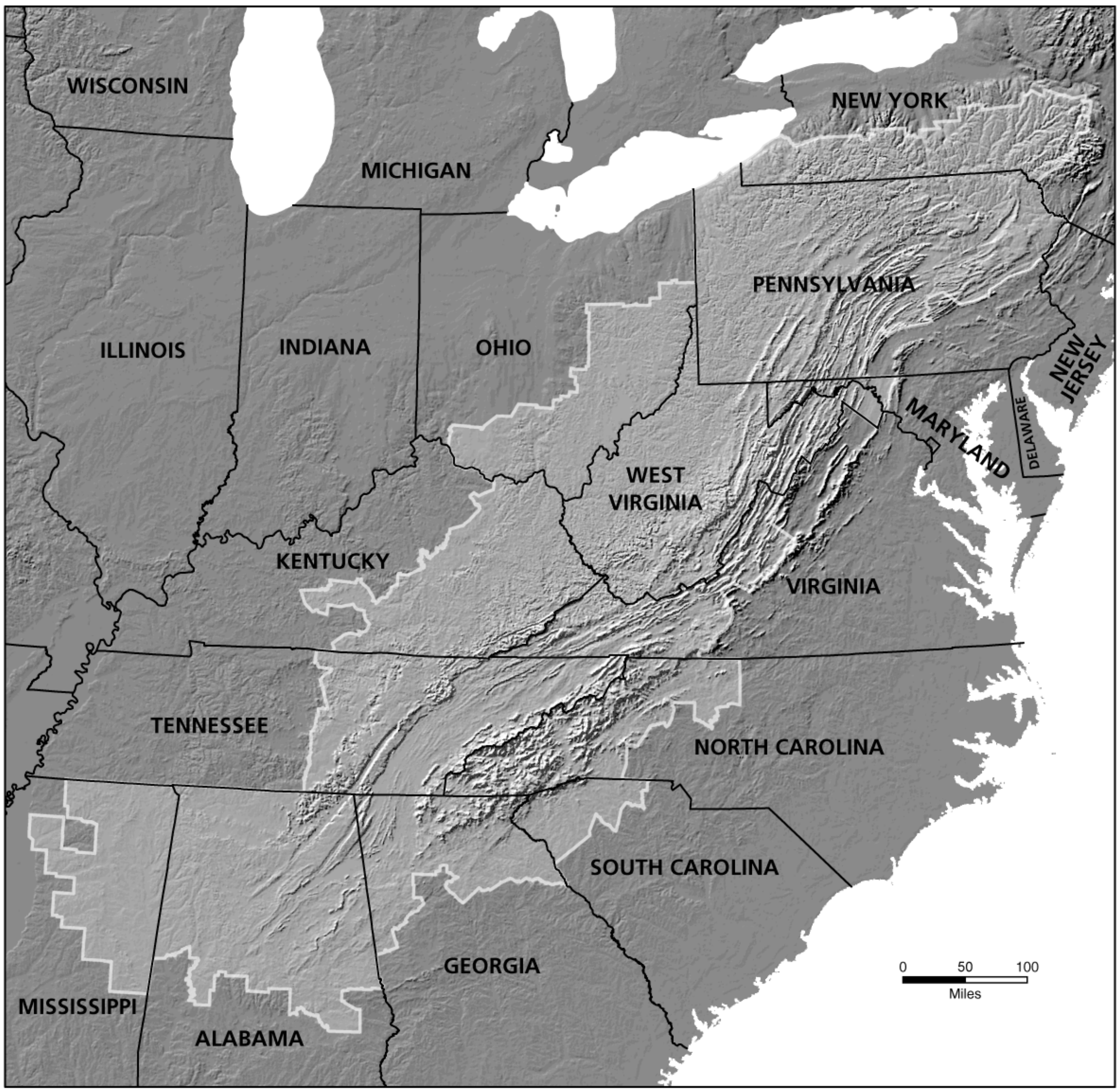
APPALACHIAN REGIONAL COMMISSION

FY 2006 Performance Budget Justification

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

February 2005



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Appalachian Regional Commission
FY 2006 Budget Request Summary and Highlights

The Federal Co-Chair requests $65.472 million[1] in direct appropriations for the Appalachian Regional Commission (ARC) to implement the Appalachian Regional Development Act (ARDA) Amendments of 2002, which authorizes the Commission through 2006. This request is substantially less than the authorized $92 million level and is vital for positioning the Appalachian region for vigorous, self-sustaining growth. The request is the same as the enacted appropriation for fiscal year 2005.

Appalachia's socioeconomic problems are widespread and generational. The region still does not enjoy the same economic vitality and living conditions as the rest of the country. The region continues to battle economic distress because its economy is disproportionately dependent on extractive industries and manufacturing, infrastructure development lags, and human capital and leadership deficits persist in many areas. Concentrated areas of high poverty, persistent unemployment, and low incomes—exacerbated by inadequate health care, educational disparities and out-migration—still prevent many Appalachians from participating fully in the American economy. Although the long-term problems of Appalachia have cost the nation dearly, the region continues to receive less federal assistance per capita than the rest of the country for economic development. [2]

Return on Investment

Historically, ARC projects have proven cost-beneficial. For example, a recent outside study, *Evaluation of the Appalachian Commission's Infrastructure and Public Works Program Projects,* examined 99 projects initiated and completed between 1990 and 1997. It found that there was a 33 to 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. The investment in the Appalachian Development Highway System has resulted in efficiency benefits of $1.10 for each $1 invested; and economic development benefits of $1.32 for each $1 invested.

ARC was created with the vision of closing the socioeconomic gaps between the region and the rest of the U.S., and the agency has a strategic plan in place with a mission to be a strategic partner and advocate for sustainable community and economic development in Appalachia.

The ARC mission builds on the important assets that Appalachia possesses: a rich cultural heritage, substantial natural resources, a spirit of independence, and a dedicated workforce. ARC seeks to capitalize on these assets.

ARC achieves its mission by promoting economic and community development through a framework of joint federal and state initiative. No other agency of government is charged with

[1] This amount includes funds for 11 Federal full-time equivalent positions and half the funding for 48 non-Federal Commission full-time equivalent positions.

[2] 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.

addressing Appalachian problems and opportunities by simultaneously being an advocate, knowledge builder, investor, and partner at the federal, state, and local levels. Advocacy builds alliances among private and public organizations to focus technical, financial, and policy resources to assist the region. Knowledge building capitalizes on ARC's unique perspective to study regional issues through research, regional forums, advisory councils, and community meetings. Investing flexible funds provides seed capital, gap funding, and support for innovation while leveraging about ten dollars for each ARC dollar. The cumulative effect of this work over the years has helped transform the region, although much remains to be done.

Because of its partnership structure and flexible problem-solving approach, ARC is often able to identify and help fund innovative grass roots initiatives that might otherwise languish as missed opportunities, and to jumpstart new projects that help communities develop regional economic development opportunities. In many cases, ARC functions as a predevelopment agency, providing modest amounts of initial funding that are unavailable from other sources. ARC shares successes, so that initiatives like ARC's Appalachian Higher Education Program can be replicated effectively across the region.

ARC's grant funding is different than that of line federal agencies. For example, ARC:

- Targets 50 percent of its funds to very narrowly defined distressed counties and/or distressed areas;
- Funds small projects that would typically not meet the threshold of other federal economic development agencies but are essential for addressing deeply rooted regional problems,
- Funds projects that use new approaches to tackle local problems;
- Provides the critical dollars for many initiatives so that they qualify for other public and private sources of funds; and
- Provides funding to assist distressed communities in conducting feasibility studies for capitalizing on economic opportunities.

Through the years, ARC has also effectively used its funds to help communities make better use of limited resources from other federal agencies, as the ARDA envisioned. ARC funds have been used to supplement and complement, not duplicate, funding from 12 federal agencies over the years. Combined federal, state, local, and private funds have provided a broad program of assistance to the region. In 2004, 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.

