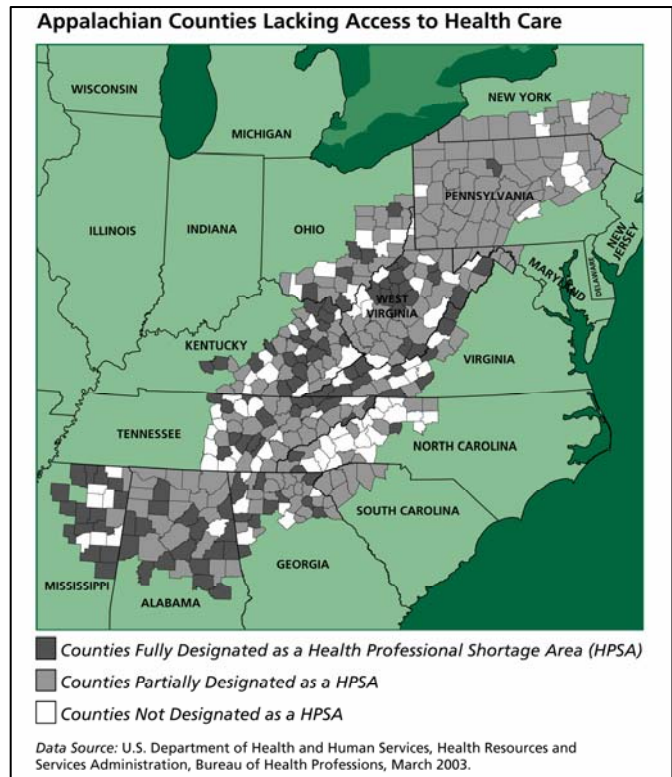
The ARC-funded Appalachian Higher Education Network initiative increased college-going rates for Appalachian high school graduates by double digits for only a few hundred dollars per student. This highly regarded program is being replicated in 100 schools in nine additional Appalachian states. The original 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.

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



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 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%. 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.

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.

ARC has completed a study to document the region’s funding resources and funding gaps for drinking water and wastewater infrastructure.⁷ 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.

Table 3: Percent of Zip Codes with at Least One High-Speed Internet Provider (1999-2002)

Appalachian State Part	Dec. 1999	Dec. 2002
Alabama	46%	69%
Georgia	40%	70%
Kentucky	13%	44%
Maryland	52%	56%
Mississippi	32%	73%
New York	38%	72%
North Carolina	52%	67%
Ohio	42%	64%
Pennsylvania	49%	57%
South Carolina	59%	61%
Tennessee	53%	75%
Virginia	50%	62%
West Virginia	44%	46%
Appalachian average	43%	59%
National average	60%	88%

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.

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 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, as shown in Table 3. The table suggests that high-speed Internet access via cable, DSL or other means

⁷ *Drinking Water and Wastewater in Appalachia: An Analysis of Capital Funding and Funding Gaps.* UNC Environmental Financing Center, June 2005

continues to grow at a substantially slower pace in the region than in the nation as a whole.⁸ The deficit in the region will require aggressive attention if the President's national goal of universal broadband access would be achieved. 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.

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.⁹ 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) has permitted the use of a portion of ADHS funds by the individual states for development access roads. In 2003-4, \$5.8 million of TEA-21 funds and \$726,670 of ARC funds were used 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 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

⁸ 2004 Update: *Links to the Future – The Role of Information and Telecommunications Technology in Appalachian Economic Development*. Michael Oden and Sharon Strover, June 2004

⁹ *Links to the Future – The Role of Information and Telecommunications Technology in Appalachian Economic Development*, Michael Oden and Sharon Strover, June 2002.

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 81 percent (2,496.3 miles) of the total 3,090 miles of the ADHS authorized by Congress for construction before 2005 are open to traffic, and another 136.2 miles are under construction. The remaining 457.6 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 4 and Figure 5 below show progress on the system through the end of FY 2005.

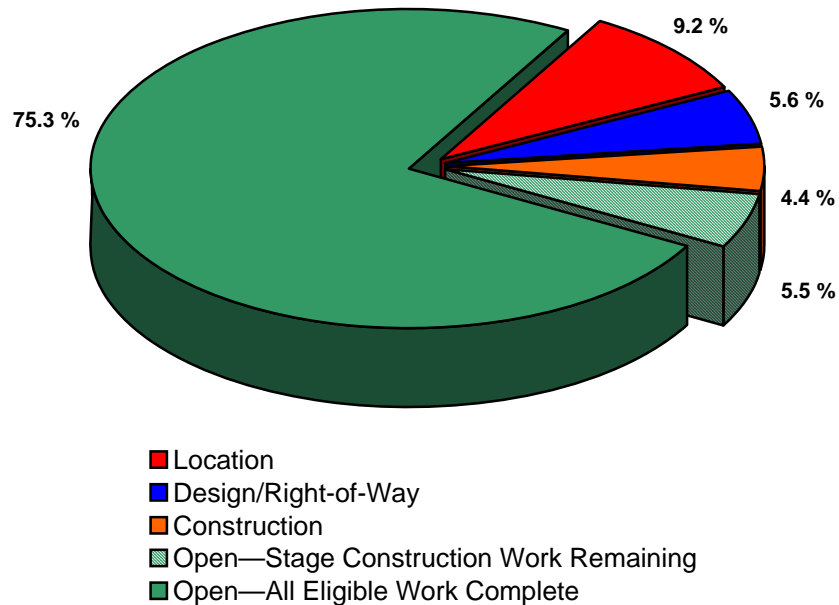
Completion of the ADHS will permit the nation to realize the system-wide efficiencies of connecting with the interstate highway system and the nation's intermodal transportation networks, linking air, rail, road, and waterway freight shipments. The International Intermodal Center in Huntsville, Alabama 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 4 - Status of Completion of the ADHS (Miles) as of September 30, 2005

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	126.4	46.7	52.7	6.4	63.5	295.7
Georgia	100.9	0.0	0.0	11.1	20.5	132.5
Kentucky	388	0.0	14.1	24.2	0	426.3
Maryland	77	3.7	0.0	0	2.5	83.2
Mississippi	90.3	0.0	6.7	20.5	0	117.5
New York	207.9	7.4	1.8	4.9	0	222.0
North Carolina	172.7	4.2	2.7	16.4	8.3	204.3
Ohio	168.3	9.4	0.5	0	23.3	201.5
Pennsylvania	275.7	7.6	44.8	13.7	111.3	453.1
South Carolina	18.6	0.0	0.0	4.3	0	22.9
Tennessee	212.6	90.7	0.0	2.2	23.8	329.3
Virginia	160.8	0.0	0.0	16.4	15	192.2
West Virginia	326.5	0.9	12.9	53.2	16.1	409.6
System Totals	2,325.7	170.6	136.2	173.3	284.3	3,090.0

Figure 5
Appalachian Development Highway System

Status of Completion as of 9/30/2005
3,090 Eligible Miles



FY 2007 Budget and Planned Performance

ARC's general goals and associated performance measures are displayed below in Table 5. 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 2007 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. 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 2007

ARC's FY 2007 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 5 below.