There has been substantial and enduring payoff for ARC grants. A recent study of Commission infrastructure projects demonstrated that for every one-dollar invested by ARC between 1990 and 1997 Appalachia gained 33 dollars in long-term benefits.

ARC is a performance-driven organization, evaluating progress and results on an ongoing basis and relying on clearly defined priorities and strategies for achieving them. Based on performance information, ARC adjusts its strategies, emphasizing what works and discontinuing what does not, to ensure maximum return for taxpayers.

During FY 2004, the Commission completed a new Strategic Plan for 2005-2010 to refocus its resources and activities, setting a new set of goals and strategies for tackling Appalachian economic problems. The Plan envisions Appalachia reaching socioeconomic parity with the rest of the country. It focuses on the predominant inhibitors – regional isolation and preparedness for being economically competitive. This logic specifically addresses Congress' mandate set out in the Appalachian Regional Development Act of 1965, and its rationale for creating a federal/state partnership model cutting across traditional categorical federal programs. It ensures not only that the large federal highway investment in Appalachia does not result in roads to bypass or escape the region, but also provides the related investments that can catalyze economic development benefiting both the region and the U.S. economy as a whole. The four general goals are inter-related. Reducing isolation is necessary but not sufficient to ensure regional competitiveness. Investments in people, basic infrastructure, and job opportunities must be made as well. The logic model for these important goals and the accompanying set of critical strategies is included in the budget justification on page 24.

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. It also noted progress in developing outcome-related measures, but acknowledged the difficulty of performance measurement because ARC co-funds projects with other agencies. The Administration plans to continue focusing ARC 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.

The Commission will continue to designate the most severely distressed counties and areas in the region as a strategy for targeting resources to the greatest need and addressing the priority for funding those areas under its 2002 reauthorization statute. The severely distressed designations identify the parts of the region that have substantial pre-developmental needs and few resources to address them through traditional federal programs.

ARC's four strategic goals will guide Area Development funding in FY 2006, enabling the Commission to address compelling needs in the region and to build on its assets:

- *Increase Job Opportunities and Per Capita Income.* ARC will with its state, regional, and local, partners, create and retain jobs. ARC will continue to promote entrepreneurship in strategies to diversify the economy of Appalachia by emphasizing the region's unique assets such as its rich cultural heritage, natural resources, and natural beauty of the region are unique assets that can and should be a basis for strategies to diversify the economy of Appalachia.

- *Strengthen Capacity of the People to Compete in the Global Economy.* Education and health care are essential components for Appalachian residents to compete in the world economy. Skills and training must be upgraded, and health-related problems must be reduced. Emphases will be placed on reducing the gap in college-going rates between Appalachia and the rest of the country. Additionally, efforts will focus on vocational training and moderate- to long-term on-the-job training. Health care efforts will focus on reducing the disproportionately high rates of chronic diseases such as cardiovascular disease, cancer, and diabetes. Gains in education and health will contribute to the region's workforce participation and productivity.

- *Develop and Improve Appalachia's Infrastructure.* Clean water is the most basic infrastructure requirement for health and economic growth. Few Americans realize that many distressed Appalachian communities still lack this basic infrastructure. The Commission will continue to focus on essential water and sewer facilities. In addition, ARC will continue its emphasis on expanding access to high-speed telecommunications, which is critical to Appalachia's future. Without adequate broadband communications, the region's businesses and institutions will continue to lag behind the rest of the nation, and the potential for growth of technology-related industries will be impaired.

- *Build the Appalachian Development Highway System.* Completion of the ADHS is critical to provide mobility and access to markets for Appalachian communities and businesses and reducing the historic geographic isolation of the region.

The Commission is also committed to implementing the President's Management Agenda. The ARC governance model is ideally suited for implementing it. Detailed discussion regarding progress is included as Appendix A.

Table 1 shows the general goals in the Plan and the performance targets for each goal in 2006. During FY 2006, ARC will achieve its goals by investing $15 million to increase job opportunities; $14 million to improve employability of the Appalachian workforce; $36.5 million to improve infrastructure, including $5 million for telecommunications; and approximately $450 million from the Highway Trust Fund to build approximately 25 additional miles of highway. The Commission will work with its partners in Appalachian states and communities to identify specific local projects that address the Strategic Plan. These investment areas will change over time as some problems are solved and new issues and needs emerge.

The performance plan anticipates that the 2006 ARC program would create or retain 20,000 jobs; position 20,000 Appalachians for enhances employability; provide basic infrastructure services to 20,000 households; provide broadband service to 5 communities for each $1 million invested in telecommunications; and build 25 miles of the ADHS. At least 50 percent of non-highway grant funds would benefit distressed counties and areas. Target investment ratios for grants would be 4 private sector dollars to each ARC dollar for economic diversification projects; 1 non-ARC dollar to each ARC dollar in employability projects; and at least 2 non-ARC dollars to each ARC dollar invested in infrastructure projects.

Table 2 summarizes the request for FY 2006. The attached budget justification explains and supports the Federal Co-Chair's request for resources to respond to this mandate.

Table 1. ARC Goals and 2006 Targets

General Goals	Targets for 2006
Increase Job Opportunites 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 Expand broadband service to 5 communities for every $1M invested Achieve a 2:1 average investment ratio for infrastructure projects Direct 50% of grant funds to benefit distressed counties/areas
Build the Appalachian Development Highway System to Reduce Isolation	Build 25 miles of the ADHS

Table 2 - Summary of FY 2006 Request by Performance Goal
($ Millions)

		Program Funding	Local Development District Planning	Salaries & Expenses	Total Request
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**	11.9	1.1	1.0	**14**
Goal 3	**Develop and Improve Infrastructure**	30.1	3.2	3.2	**36.5**
Goal 4	**Build the Appalachian Development Highway System**				**[450]** *
Total Current Request		**54.8**	**5.4**	**5.3**	**65.5**

* *Anticipated financing from the Highway Trust Fund under pending SAFE-TEA legislation*

Appalachian Regional Commission
FY 2006 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

I. Introduction

The Appalachian Region is home to nearly 23 million people living in 410 counties[3] within 13 Eastern states. Congress, in 1965, 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. ARC was created to assist the region to join the rest of the nation and contribute to the overall prosperity of the country 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 other related socioeconomic deficits that have historically inhibited economic and social progress. The barriers were not seen as independent – even if the 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

A "Region Apart"

Unemployment
A majority of Appalachian counties have a higher unemployment rate than the national average and 101 counties have an average 3-yr rate (2000-2002) 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
Thirty percent of Appalachian households are not connected to a centralized wastewater treatment facility. 15% of households in central Appalachia lack both public water and wastewater services.

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

[3] Passage of pending surface transportation reauthorization legislation may add up to 12 additional counties to the Appalachian Region.

investments were not accompanied by corresponding investments in socioeconomic development, the highways could end up serving as an Appalachian "by-pass" that would exacerbate rather than remedy its problems.

Although resources from various public and private organizations contribute to addressing these issues, the partnership between the Appalachian states and the federal government is crucial. It should be noted that the member states pay one-half of ARC staff costs and are therefore fully and actively involved in ARC initiatives. By using a "bottom up" approach, ARC seeks input and solutions from local, regional, and state bodies. ARC provides funds to communities that cannot afford to meet other federal or state agency requirements.[4] In many cases, ARC is the predevelopment agency – it provides seed money unavailable elsewhere to stimulate activities that ultimately allow a community to seek additional public funding.

Through the years, ARC has effectively used its funds to help communities make use of limited resources from other federal agencies. These federal funds combined with state, local, and private money provide a broad program of assistance to the region. Historically, every ARC dollar is leveraged five times with matching funds from other public and private sources. In short, ARC grants often serve as the "glue" that helps initiate or keep together projects that may not be viable otherwise. ARC leadership, coordination, and advocacy help local communities in Appalachia leverage other resources.

Another important ARC distinction is its long-standing focus on results. As stated previously, specific emphasis is placed on providing assistance to severely distressed counties and areas where over 50% of ARC funds are expended. 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 5 years on a rotating basis. These studies are used to plan future projects, evaluate the results

[4] 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.

of ARC's programs, and adjust and develop new strategies for tackling difficult and in most cases generational, long-standing problems.

Since 1965, 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, ARC has made considerable progress. It has:

- *Reduced the region's isolation* by constructing nearly 2,500 miles of new highways, which represents approximately 80% 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.

- *Improved 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.

- *Promoted Appalachian entrepreneurship and business development*, by providing technical assistance, financing, and support to the region in marketing its unique cultural heritage and Appalachian products.

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 63 percent, from 223 to 82 counties (see Appendix B);

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

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

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

- increase the number of Appalachian households with drinking water and in-door sanitation facilities by 800,000.

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 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. Over 80 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. This integrated budget and performance request for FY 2006 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. It will work closely with the state and community partners, building on existing public and private sector partnerships, and seeking new and innovative approaches for achieving desired results.

II. Special Focus on Distressed Counties

The Commission by law directs at least half its grant funding 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 82 counties designated for FY 2005. 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. Unlike other agencies, ARC uses a 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 the legislation. For FY 2005, there are 607 distressed census tracts, an increase from 2004. The population of both distressed counties and distressed areas together is almost 3.7 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:

- *transitional counties* have economies operating below national norms but do not fully qualify as distressed;

- *competitive counties* have economies approaching national averages; and

- *attainment counties* have per capita income, poverty and unemployment rates equal to or better that the national rates.

The analysis for FY 2005 found that, of the 410 counties in the region, 82 are distressed, 300 are transitional, 20 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 on the cusp of distress. These counties meet at least two of the Commission's three distress criteria and are very close to meeting the third. Some may have just graduated from their distress designation or have experienced economic hardships causing them to fall back. Currently the Commission has identified 65 counties which it considers nearly distressed. ARC works closely with its federal, state, local and private partners to identify and implement programs to improve the socioeconomic status of these counties

Besides allocating funding to benefit distressed counties and areas, 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 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.

III. 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.

Increased global competition and technological change have resulted in job losses and restructuring in many key Appalachian industries. Employment losses in non-durable goods and manufacturing and resource-based industries have been severe and disproportionately impacted much of the region. Some of these declines have been offset by employment growth in service sectors, but service sector average wages are often considerably lower than those in the goods producing sectors. 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. 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 structural economic shifts because of its disproportionate reliance on extractive industries and manufacturing.

- 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 97,000 jobs since 1993, and the textile industry has lost 33,000. Over the last 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 22,000 workers, or even lower, depending on the economic and environmental assumptions that are made.

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 newfound 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.

IV. Strategic Goals

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

Structural changes in sectors such as coal mining, steel, furniture manufacturing, textiles, and agriculture have hit Appalachia disproportionately hard, threatening to reverse the modest economic gains that many Appalachian communities have made over the last decade.

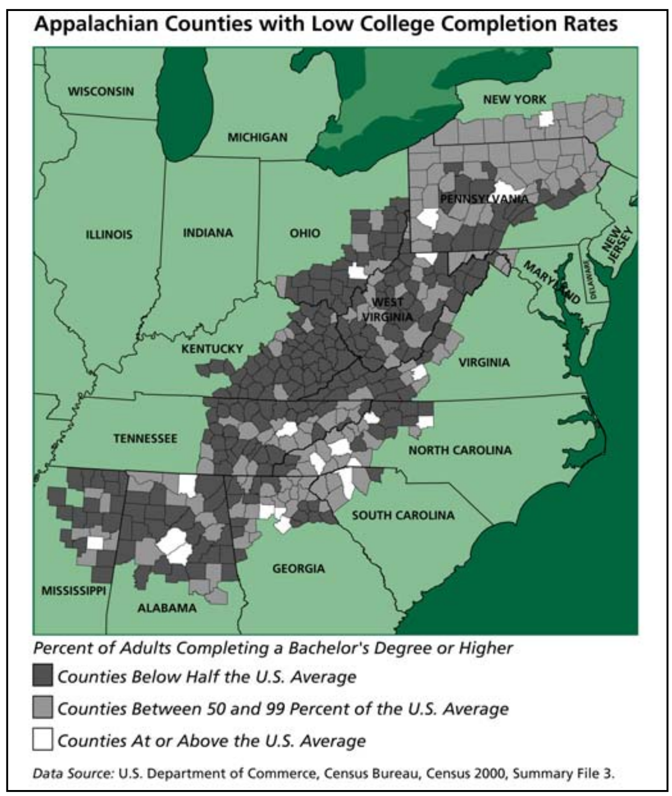
Appalachia's economic vitality and stability require a more diversified regional economy. In addition to attracting new industry and retaining and expanding existing businesses, the region needs to nurture home-grown firms and encourage innovation and risk-taking, as well as foster greater private sector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

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.

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 evidenced by Figure 1.

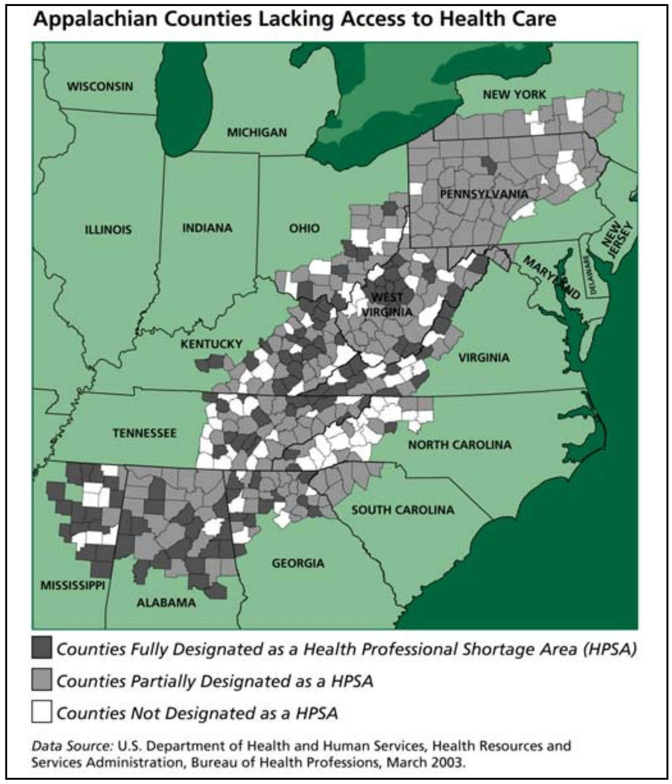
Figure 1



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. 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.

As evidenced by Figure 2, 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. Over two-thirds of the region's counties are fully or partially designated by HPSA as areas having a health care professional shortage. Most Appalachian counties have had difficulty attracting basic services such as dentistry, outpatient alcohol treatment, outpatient drug treatment, and outpatient mental health services.

Figure 2



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. Over 30 percent of households in central Appalachia are not connected to centralized wastewater treatment systems, and at least 15 percent of households lack both public water and wastewater services. For many communities, this lack of service may force residents to haul water from springs or rain barrels; homes without sewers or septic tanks typically "straightpipe" their untreated waste directly to streams. These fundamental problems threaten public health, damage the environment, and undermine economic stability for families and the region as a whole.

ARC is completing a study to document the region's funding resources and funding gaps for drinking water and wastewater infrastructure. Preliminary estimates indicate that Appalachian counties require investments of $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. Reviewing per capita needs highlights the disparities facing the region. Aggregated per capita drinking water needs in the Appalachian portions of the ARC states are estimated at $503. In ten of the thirteen states, per capita needs are much higher in Appalachian counties than in the rest of the state, reflecting the traditional lack of capital investment in the region.