General Goals	Targets for 2007
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 to traffic

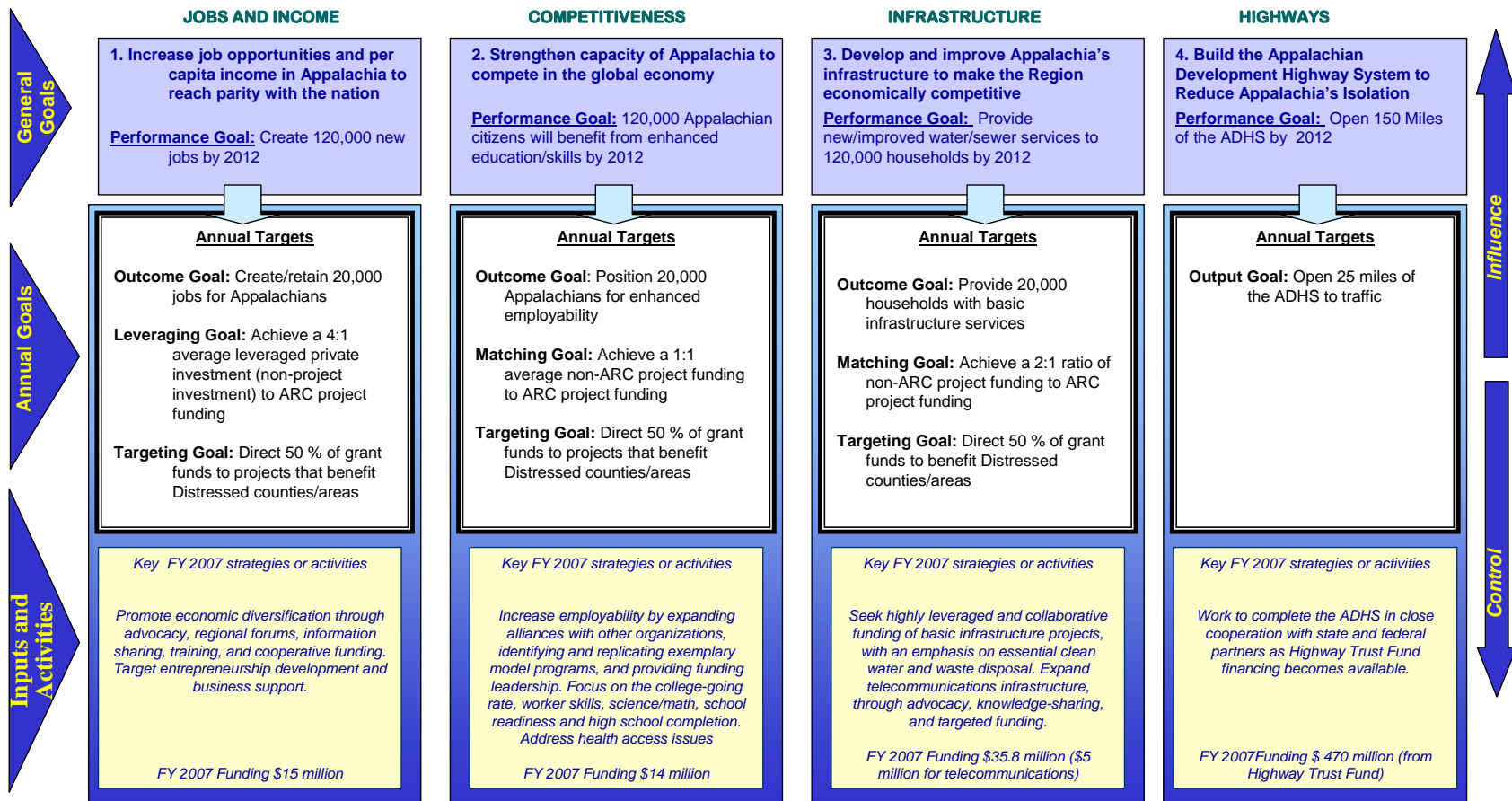
Figure 6 provides a more detailed display of the ARC program logic model for program operations in 2007, including the alignment of annual performance targets, major strategies and activities, and the current funding request to the mission and goals of the Strategic Plan.

Figure 6 - Appalachian Regional Commission Program Logic Model for 2007

Vision: Appalachia will achieve socioeconomic parity with the rest of the United States
Mission: Serve as a strategic partner and advocate for sustainable community and economic development in Appalachia

Economic and Social Challenges in Appalachia

- 77 counties remain severely distressed using ARC's conservative measure
- Appalachia trails the rest of the nation by 18% in per capita income overall, but even more in the middle-income and higher brackets
- The number of Appalachians with a college degree is about 2/3 of the U.S. average
- 24% of Appalachian households are not served by water systems and 48% are not served by wastewater systems, vs. U.S. averages of 15% and 25%
- Appalachia has higher mortality rates for all demographic subgroups of ages 35 to 64 from heart disease, chronic obstructive pulmonary disease, diabetes and strokes



ARC strategic goals and performance goals for FY 2007, 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 6 on page 30.

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. 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, 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 2007 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, drop-out 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 2007 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, 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 Environmental Protection Agency, 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 2007 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 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 2007 is to open 25 additional miles of the Appalachian Development Highway System to traffic.

Table 6 summarizes the performance indicators for all the major strategies in FY 2007. Table 7 and Figure 7 show the requested resource levels by goal and program. Additional detail and discussion is included below.

Table 6 – 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 2017 * 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 2017** 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 \$ 35.8 million	Goal 3: Develop and Improve Infrastructure Strategy: Ensure basic infrastructure/services and increased telecommunications access/deployment	200,000 households served by 2017 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.