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 continues to grow at a substantially slower pace in the region than in the nation as a whole.[5] The deficit in the region will require aggressive attention if the President's national goal of universal broadband access by 2007 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 telecommunications infrastructure. Its people are less familiar with and therefore more easily intimidated by its complexity.

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%**

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.[6] For example, tech-related job growth in the region's rural areas from 1996-2000 was 21 percent versus the national average of 53 percent.

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[5] 2004 Update: Links to the Future – The Role of Information and Telecommunications Technology in Appalachian Economic Development. Michael Oden and Sharon Strover, June 2004

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

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), a 3,025-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. P.L. 108-199 added 65 miles to the system in 2004, for a new system total of 3,090 miles. Congress authorized this initiative because it recognized that regional economic growth would not be possible until the region's isolation had been overcome.

Because of the high cost of building roads through Appalachia's mountainous terrain, adequate roads had not been built in much of the region. When the interstate system was built, large areas of Appalachia were simply bypassed, compounding the problems of the region's already troubled economy. The ADHS was designed to link Appalachia with the US interstate system. The region has significantly benefited from the ADHS. New jobs have been created as businesses have located along the system. Substantial time savings have occurred as isolation is reduced, and crash and injury rates have dropped as much as 60 percent as two-lane roads are replaced by modern and safe four-lane thoroughfares.

More than 80 percent (2,480.1 miles) of the total 3,090 miles of the ADHS authorized by Congress for construction before 2005 are open to traffic, and another 147 miles are under construction. The remaining 462.9 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 3 below show progress on the system through the end of FY 2003.

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 offer new and more efficient freight flows to trade gateways.

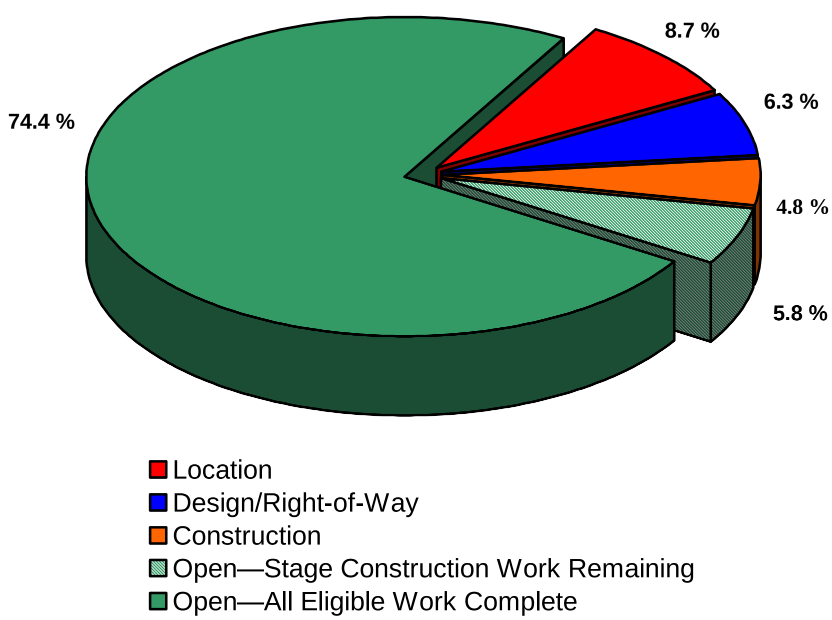
Table 4 - Status of Completion of the ADHS (Miles) as of September 30, 2004

	Miles Open to Traffic		Miles Not Open to Traffic			
State	Complete	Remaining Stage Construction	Construction Under Way	Design Stage	Location Stage	Total Miles Eligible for ADHS Funding
Alabama	126.4	48.6	50.5	8.6	61.6	295.7
Georgia	99.1	1.8	0.0	8.3	23.3	132.5
Kentucky	388.0	0.0	14.1	24.2	0.0	426.3
Maryland	77.0	3.7	0.0	0.0	2.5	83.2
Mississippi	90.3	0.0	6.7	20.5	0.0	117.5
New York	203.3	12.0	1.8	4.9	0.0	222.0
North Carolina	172.7	4.2	2.7	16.4	8.3	204.3
Ohio	168.3	0.0	9.4	0.5	23.3	201.5
Pennsylvania	262.6	17.2	44.4	17.6	111.3	453.1
South Carolina	16.8	0.0	1.8	4.3	0.0	22.9
Tennessee	211.6	91.7	0.0	2.2	23.8	329.3
Virginia	160.8	0.0	0.0	16.4	15.0	192.2
West Virginia	323.1	0.9	15.7	69.9	0.0	409.6
System Totals	**2300.0**	**180.1**	**147.1**	**193.8**	**269.1**	**3,090.1**

Appalachian Development Highway System

Status of Completion as of 9/30/2004

3090.1 Eligible Miles



V. ARC Performance Assessment

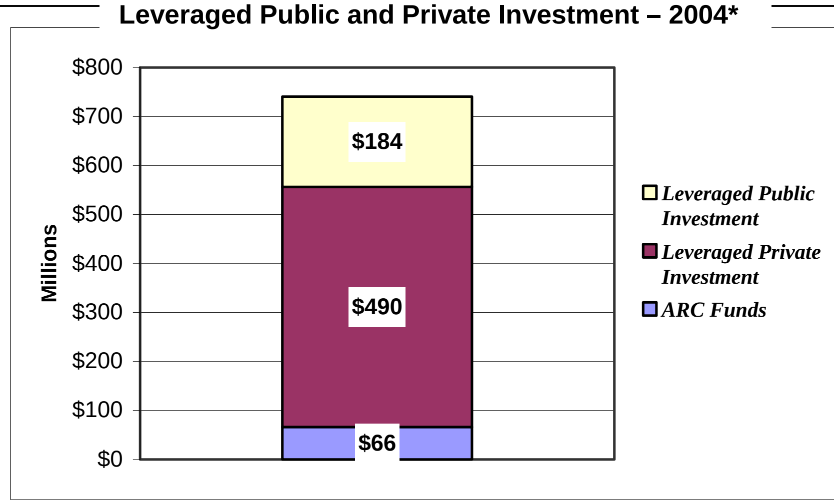
ARC assesses the overall progress of the region over the long term through special research, fine-grained analyses of decennial census data, and monitoring the number of severely distressed counties over time. That information is essential for understanding remaining gaps between the region and the rest 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.

ARC Return on Investment

Figure 4
Leveraged Public and Private Investment – 2004*



* *Excludes LDD funding, ADHS, and research activities*

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.[7] As shown in Figure 4, in 2004 each dollar of ARC funding across all investment areas leveraged $2.78 in other public funding and $7.42 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.

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. Findings are made available to state and local organizations that are in a position to affect future programming, and 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 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.[8]

The 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.

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[7] Evaluation of the Appalachian Regional Commission's Infrastructure and Public Works Program Projects, The Brandow Company and Economic Development Research Group, June 2000.
[8] An Early Stage Evaluation of ARC's Entrepreneurship, Regional Technology Strategies, March 2001

Since the 1980's the Commission has supported business development and assisted communities in the creation of over 60,000 jobs in Appalachia. A key component of this business development effort has been the 30 plus 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.

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 has been replicated in 48 schools in seven additional Appalachian states with two additional centers coming on board in Fall 2004. The Ohio program received the "Innovations in American Government Award" from the Harvard University Kennedy School of Government in 2003.

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.[9] 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.

Distressed County Infrastructure

Health department tests found that 100% of private wells in the Grayson area of Winston County, Alabama, were contaminated, forcing residents to purchase and haul bottled water or face serious health risks. A local lumber company employing 88 people had been hauling all of its water, preventing a business expansion in an area with double-digit unemployment rates. ARC had designated Winston County as severely distressed. The local development district worked with the county to package ARC, State CDBG, local, and EPA funds in 2003 to construct 9.6 miles of water line and two water storage tanks. The project will resolve public health threats, retain jobs, and create opportunities for economic development. Fire hydrants will help cut homeowners insurance rates substantially, and residents will avoid costs and difficulties of purchasing and hauling water. Eighty-seven percent of the people served are low/moderate income.

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

[9] Evaluation of ARC's Educational Projects, Westat Corporation, 2000

income per public dollar invested.[10] 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. These estimates are expected to increase as ARC completes its current study of infrastructure financing needs.

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 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, for projects involving:

- **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.

- **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.

Distance Learning and Telemedicine

Pickens County is a distressed county in west central Alabama. Only 69 percent of its adults have a high school education. The county could not afford to hire new teachers for advanced or specialized courses. At the same time, the local medical system saw a telemedicine opportunity for area residents but considered it unaffordable.

Working together, the County and medical system sought and received $200,000 in funding from the ARC to develop a joint distance-learning and telemedicine service network.

Over a 12 month period, the project saved over $130,000 in costs, provided 257 high school students with enhanced educational courses, offered adults 22 continuing education classes, permitted teachers to earn 51 Continuing Educational Units, trained 144 medical staff, and conducted eight telemedicine sessions.

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:

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

- 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.[11]
- 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.

Table 4 and Figure 4 on page 16 illustrate the progress made on the Appalachian Development Highway System in each state through the end of FY 2003.

Across All Goals. Building Community Capacity

ARC-funded 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 including 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. Most (70 percent) of the 179 outcomes proposed by the case study and telephone interview projects were successfully achieved. Of the remaining 53 outcomes, 16 were not achieved, 17 were proposed by projects that were still open (and therefore 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."

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[11] 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.)

The study found the overall thrust of the program achieved its objectives, and makes recommendations about how to improve the performance measurement process, principally through the use of a computer-based performance assessment tool for community capacity-building developed by the contractor for ARC. As a result of this evaluation study, ARC is now designing a web-based project design tool to incorporate performance measurement into the entire project life cycle.

Program Assessment Rating Tool (PART) Results and Corrective Actions

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. It also noted progress in developing outcome-related measures, but acknowledged the difficulty of performance measurement because ARC co-funds projects with other agencies. The Administration plans to continue focusing ARC 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 is participating under OMB sponsorship in an interagency coordinating council on economic development to address collaborative opportunities and common measurements for agencies with economic development missions.

Congress created the Appalachian Regional Commission 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.

V. FY 2006 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 2006 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 2006

ARC's FY 2006 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 long-term goals, as shown in Table 5 below.

Table 5. ARC Goals and 2006 Targets

General Goals	Targets for 2006
Increase Job Opportunites 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
	Expand broadband service to 5 communities for every $1M invested
	Achieve a 2:1 average investment ratio for infrastructure projects
	Direct 50% of grant funds to benefit distressed counties/areas
Build the Appalachian Development Highway System to Reduce Isolation	Build 25 miles of the ADHS

Figure 5 provides a more detailed display of the ARC program logic model for 2006 program operations, including the relationship of annual performance targets, major 2006 strategies and activities, and the current funding request to the mission and goals of the Strategic Plan.

Figure 5 - Appalachian Regional Commission Program Logic Model for 2006

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

- 82 counties remain severely distressed using ARC's conservative measure
- 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
- Appalachian resident college graduation rate is about 70% of the national average
- 30% of Appalachian households are not connected to a centralized wastewater treatment facility and 15% lack both public water and wastewater services
- Appalachia has higher mortality rates for all demographic subgroups of ages 35 to 64 from heart disease, chronic obstructive pulmonary disease, diabetes and strokes.

General Goals

Annual Goals

Inputs and Activities

Influence

Control

JOBS AND INCOME

1. Increase job opportunities and per capita income in Appalachia to reach parity with the nation

Outcomes:
- Create 120,000 new jobs by 2011
- Achieve 15:1 investment ratio

Annual Targets

1. Create/retain 20,000 jobs for Appalachians
2. Achieve a 4:1 average private sector to ARC investment ratio for employability projects
3. Direct 50 % of grant funds to benefit Distressed counties/areas

Key FY 2006 strategies or activities

Promote economic diversification through advocacy, regional forums, information sharing, training, and cooperative funding. Target entrepreneurship development and business support.

FY 2006 Funding $15 million

COMPETITIVENESS

2. Strengthen capacity of Appalachia to compete in the global economy

Outcomes:
- 120,000 Appalachian citizens will benefit from enhanced education/skills by 2011
- Achieve 1:1 investment ratio

Annual Targets

1. Position 20,000 Appalachians for enhanced employability
2. Achieve a 1:1 average non-ARC to ARC investment ratio for employability projects
3. Direct 50 % of grant funds to benefit Distressed counties/areas

Key FY 2006 strategies or activities

Increase employability by expanding alliances with other organizations, identifying and replicating exemplary model programs, and providing funding leadership. Focus on the college-going rate, worker skills, science/math, school readiness and high school completion. Address health access issues

FY 2006 Funding $14 million

INFRASTRUCTURE

3. Develop and improve Appalachia's infrastructure to make the Region economically competitive

Outcomes:
- Provide new/improved water/sewer services to 120,000 households by 2011
- Achieve 3:1 investment ratio

Annual Targets

1. Provide 20,000 households with basic infrastructure services
2. Achieve a 2:1 average non-ARC to ARC investment ratio for projects
3. Provide broadband service to 5 communities for every $1M invested
4. Direct 50 % of grant funds to benefit Distressed counties/areas

Key FY 2006 strategies or activities

Seek highly leveraged and collaborative funding of basic infrastructure projects, with an emphasis on essential clean water and waste disposal. Expand telecommunications infrastructure, through advocacy, knowledge-sharing, and targeted funding.

FY 2006 Funding $36.5 million ($5 million for telecommunications)

TRANSPORTATION

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

Outcome:
- Open 150 Miles of the ADHS by 2011

Annual Targets

1. Build 25 miles of the ADHS In FY 2006

Key FY 2006 strategies or activities

Work to complete the ADHS in close cooperation with state and federal partners as Highway Trust Fund financing becomes available.

FY 2006 Funding $ 450 million (from Highway Trust Fund)

ARC general and performance goals for FY 2006 are summarized on the following pages. Strategies for achieving the goals are summarized below and presented in more detail within the respective program budget descriptions. The linkage between ARC's general goals, strategies, and performance targets is shown in Table 6 on page 33.

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.

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. The Commission launched a Regional entrepreneurship initiative in 1997 to foster homegrown businesses. The regional strategy involves cooperating with the Federal Reserve, SBA, EDA, TVA and the NEA to educate current and future entrepreneurs, both youth and adults; improve access to capital for local businesses; strengthen local economies by capitalizing on strategic sectors such as regional cultural heritage products; and nurture new and expanding businesses by providing technical assistance and creating and supporting rural business incubators and multi-tenant facilities.

ARC has provided a forum for stakeholders and forged alliances with major financial institutions to pursue this strategy. 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.

In 2006, ARC will:

- Diversify the economy by promoting entrepreneurship, asset based development, and business vitality through advocacy, regional forums, information sharing, training, and cooperative funding.

Work in 2006 would continue ARC's regional initiative to create indigenous businesses and thereby 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. The performance target for Goal 1 in 2006 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. The Commission's focus will be to address a range of educational issues, such as workforce skills, early childhood education, drop-out prevention, and improved college attendance; and health issues, such as the 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 achievement. 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. Many families in Appalachia often do not have the resources, in terms of finances or time, to take full advantage of such services.

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, resources are still needed to close a widening gap in educational attainment between the Appalachian region and the rest of the nation. To strengthen Appalachia's economic competitiveness, 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 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.

In 2006 ARC will:

- Increase workforce employability by maintaining and expanding alliances with other organizations, identifying and replicating exemplary model programs, and providing funding leadership to increase the college-going rate in Appalachia, expand worker skills and math/science programs; enhance school readiness and high school completion, and address health access issues.