Table 7 - Summary of Goals and Resource Levels¹⁰

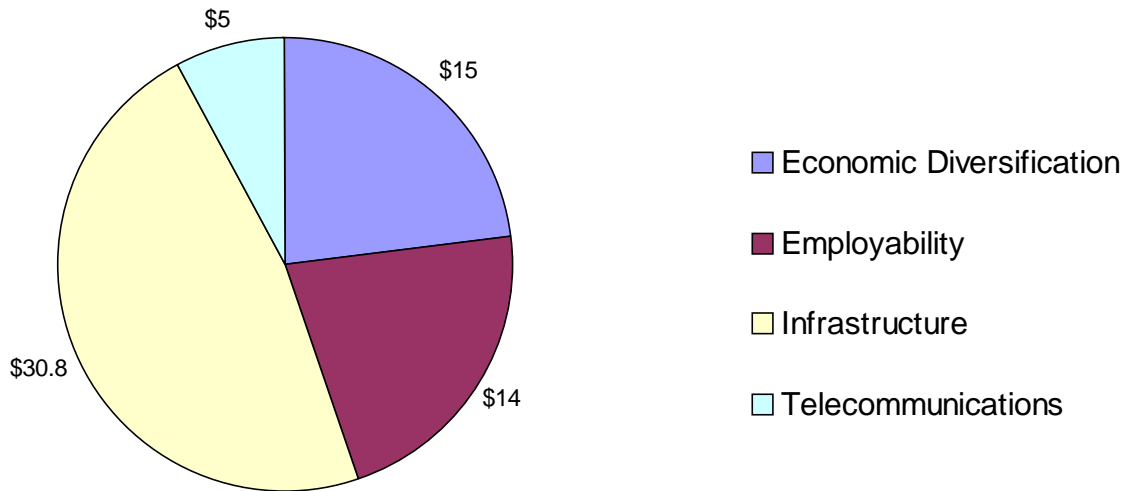
	FY 2005 *	FY 2006 *	FY 2007 Request
Goal 1 Increase Job Opportunities and Income by diversifying the Appalachian economy	\$ 15 million	\$15 million	\$15 million
Goal 2 Strengthen Capacity of People by increasing employability	\$ 14 million	\$14 million	\$14 million
Goal 3a Increase Competitiveness by improving basic infrastructure	\$ 31.472 million	\$30.817 million	\$30.817 million
Goal 3b Increase Competitiveness by expanding broadband telecommunications capacity	\$ 5 million	\$ 5 million	\$ 5 million
Goal 4 Reduce isolation by building 25 miles of highway in FY 2007	\$470 million**	\$470 million**	\$470 million**
Total by Fiscal Year (Non-ADHS)	\$ 65.472 million	\$64.817 million	\$64.817 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 2007 appropriation.*

¹⁰ FY 2006 and FY 2007 program levels estimated based on grant applications to be submitted.

Figure 7
FY 2007 Budget Request by Investment Area
(Millions, Excluding ADHS)



Performance Challenges

ARC can effectively and efficiently implement its FY 2007 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 hit 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 around a 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.

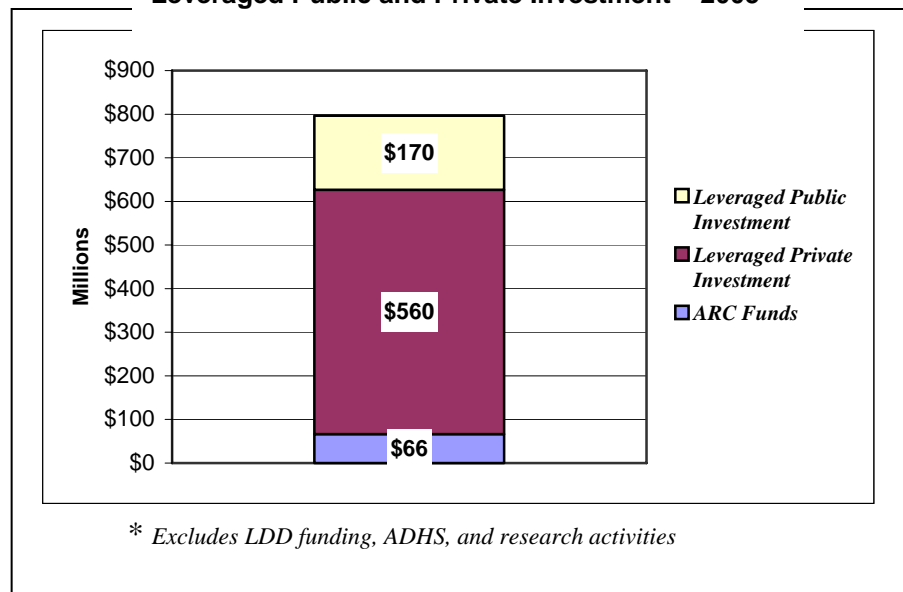
Leveraged Public and Private Investment

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.¹¹ As shown in Figure 8, in 2005 each dollar of ARC funding across all investment areas leveraged \$2.57 in other public funding and \$8.46 in private funding.

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.

Figure 8
Leveraged Public and Private Investment – 2005*



The Commission is developing web-based resources for grant development that will enable prospective grantees to incorporate strong project performance measurement in project designs.¹²

¹¹ Evaluation of the Appalachian Regional Commission's Infrastructure and Public Works Program Projects, the Brandow Company and Economic Development Research Group, June 2000.

¹² *Development of Web-Based Resources for Grant Development, Performance Measurement, and Business Process Improvements*, with contract assistance from Silosmashers, Inc.

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.

Since initiating its project measurement system under GPRA, the Commission has established a good 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.¹³ 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.

The Commission is completing a study of access to capital and credit in Appalachia to specifically examine regional performance and gaps in lending, bank services and development finance. This research will assess the capital and credit gaps in non-metro Appalachian communities, trends in bank consolidation and the impact on banking services in rural areas, and the effects of the community reinvestment requirements on bank lending practices. The study will provide detailed county level analysis of bank lending performance by demographic and socioeconomic subgroup in the Appalachian Region. It will also analyze the types, range and performance of financial services provided by various development finance institutions and intermediaries in the Appalachian Region including revolving loan funds, micro-loan funds, SBA 504 Certified Development Corporations, Small Business Investment Companies and New Market Venture Capital development venture funds, other community development finance agencies. The results of this study will be used to assess the extent to which ARC policies on funding business development projects may require redirection or adjustment.

¹³ An Early Stage Evaluation of ARC's Entrepreneurship, Regional Technology Strategies, March 2001.

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.¹⁴ 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.

ARC is now conducting an analysis of college-going and perseverance rates in Appalachia, looking at evidence, gaps and best practices. This study will review recent evaluations of existing national, state and philanthropic programs that seek to enhance the college-going rates of graduating high-school programs, perseverance in college, and college-completion rates, and identify successful programs and problems encountered. Second, it will conduct an external evaluation of several Appalachian-based programs dedicated to enhancing the college-going and perseverance rates. Third, it will review existing baseline data on the college-going and completion rates in Appalachian states for high school graduates and compile county-level rates and compare these rates to national rates.

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 recent 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.¹⁵ 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.¹⁶

ARC has issued a request for proposals for another evaluation that will examine approximately 100 projects that have been closed since 1998, including projects such as access roads, housing, industrial parks/sites, and water/sewer projects. In addition, the study will determine the extent to which these projects have achieved or contributed to the attainment of ARC's economic development objectives identified in its strategic plan. In particular, the Commission seeks to verify project outcomes and to assess the utility and validity of specific performance measurements for monitoring and evaluating these types of projects. Expected completion is September, 2006.

¹⁴ *Evaluation of ARC's Educational Projects*, Westat Corporation, 2000.

¹⁵ *Evaluation of the Appalachian Regional Commission's Infrastructure and Public Works Program Projects*, The Brandow Company and Economic Development Research Group, June 2000.

¹⁶ *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.

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

There are 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.
- 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.¹⁷
- 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.

¹⁷ 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.)

During FY 2006, the Commission will issue a request for proposals to examine the impact of the completion of the ADHS. Initial design studies for this research have been completed.¹⁸

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 Westat 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-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.¹⁹

¹⁸ *Initial Design Study for Impact Assessment of Completing the ADHS: Finding and Recommendations*, by Cambridge Systematics, Boston MA, October 2005. Also *Evaluating the Economic Impact of Completing the ADHS, Methods and Options*, by the Louis Berger Group, New York NY, November 2005.