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 Rural Systemic Initiative in the distressed counties of the region. Improving health care will include continuing ARC's widely recognized efforts to increase the supply of health professionals in underserved communities, and deployment of telemedicine as a means of universal access to comprehensive health care. ARC will identify and address health care delivery gaps and, through continuing partnerships with the Centers for Disease Control and Prevention (CDC) and various medical centers/health care organizations, institute screening, prevention, and control programs in distressed counties. The 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. Other ARC activities have been jointly funded or administered by the Economic Development Administration and the Tennessee Valley Authority.

The performance targets for Goal 2 in 2006 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, 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, the Army Corps of Engineers, and the National Park Service. Appalachia 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.

In 2006, ARC will:

- Ensure 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.

- Expand telecommunications infrastructure, through advocacy, knowledge-sharing, and targeted collaborative funding. ARC will focus on increasing access to broadband services for the region's small businesses, promoting area-wide telecommunications planning, creating "aggregation of demand" in rural areas, installing necessary infrastructure in distressed areas, and developing e-commerce training programs.

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 2006 are to provide basic infrastructure services to 20,000 households, expand broadband service to five communities for each $1 million invested in telecommunications, 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 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. When ARC was established, 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.

The three objectives in the Strategic Plan supporting completion of the development corridor system are as follows:

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 an essential step toward fostering economic growth and enabling Appalachia to become a significant contributor to the national economy. When completed, the system will connect the 13 states in the region with nationwide 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.

In 2006, ARC will:

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

The performance target for Goal 4 in 2006 is to build 25 additional miles of the Appalachian Development Highway System.

Table 6 summarizes the performance indicators that will be used to measure progress on all the major strategies for FY 2006.

Table 7 presents ARC's summary of the requested resource levels for FY 2006 by goal. 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 2015 ** 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 2015* Achieve 1:1 average non-ARC to ARC investment ratio for employability projects	Annual: 20,000 Appalachians with enhanced employability – 10% of long-term goal* Achieve initial average 1 to 1 non-ARC to ARC investment ratio in projects Direct 50% of grant funds to benefit distressed counties/areas	Enhanced economic competitiveness
Area Development $ 36.5 million	**Goal 3: Develop and Improve Infrastructure** **Strategy:** Ensure basic infrastructure/services and increased telecommunications access/deployment	200,000 households served by 2015 Expand availability of broadband telecommunications to 100 communities by 2015 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 Broadband service provided to 5 communities for every $1M invested Direct 50% of grant funds to benefit distressed counties/areas	Enhanced economic competitiveness Reduced isolation and improved regional access
Appalachian Development Highway System (ADHS) $450 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	Five miles of highway constructed for each $100 million invested	Enhanced economic competitiveness Reduced isolation and improved regional access

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

Table 7 - Summary of Goals and Resource Levels

	FY 2004	FY 2005 Estimate[12]	FY 2006 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	$ 13 million	$14 million	$14 million
Goal 3a Increase Competitiveness by improving basic infrastructure	$ 33 million	$31.5 million	$31.5 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 2006	$512.5 million*	$450 million*	$450 million*
Total by Fiscal Year (Non-ADHS)	$ 65.611** million	$65.472 million**	$65.472 million

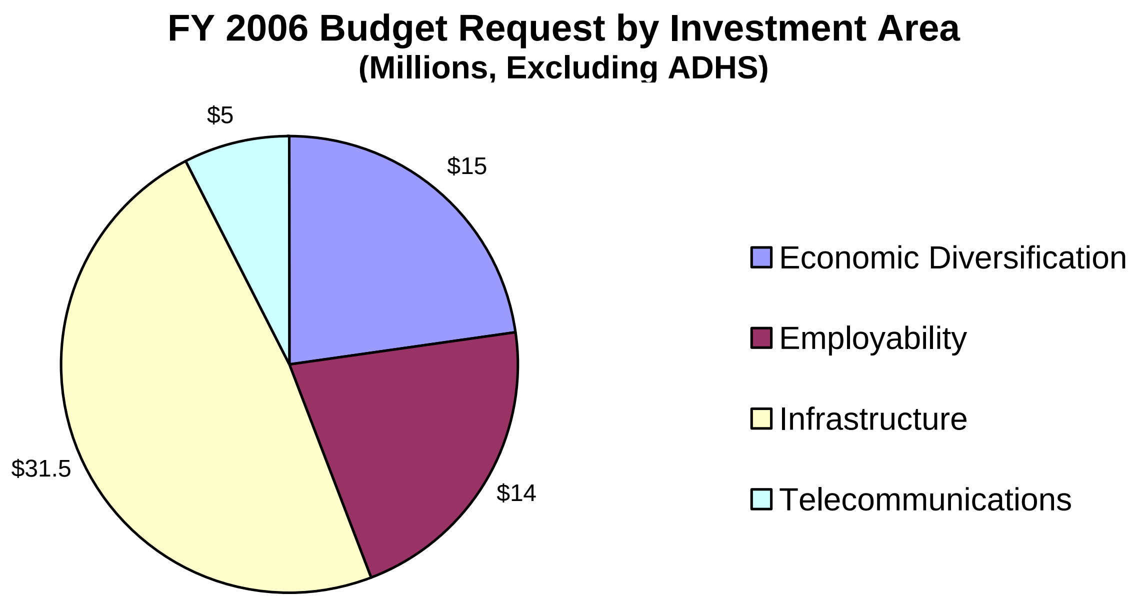
** Funding for the Appalachian Development Highway System is included in the Federal Highway Trust Fund and therefore is not included in the total requested FY 2006 appropriation.*

*** After rescission*

[12] Estimated based on grant applications to be submitted

The allocation of requested funds across program areas for FY 2006 is displayed in the chart in Figure 6.

Figure 6



Performance Challenges

ARC can effectively and efficiently implement its FY 2006 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.

Appalachian Regional Commission
FY 2006 Performance Budget

Major Program: AREA DEVELOPMENT

The Federal Co-Chair requests $65.472 million for Area Development. Table 8 illustrates the three related goals, measures, and benefits that will be realized from this investment. Area Development 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	**Goal 1: Increase Job Opportunities and Per Capita Income** **Strategy:** Promote Economic Diversification	200,000 jobs created/retained by 2015 ** 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 2015* Achieve 1:1 average non-ARC to ARC investment ratio for employability projects	Annual: 20,000 Appalachians with enhanced employability – 10% of long-term goal* Achieve initial average 1 to 1 non-ARC to ARC investment ratio in projects Direct 50% of grant funds to benefit Distressed counties/areas	Enhanced economic competitiveness
Area Development $ 36.5 million	**Goal 3: Develop and Improve Infrastructure** **Strategy:** Ensure basic infrastructure/services and increased telecommunications access/deployment	200,000 households served by 2015 Expand access to broadband telecommunications to 100 communities by 2015 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 Broadband service provided to 5 communities for every $1M invested Direct 50% of grant funds to benefit Distressed counties/areas	Enhanced economic competitiveness Reduced isolation and improved regional access

Seventy-two local development districts (LDD) serving the Appalachian region work closely with the states and ARC in developing project packages. These LDDs receive ARC funding to support their operations. ARC plans to maintain LDD funding at $5.4 million.

FY 2006 Initiative: *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 beauty, products, and crafts, must be better harnessed to provide local economic opportunities.

The Commission launched a regional entrepreneurship initiative in 1997 to foster homegrown businesses and more rural and small town Appalachia away from branch plant recruitment. The regional strategy involves educating current and future entrepreneurs, both youth and adults; improving access to investment capital for local businesses; strengthening local economies by capitalizing on strategic sectors including the region's rich cultural heritage and nurturing new and existing businesses by creating and supporting rural business incubators. ARC has provided a forum for stakeholders and forged alliances with major financial institutions, national foundations, community colleges and local development organization to pursue this strategy. Specific strategies for 2005 include the following:

- Help communities to develop and implement strategies to cause entrepreneurs to start and expand local business;

- Encourage the transfer of new processes and product technologies that increase productivity and create new entrepreneurial opportunities;

- Support the development of industry networks and trade organizations that promote inter-firm collaborations, resource sharing, and the coordination of business-assistance services;

- Support leadership, marketing and planning efforts to enhance local strategies for economic development;

- Promote efforts to enhance export development by increasing numbers of firms engaged in exporting and increasing exported goods and services volume;

- Work with local chambers of commerce and other similar organizations to market Appalachian locations as good places to live and do business; and

- Make strategic investments in the region to take advantage of business opportunities and business development along the ADHS.

FY 2006 Initiative: *Strengthen Capacity of the People to Compete in the Global Economy - $14 million*

Education and Training. Business can neither start nor thrive without an educated, skilled workforce. Education is the driving force behind economic growth. ARC and the states in the Appalachian region recognize this as is evidenced by the strategies proposed for the upcoming year. ARC and state strategies include upgrading the education climate of the region, as a whole, to improve educational capabilities, to provide re-entry programs, school-to-work transition programs, and skills training for specific employers located in or moving into the region. Because no one organization can achieve these goals alone, the strategies have required close coordination with businesses and local school districts, and, in some cases, with the non-profit sector as well as with federal and state education departments. Nurturing partnerships and coordinating efforts of diverse organizations is a one of ARC's key roles. ARC is not the traditional grant-making organization. Instead ARC works with its partners—and takes a "bottom up" approach to take full advantage of the synergy generated when various partners, with the same goal, focus together on solving regional problems. Specific strategies related to work force employability issues are as follows:

- Work to increase the college-going rate in Appalachia;
- Work with the states to start or expand programs which prepare workers for new jobs or to upgrade worker skills and abilities in current jobs;
- Participate in public-private, national, and regional collaborations to improve education and training practices;
- Continue the alliance with the U.S. Department of Energy to provide summer workshops in math, science, and technology;
- Partner with the Appalachian Rural Systemic Initiative, a National Science Foundation initiative that works to improve the math and science scores of students in distressed counties;
- Identify exemplary models of education improvement and devising strategies to replicate them throughout the region; and
- Identify the need for school readiness, adult literacy, dropout prevention, GED, and school-to-work program and targeting resources to these areas.

Health Care Infrastructure. A healthy work force and access to health care is also crucial, and 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. Strategies listed below address these concerns.

- 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;

- Identify gaps in the delivery of health services, particularly in the areas of oral health, mental health, and substance abuse, and working to eliminate those gaps; and,

- Continue partnerships with Centers of Disease Control and Prevention and various medical centers to institute screening, prevention, and control programs in distressed counties.

FY 2006 Initiative: *Develop and Improve Infrastructure: Clean Water and Basic Services - $31.5 million*

Inadequate water and sewer service is still a critical issue in Appalachia—particularly in smaller, poorer communities. Without basic services, business and industry is simply not interested in locating in the region. ARC is working in partnership with others to:

- 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; and,
- Ensure that the needs of remote rural areas are taken into account in infrastructure policy formulation and funding.

FY 2006 Initiative: *Develop and Improve Infrastructure: Improve Telecommunications Capacity - $5 million*

As local leaders assess the economic future of Appalachia, one clear message reverberates: Appalachia must have universal, affordable access to modern telecommunications and information technology, and the people and businesses of the region must make this technology an integral component of their daily lives. With technological innovation driving the most remarkable revolution in business, industry and communications in a century—diminishing the relevance of geography—there has never been a better moment for Appalachia to participate fully in the nation's economic mainstream.

There are two primary aspects to achieving Appalachia's full participation in the telecommunications revolution: access and full utilization. Key 2005 strategies for addressing these issues are as follows.

Focus on small business access to the Internet. The first priority must be a concentrated effort to connect Appalachia to the Information Highway through a variety of telecommunication services, ranging from basic Internet to higher-speed, switched broadband access. Access to the infrastructure must be both universal and affordable. These technologies must bring voice, video, and data transmission within the practical reach of Appalachia's communities. Building the infrastructure will require public-private partnerships that encourage private investment and aggregate local demand. It will also require strategic planning to identify gaps, assess demand, and establish priorities. As a practical matter, this means addressing several key issues: expanding the telecommunications backbone to the smaller cities and towns and more remote communities; making the "last mile" connections to residential users; and, providing two-way advanced capabilities that can support widespread business-to-business commerce. Specific program activities related to ARC's focus on small business access to the Internet include the following:

- Develop telecommunications plans;
- Create aggregation of demand projects; and,
- Install necessary infrastructure in distressed areas.

Ensure full use of opportunities provided by Internet access. The investment in the infrastructure will be wasted unless the people, particularly the business people, have the appropriate skills to use the technology. Moving Appalachia's businesses into the digital world will require a broad array of technical assistance. Both existing businesses and aspiring entrepreneurs need guidance in how to migrate traditional face-to-face activities to an Internet world, craft strategies for marketing products over the Web, and plan for meeting production and shipping requirements in the Internet economy. Positioning Appalachia to thrive in the e-commerce/Internet environment demands powerful partnerships that link nonprofit organizations, the media, and local Appalachia. ARC serves as the catalyst to ensure the cooperation and commitment of these varied organizations. ARC also supplements the work of other federal programs by addressing barriers that are unique to Appalachia, thus ensuring full participation in programs, and by serving as a clearing house for federal telecommunications activities in Appalachia. Specific strategies related to ensuring full utilization of opportunities provided by Internet access include the following:

- Fund e-commerce training programs;
- Develop planning strategies jointly 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;
- Supplement work of other federal programs such as those at the U.S Department of Commerce's National Telecommunications and Information Administration, the U.S. Department of Agriculture's Rural Utilities Service, the U.S. Department of Transportation, and others
- Facilitate technology ownership in the home;
- Fund community learning/technology access centers; and,
- Assist in providing enhanced telecommunication services to facilitate smart parks and IT incubator development opportunities.

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. Reauthorization of the program, currently referred to as SAFETEA, is pending. It is anticipated that the ADHS funding will continue at the present level.

Table 9 – Appalachian Development Highway System - $450M for FY 2006

General Goal	Long-Term Performance Measure	Short Term Performance Measures	Expected Benefits
Goal 4: Build the Appalachian Development Highway System to Reduce Isolation **Strategy:** Complete the ADHS	Complete the ADHS by 2021 For every dollar invested, $1.10 in increased travel efficiency benefits	Five miles of highway constructed for each $100 million invested	Enhanced economic competitiveness Reduced isolation and improved regional access

The Appalachian Regional Development Act of 1965 authorized the Commission to construct the Appalachian Development Highway System (ADHS), a 3,025-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. P.L. 108-199 added 65 miles to the system in 2004, for a new system total of 3,090 miles. Congress authorized this initiative because it recognized that regional economic growth would not be possible until the region's isolation had been overcome.

Because of the high cost of building roads through Appalachia's mountainous terrain, adequate roads had not been built in much of the region. When the interstate system was built, large areas of Appalachia were simply bypassed, compounding the problems of the region's already troubled economy. The ADHS was designed to link Appalachia with the US interstate system. 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.

More than 80 percent (2,480.1 miles) of the total 3,090 miles of the ADHS authorized by Congress for construction are open to traffic, and another 147 miles are under construction. The remaining 462.9 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 3 on page 16 show progress on the system through the end of FY 2004.

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. In recent years, Congress also allocated additional funds through annual DOT appropriation acts for ADHS ranging from $125 million to $200 million annually. These brought to an average rate of $601 million a year federal funds between FY 2000 and FY 2004 toward completion of the ADHS. It has provided 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.

Local Access Road Program

Section 201(a) of the ARDA authorized the construction of up to 1400 miles of local access roads (LAR) 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.

FY 2006 Initiative

During FY 2006, make progress toward completing the ADHS by completing 25 additional miles of the ADHS:

- 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.