¹⁹ *Analysis of the Appalachian Regional Commission Grants Administration Process*, by SiloSmashers Inc., Washington DC, January 2006.

Program Assessment Rating Tool (PART) Results and Corrective Actions

During FY 2004, OMB conducted a first 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 acknowledged progress in developing outcome-related measures, but recognized the difficulty of performance measurement because ARC often co-funds projects with other agencies. ARC continues to focus its efforts on distressed areas, revising performance measures, and sharing performance data and research results among federal agencies to better understand the link between federal investment and community change. As a result of the PART process across economic development agencies, ARC participated under OMB sponsorship in an interagency discussion on economic development to address collaborative opportunities and common measurements for agencies with economic development missions.

**Appalachian Regional Commission
FY 2007 Performance Budget**

Major Program: Area Development

The Federal Co-Chair requests \$64.817 million for Area Development. Table 8 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 8 – ARC Goals and Measures				
Program Area	General Goal And Strategies	Long-Term Performance Measures	Short-Term Performance Measures	Expected Benefits
Area Development \$ 15 million	<p>Goal 1: Increase Job Opportunities and Per Capita Income</p> <p>Strategy: Promote Economic Diversification</p>	<p>200,000 jobs created/retained by 2017</p> <p>Achieve 15:1 private sector to ARC investment ratio for business infrastructure projects</p>	<p>Annual: 20,000 jobs created/retained– 10% of long-term goal</p> <p>Achieve initial average 4 to 1 private sector to ARC investment ratio in projects</p> <p>Direct 50% of grant funds to benefit Distressed counties/areas</p>	Enhanced economic competitiveness
Area Development \$ 14 million	<p>Goal 2: Strengthen Capacity of the People to Compete in the Global Economy</p> <p>Strategy: Increase Workforce Employability</p>	<p>200,000 Appalachians with enhanced employability by 2017</p> <p>Achieve 1:1 average non-ARC to ARC investment ratio for employability projects</p>	<p>Annual: 20,000 Appalachians with enhanced employability – 10% of long-term goal*</p> <p>Achieve initial average 1 to 1 non-ARC to ARC investment ratio in projects</p> <p>Direct 50% of grant funds to benefit Distressed counties/areas</p>	Enhanced economic competitiveness
Area Development \$ 35.8 million	<p>Goal 3: Develop and Improve Infrastructure</p> <p>Strategy: Ensure basic infrastructure/services and increased telecommunications access/deployment</p>	<p>200,000 households served by 2017</p> <p>Achieve 3:1 average non –ARC to ARC investment ratio for water/sewer projects</p>	<p>Annual: 20,000 households served – 10% of long-term goal</p> <p>Achieve initial average 2 to 1 non-ARC to ARC investment ratio in projects</p> <p>Direct 50% of grant funds to benefit Distressed counties/areas</p>	<p>Enhanced economic competitiveness</p> <p>Reduced isolation and improved regional access</p>

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 2007, that cost is estimated at \$450,000.

The Area Development program in 2007 will include a special \$5 million regional initiative to promote innovation in distressed counties of Appalachia through challenge grants. The funds would be reserved and made available to communities on a competitive basis for addressing educational attainment, innovative approaches to achieving ARC goals, or implementing multi-jurisdictional or regional strategies (see page 12.)

FY 2007 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. 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 2007, 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 2007 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.
- 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 2007 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.

In FY 2007 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.

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 2007, 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 2007 Goal 3a: Develop and Improve Infrastructure - Clean Water and Other Basic Services - \$30.8 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 2007, 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 2007 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 2007, 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.

**Appalachian Regional Commission
FY 2007 Performance Budget**

**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 as high priority projects.

Table 9 – Appalachian Development Highway System - \$470M for FY 2007			
General Goal	Long-Term Performance Measure	Short Term Performance Measures	Expected Benefits
<p>Goal 4: Build the Appalachian Development Highway System to Reduce Isolation</p> <p>Strategy: Complete the ADHS</p>	<p>Complete the ADHS by 2021</p> <p>For every dollar invested, \$1.10 in increased travel efficiency benefits</p>	<p>Open 25 miles of the ADHS to traffic</p>	<p>Enhanced economic competitiveness</p> <p>Reduced isolation and improved regional access</p>

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 81 percent (2,496.3 miles) of the total 3,090 miles of the ADHS authorized by Congress for construction are open to traffic, and another 136.2 miles are under construction. The remaining 457.6 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 4 and Figure 5 on page 19 show the progress by state on the system and the overall status of the ADHS through FY 2005.

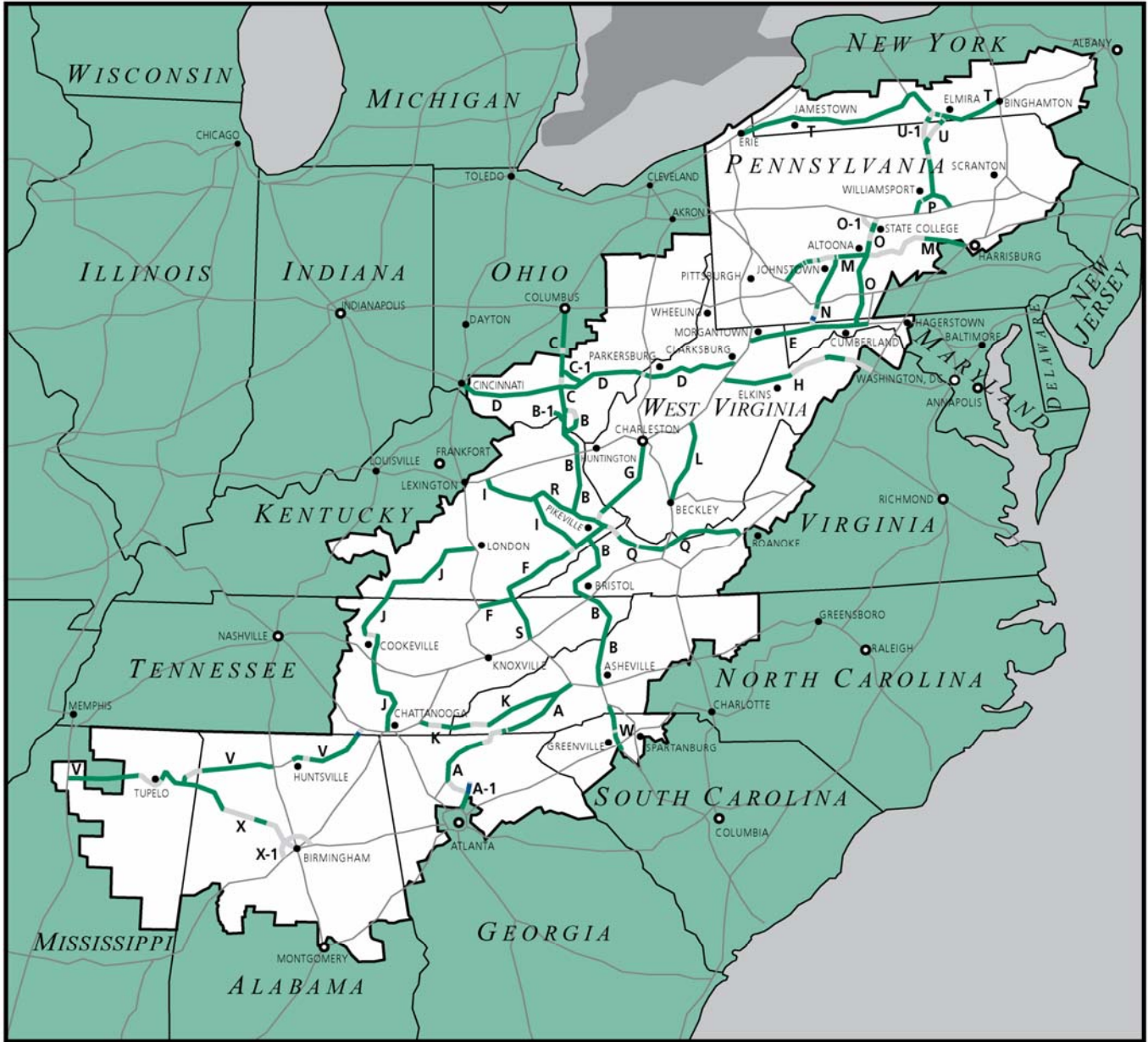
The Transportation Equity Act for the 21st Century (TEA-21) authorized funding for ADHS from the Federal Highway Trust Fund at a level of \$450 million in fiscal year (FY) 1999 through 2003. The Surface Transportation Extension Acts of 2004 (STEA04) authorized \$512.5 million for ADHS in FY 2004. STEA and SAFETEA-LU provided another \$450.7 million in FY 2005. In the same five-year period, Congress also allocated additional funds through annual DOT appropriation acts for ADHS ranging from \$80 million to \$200 million annually. These brought federal funding for ADHS to an average of \$617.24 million a year between FY 2000 and FY 2005. The result has been a steady, 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 Commission currently estimates the remaining federal funds needed from Congress to complete the ADHS total approximately \$3.2 billion. This is a significant reduction from the remaining need at the time of the 1997 estimate, which was \$6.2 billion. The 2002 cost-to-complete study does not include the cost of the additional 65 miles added to the system in 2004.

Figure 9



APPALACHIAN DEVELOPMENT
HIGHWAY SYSTEM



-  Miles Open to Traffic—
September 30, 2005
-  Miles Not Open to Traffic
-  Interstate System

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 2007 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 2007, 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 2005, compared with prior years.

Salaries and Expenses (Thousands of dollars)

	2005 Actual *	2006 Budget*	2007 Request	Change
Appropriation	4,630	5,237	5,437	200

* Reflects rescission.

The requested totals for FY 2007 are based on maintaining staffing levels in effect since FY 2004 and to implement the requested \$64.817 million program.

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

Table 10 - Salaries and Expenses
(Thousands of dollars)

	2005 Actual	2006 Budget	2007 Request	Change
1. Federal Co-Chair				
Immediate Staff	1,289	1,473	1,487	14
Inspector General	<u>431</u>	<u>471</u>	<u>472</u>	<u>1</u>
<i>Subtotal:</i>	1,720	1,944	1,959	15
2. Commission Administrative Expenses (50% federal contribution)	<u>2,910</u>	<u>3,293</u>	<u>3,478</u>	<u>185</u>
<i>Total Request:</i>	4,630	5,237	5,437	200

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 \$1.487 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 \$472,000 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 11 and 12 show object class estimates for the request for the Offices of the Federal Co-Chair and the Inspector General, respectively.

Table 11 - Federal Co-Chair's Office Administrative Expenses
(Thousands of dollars)

	2005	2006	2007	Change
	Actual	Budget	Request	
Personnel Compensation	833	960	975	15
Personnel Benefits	213	263	257	-6
Travel & Transportation	102	75	85	10
Rent, Communications	101	130	125	-5
Printing	2	5	5	0
Services	22	20	20	0
Supplies	15	10	10	0
Equipment	<u>1</u>	<u>10</u>	<u>10</u>	<u>0</u>
<i>Total:</i>	1,289	1,473	1,487	14

Table 12 - Inspector General's Office Administrative Expenses
(Thousands of dollars)

	2005	2006	2007	Change
	Actual	Budget	Request	
Personnel Compensation	249	264	278	14
Personnel Benefits	39	62	41	-21
Travel & Transportation	6	9	9	0
Rent, Communications	32	28	36	8
Printing	0	1	1	0
Services	103	100	100	0
Supplies	2	2	2	0
Equipment	<u>0</u>	<u>5</u>	<u>5</u>	<u>0</u>
<i>Total:</i>	431	471	472	1

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 13 shows the plan for financing Commission operations.

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

	2005 Actual	2006 Budget	2007 Request	Change
State Contribution	2,910	3,293	3,478	185
Federal Contribution	2,910	3,293	3,478	185
Prior year balances used	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total:</i>	5,820	6,586	6,956	370

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 2007 in Table 14.²⁰

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.

**Table 14 - ARC Non-Federal Operating Expenses
(Thousands of dollars)**

	2005 Actual	2006 Budget	2007 Request	Change
Personnel Compensation	3,568	3,952	4,149	197
Personnel Benefits	1,221	1,423	1,483	60
Travel & Transportation	98	79	89	10
Rent, Communications, Utilities	629	665	743	78
Printing	16	50	51	1
Services	171	302	317	15
Supplies	70	77	79	2
Equipment	<u>47</u>	<u>38</u>	<u>45</u>	<u>7</u>
<i>Total:</i>	5,820	6,586	6,956	370

Commission staff will continue to use available resources to promote innovation, improve core competencies and internal communications, enhance technical assistance, improve the monitoring

²⁰ Table 14 reflects rescissions of \$52,000 in 2005 and \$66,520 in 2006.

and evaluation of project operations, stress customer service, and deploy affordable technology wherever possible.

Personnel compensation for Commission staff generally follows that of federal employees in the metropolitan area. Benefits are budgeted accordingly, and also include an additional increase for the Administration's legislative proposal to show the full costs of CSRS retirees' annuities and health benefit costs during retirement for those 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 conducted 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 and 2004. 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 and 2004 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 newly appointed Federal Co-Chair then initiated

additional discussions with OMB to further strengthen measurement for the 2005 cycle. 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 2006 program year, there are 77 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.

Changes in the numbers of counties in each category over time are one measure of economic progress in the Appalachia. Table 1 illustrates the short-term change between 2005 and 2006 designations. Figure 1 dramatically shows the long-term decline in the severely distressed category since 1960.

Table 1:

Category	Fiscal Year 2005	Fiscal Year 2006	Net Change
Distressed	82	77	-5
At-Risk	89	81	-8
Transitional	211	222	+11
Competitive	20	22	+2
Attainment	8	8	0
Total	410	410	0

Figure 2 is a map of the region that shows the location of distressed, at-risk, transitional, competitive, and attainment counties in the region for fiscal year 2006.

Descriptions of the criteria used to identify distressed and at-risk counties are as follows. County level data and technical notes are provided to the public on the Commission web site.

Distressed Counties

The Commission uses the following rigorous set of criteria to designate counties as severely economically distressed.

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

Per capita market income (total personal income less transfer payments) no greater than two-thirds (67 percent) of the US average;

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

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

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

For FY 2006, 77 counties, or 19 percent [18.8%] of the 410 counties in the Appalachian Region, are designated as economically distressed. Designations for FY 2007 will be made in February of 2006. Counties designated for FY 2006 are as follows:

Alabama (5) - Bibb, Franklin, Hale, Macon, and Pickens

Kentucky (32) - Bell, Breathitt, Carter, Casey, Clay, Clinton, Elliott, Estill, Floyd, Harlan, Jackson, Johnson, Knott, Knox, Lawrence, Lee, Leslie, Letcher, Lewis, Magoffin, Martin, McCreary, Menifee, Monroe, Morgan, Owsley, Perry, Powell, Russell, Wayne, Whitley, and Wolfe

Mississippi (13) - Benton, Chickasaw, Choctaw, Clay, Kemper, Marshall, Montgomery, Noxubee, Oktibbeha, Panola, Webster, Winston, and Yalobusha

North Carolina (1) - Graham

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

Tennessee (6) - Clay, Fentress, Grundy, Hancock, Johnson, and Scott

Virginia (1) - Dickenson

West Virginia (15) - Barbour, Braxton, Calhoun, Clay, Gilmer, Lincoln, Mason, McDowell, Mingo, Ritchie, Roane, Webster, Wetzel, Wirt, and Wyoming

At-Risk Counties

ARC recognizes and closely monitors transitional counties that are “At Risk” of distress. This definition includes two categories of counties. The first have at least 125% of the U.S. three-year average unemployment rate, no more than 67% of the U.S. average per capita market²¹ income, and at least 125% of the U.S. poverty rate. The second is any county that meets two of the three criteria for defining severely distressed counties.

For FY 2006, 81 counties have been designated as at-risk:

Alabama (12) – Chambers, Colbert, Coosa, Fayette, Jackson, Lamar, Marion, Randolph, Talladega, Tallapoosa, Walker, and Winston

²¹ Total personal income minus income from transfer payments.

Kentucky (12) - Adair, Bath, Cumberland, Edmonson, Fleming, Hart, Laurel, Lincoln, Pike, Pulaski, Rockcastle, and Rowan

Mississippi (6) - Alcorn, Calhoun, Lowndes, Monroe, Tippah, and Tishomingo

North Carolina (6) - Cherokee, McDowell, Mitchell, Rutherford, Swain, and Yancey

Ohio (6) - Adams, Jackson, Lawrence, Morgan, Perry, and Scioto,

Pennsylvania (5) - Cameron, Clearfield, Fayette, Forest, and Huntingdon

South Carolina (1) - Cherokee

Tennessee (10) - Bledsoe, Campbell, Claiborne, Cocke, Grainger, Jackson, Meigs, Morgan, Pickett, and Union

Virginia (7) - Buchanan, Carroll, Grayson, Lee, Montgomery, Smyth, and Wise

West Virginia (16) - Boone, Doddridge, Fayette, Grant, Greenbrier, Lewis, Logan, Mercer, Nicholas, Pleasants, Pocahontas, Summers, Taylor, Tucker, Upshur, and Wayne

Transitional, Competitive, and Attainment Counties

The Commission focuses primarily on the economically disadvantaged counties of the region, but identifies other categories for the purpose of implementing grant policies. *Transitional counties* have one or more economic criteria below the national average, but they cannot be clearly classified as distressed or at-risk. Competitive counties are at least at the national average on poverty and unemployment, and are at least at 80 percent of the national average on income, but fall short of full parity. Attainment counties are equal to or better than national levels on all three indicators of economic status.

Figure 1

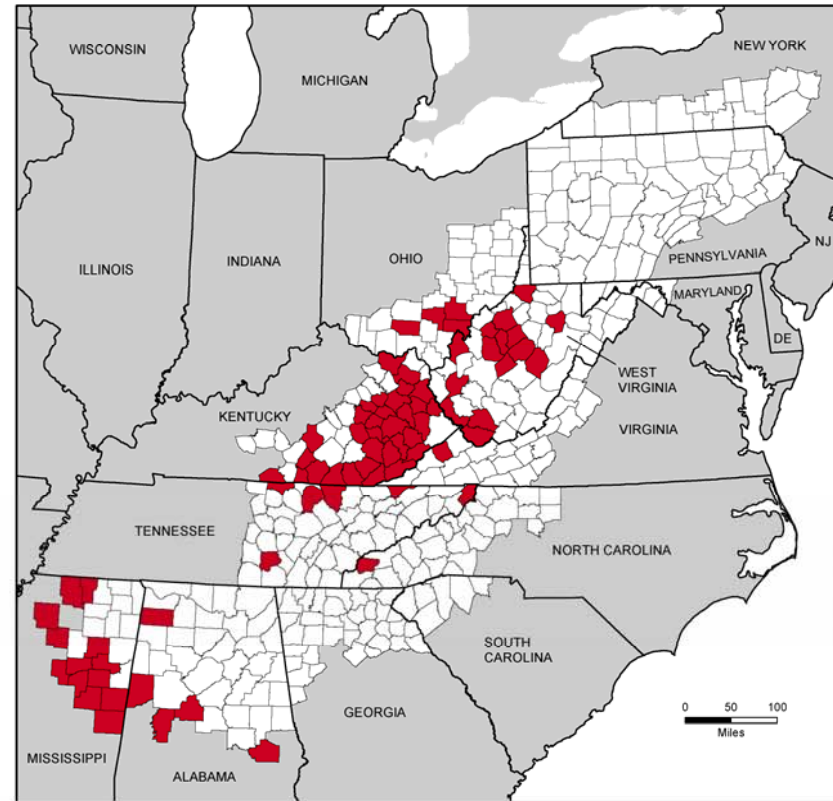
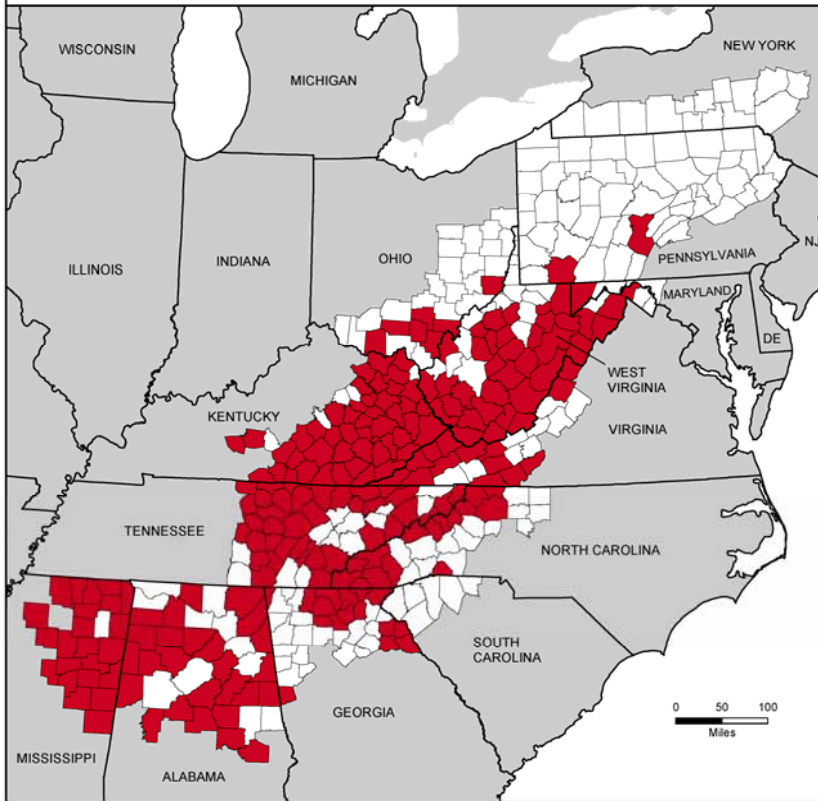
Distressed Counties in the Appalachian Region

1960

223 Distressed Counties

FY 2006

77 Distressed Counties



Definition of Distress in 1960:

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

Data Sources:

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



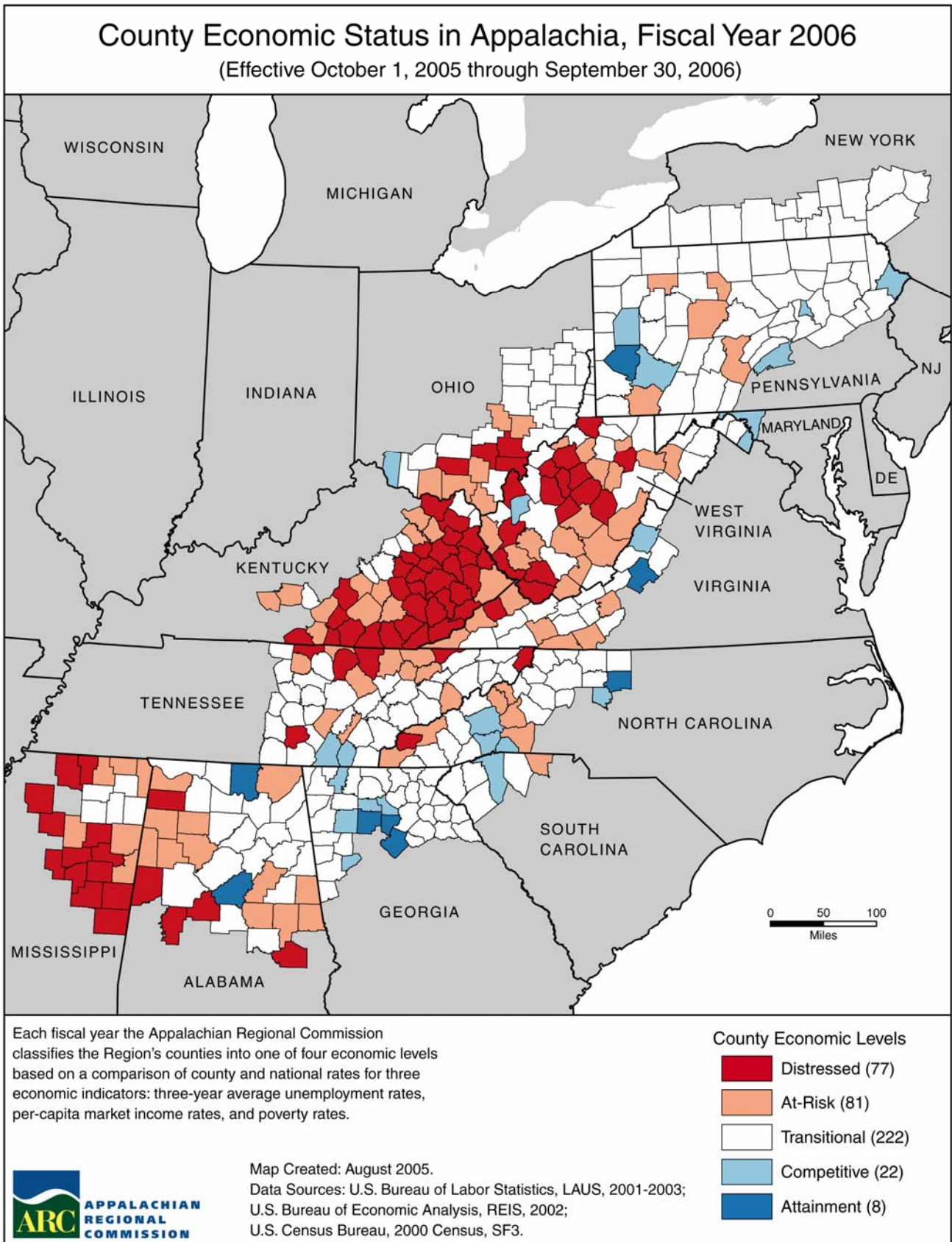
Definition of Distress in Fiscal Year 2006:

Distressed counties have a three-year average unemployment rate that is at least 1.5 times the U.S. average of 5.5 percent; a per capita market income that is two-thirds or less of the U.S. average of \$26,420; and a poverty rate that is at least 1.5 times the U.S. average of 12.4 percent; OR they have 2 times the U.S. poverty rate and qualify on the unemployment or income indicator.

Data Sources:

Unemployment: U.S. Department of Labor, Bureau of Labor Statistics, 2001-2003;
 Income: U.S. Department of Commerce, Bureau of Economic Analysis, 2002;
 Poverty: U.S. Department of Commerce, Census Bureau, 2000.

Figure 2



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 below.

ARC has a limited number of specific annual performance measures that demonstrate progress toward achieving long-term program targets. The following are examples of these measures:

Intermediate Term Measure: Jobs created or Retained—Two-Year Review. Two years after a project is funded ARC staff makes a field validation visit to 10-15% of the total number of projects funded in order to obtain information on the intermediate results for the selected projects. ARC obtains information from field visits regarding the percentage of the performance target achieved for infrastructure jobs created or retained within two years as a result of ARC investments (sample of completed projects). Recent results are noted below.

Year	Target	Actual	Two-Year Intermediate Results-% of Target
1998	747	803	107% Exceeded Goal
1999	4,288	4,421	103% Exceeded Goal
2000	1,097	985	90% of Goal Achieved
2001	2,003	2,015	101% Exceeded Goal
2002	1,336	1,452	109% Exceeded Goal
2003	4,613	3,902	85% of Goal Achieved
2004	Results not yet validated		

Long Term Measure: Jobs Created or Retained—Five-Year Review. ARC contracts with outside consultants to evaluate the overall performance of a major investment category every five plus years. The Jobs created or retained investment category was evaluated by The Brandow Company

in 2000. Another multi-year evaluation will be conducted in 2005-2006. The results for the 1990-1997 sample set of projects are reported below.

1990-1997	Target	Results	% of Target	
Water/sewer projects	15,354	20,031	130%	Exceeded Goal
Industrial park projects	5,829	5,716	98%	of Goal Achieved
Business Incubators	550	2,358	428%	Exceeded Goal
Access Road projects	2,174	3,459	159%	Exceeded Goal

Intermediate Term Measure: Households Served with Water/Sewer—Two-Year Review. Two years after a project is funded ARC staff makes a field validation visit to 10-15% of the total number of projects funded in order to obtain information on the intermediate results for the selected projects. ARC obtains information regarding the percentage of the performance target achieved for households served with water/sewer within two years as a result of ARC investments plus other funds (sample of completed projects). Recent results are noted below.

Year	Target	Two-Year Intermediate		
		Actual	% of Target	
1998	4,887	5,566	107%	Exceeded Goal
1999	974	872	90%	of Goal Achieved
2000	504	576	114%	Exceeded Goal
2001	7,859	8,395	107%	Exceeded Goal
2002	1,667	1,649	99%	of Goal Achieved
2003	843	815	97%	of Goal Achieved
2004	Results not yet validated			

Long Term Measure: Households served with Water/Sewer—Five-Year Review. Households served with water and sewer within a five-plus-year period (sample of completed projects) as a result of ARC and other investments were evaluated by The Brandow Company in 2000. Another multi-year evaluation will be conducted in 2005-2006. The results for 1990-1997 are reported below.

1990-1997	Target	Results	% of Target	
New Households served	1,928	4,553	236%	Exceeded Goal
Existing Households served	12,136	13,148	108%	Exceeded Goal
New Businesses served	48	191	398%	Exceeded Goal
Retained Businesses served	447	443	99%	of Goal Achieved

Intermediate Term Measure: Students and Trainees—Two-Year Review. Two years after a project is funded ARC staff makes a field validation visit to 10-15% of the total number of projects funded in order to obtain information on the intermediate results for the selected projects. ARC obtains information from field visits regarding the percentage of the performance target achieved for education projects within two years as a result of ARC investments (sample of completed projects).

Recent results for ARC investments that document participating students are shown below. Student improvements are evaluated in the five-plus multi-year study.

Participating Students	Year	Target	Actual	% Results Achieved
	1998	3,998	5,088	127% Exceeded Goal
	1999	4,547	4,498	99% of Goal Achieved
	2000	5,097	5,114	100% Exceeded Goal
	2001	2,497	2,343	94% of Goal Achieved
	2002	7,370	6,627	90% of Goal Achieved
	2003	536	502	94% of Goal Achieved
	2004	Results not yet validated		

Participating Trainees	Year	Target	Actual	% Results Achieved
	1998	645	918	142% Exceeded Goal
	1999	937	819	87% of Goal Achieved
	2000	1,050	836	80% of Goal Achieved
	2001	3,566	6,166	173% Exceeded Goal
	2002	1,667	1,330	80% of Goal Achieved
	2003	480	697	145% Exceeded Goal
	2004	Results not yet validated		

Long-term Measure: Students and Trainees: Five-Year Review. Over a five plus year period ARC has an outside consultant review the overall performance of a major investment category. Vocational education and workforce training activities were evaluated by Westat in 2000. Another multi-year evaluation will be conducted in 2006-2008. Results for the 1995-1999 sample of projects are reported below. ARC has a target of achieving 70% of its objectives in seven activities categories.

1995-1999	% Results Achieved	
Services provided to individuals	65%	Not met
Services provided to Communities	83%	Exceeded
Barrier reduction	80%	Exceeded
Skill attainment	83%	Exceeded
Degree attainment	57%	Not met
Impact employment status	86%	Exceeded
Impact Community Viability	70%	Met

Long Term Measure: Health Care Professionals Placed in the Region—Annual Results. ARC assists local communities with the placement of physicians and other health care professionals in health professional shortage areas (HPSAs). Recent results of ARC activities are noted below.

Year	Target	Actual	Results-% of Target
1999	100	123	123% Exceeded Goal
2000	140	104	74% of Goal Achieved
2001	100	66	66% of Goal Achieved
2002	100	96	96% of Goal Achieved
2003	60	79	132% Exceeded Goal
2004	50	43	86% of Goal Achieved
2005	NA	36	NA – no longer a performance goal

Long Term Measure: Miles of Appalachian Development Highway Opened to Traffic—Annual Results. The current target of opening 25 miles of highway per year was set assuming at least \$500 million available for ADHS funding each year. It should be noted that opening a highway involves a 4 to 8 year period of investment in design, right-of-way purchase and construction. For the period 2000-2004 an annual average of 26 miles was opened to traffic.

Year	Target	Results	% of Target
2000	25	10	40%
2001	25	72	288%
2002	25	25	100%
2003	25	20	80%
2004	25	5	20%
2005	25	18.1	72%

Long Term Measure: Infrastructure Investments: Private and Other —1990-1997.

Private sector investments and non-ARC investments are determined through an evaluation conducted by an outside contractor for a sample of ARC Infrastructure Projects. The 1990-1997 evaluation was conducted by The Brandow Company and the results are reported below. Another long term measure evaluation will be conducted in FY2005-2006.

Business Infrastructure and Job Creation/Retention. The target ARC to private sector investment ratio for business infrastructure projects is 1 to 15.

1990-1997	ARC Funding	Private Funding Target	Actual Private Investment
	\$14,599,922	\$175,199,060	\$2,195,350,000 Exceeded Target

Residential Infrastructure and Households Served. The target ARC to public sector long-term investment ratio is 1 to 3 for residential infrastructure.

1990-1997	ARC Funding	Public Investment Target	Actual Public Investment
	\$3,861,575	\$11,584,725	\$10,210,531 88% of Goal Achieved

Overview—All Infrastructure Project Types. The target ARC to non-ARC long term funding ratio is 1 to 10 for all ARC residential projects in distressed areas. This ratio was established in the FY 2005 Performance Budget Justification.

1990-1997	ARC Funding	Private Investment Target	Actual Private Investment	
	\$32,433,047	\$324,330,470	\$3,088,642,000	Exceeded Target

Annual Measure: Each year ARC targets a 1 to 4 initial investment ratio for ARC funds to initial private sector investments in all ARC Projects.

	ARC Investment	Target Initial Private Investment	Initial Private Investment	
2001	\$54,037,027	\$216,148,100	\$289,355,460	Exceeded Target
2002	\$65,527,968	\$262,111,870	\$114,911,100	44% of Target
2003	\$65,956,352	\$263,825,400	\$331,965,400	Exceeded Target
2004	\$66,103,291	\$265,241,688	\$490,247,346	Exceeded Target
2005	\$66,261,717	\$265,046,868	\$560,321,506	Exceeded Target

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 its 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. 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 has 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. ARC is subsequently evaluating economic benefits to the areas highlighted in the map.

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.

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 PowerUP 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 provide 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.

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. Twelve of the 13 Appalachian states have received support through August 2005.

APPENDIX E ARC Organizational Chart