Strategies for 2006 include the following:

- Manage ADHS/local access road program;

- Prepare annual ADHS status report;

- Coordinate with the Federal Highway Administration, state highway departments, and federal and state environmental agencies;

- Establish ADHS terminal points and alignments;

- Obligate all available ADHS funds;

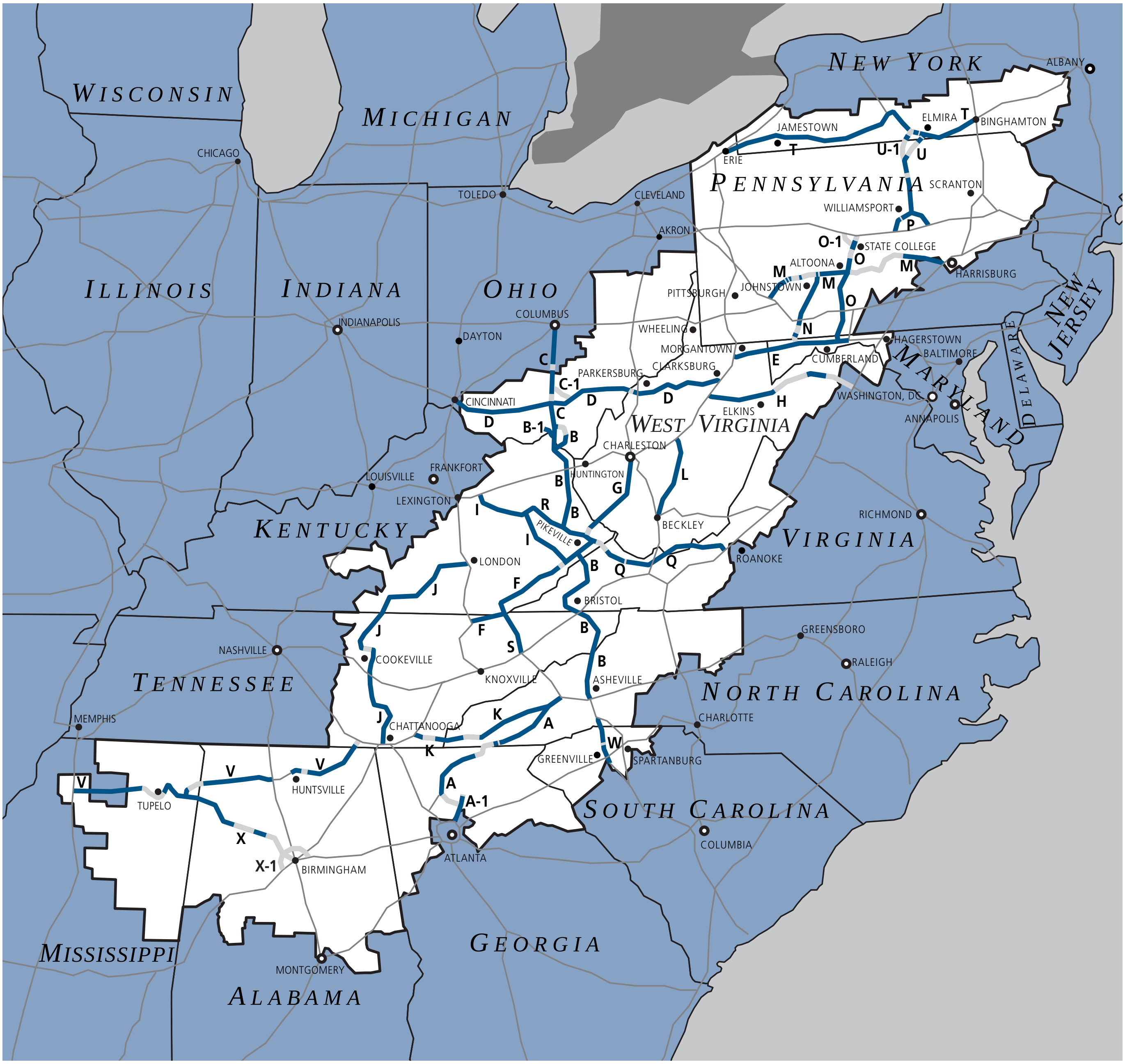
- Work with Congress and the states to secure full funding for completing the Appalachian Development Highway System;

- Facilitate closer working relationship between economic development and transportation organizations; and

- Develop appropriate tools (GIS, etc.) to assist states, FHWA, and ARC in developing ADHS cost-to-complete estimates and status reports.

ARC

APPALACHIAN DEVELOPMENT HIGHWAY SYSTEM (ADHS)



Adequate or Complete September 30, 2004

To be Completed

Interstate System

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)

	2004 Actual */1*	2005 Enacted */1/2*	2006 Request */2*	Change
Appropriation	4,721	4,877	5,290	413

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

The totals for salaries and expenses in FY 2004 reflect a program level of $65.611 million, after rescission. The requested totals for FY 2006 are based on maintaining staffing levels currently in effect for FY 2004 and to implement the requested $65.472 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 11.

Table 11 - Salaries and Expenses
(Thousands of dollars)

	2004 Actual	2005 Enacted	2006 Request	Change
1. Federal Co-Chair				
Immediate Staff	1,173	1,255	1,488	233
Inspector General	514	458	476	18
Subtotal:	1,687	1,713	1,964	251
2. Commission Administrative Expenses *(50% federal contribution)*	3,034	3,164	3,326	162
Total Request:	**4,721**	**4,877**	**5,290**	**413**

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 $1.488 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 increase in rent costs reflects a change in cost allocation resulting in direct charges to the federal account for the federal staff share of Commission rental space. Previously, the trust fund paid all rental costs.

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 $476,000 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 12 and 13 show object class estimates for the request for the Offices of the Federal Co-Chair and the Inspector General, respectively.

Table 12 - Federal Co-Chair's Office Administrative Expenses
(Thousands of dollars)

	2004 Actual	2005 Enacted	2006 Request	Change
Personnel Compensation	780	899	975	76
Personnel Benefits	219	221	263	42
Travel & Transportation	101	75	75	0
Rent, Communications	8	15	130	115
Printing	2	5	5	0
Services	40	20	20	0
Supplies	14	10	10	0
Equipment	9	10	10	0
Total:	**1,173**	**1,255**	**1,488**	**233**

Table 13 - Inspector General's Office Administrative Expenses
(Thousands of dollars)

	2004 Actual	2005 Enacted	2006 Request	Change
Personnel Compensation	251	252	264	12
Personnel Benefits	42	62	67	5
Travel & Transportation	8	9	9	0
Rent, Communications	33	27	28	1
Printing	0	1	1	0
Services	176	100	100	0
Supplies	2	2	2	0
Equipment	2	5	5	0
Total:	**514**	**458**	**476**	**18**

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 14 shows the plan for financing Commission operations.

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

	2004 Actual	2005 Enacted	2006 Request	Change
State Contribution	3,034	3,164	3,326	162
Federal Contribution	3,034	3,164	3,326	162
Prior year balances used	99	0	0	0
Total:	**6,167**	**6,328**	**6,652**	**324**

The request would provide minimum operations to support regional planning and programs at the requested level and to manage the 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 in Table 15 of amounts by object class.

Table 15 - ARC Non-Federal Operating Expenses
(Thousands of dollars)

	2004 Actual	2005 Enacted	2006 Request	Change
Personnel Compensation	3,601	$ 3,806	3,991	185
Personnel Benefits	1,297	1,185	1,362	177
Travel & Transportation	88	78	80	2
Rent, Communications, Utilities	800	785	727	-58
Printing	5	50	51	1
Services	254	305	317	12
Supplies	71	77	80	3
Equipment	51	42	44	2
Total:	**6,167**	**6,328**	**6,652**	**324**

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

Commission staff will continue to use available resources to promote innovation, improve core competencies and internal communications, enhance technical assistance, improve the monitoring and evaluation of project operations, stress customer service, and deploy affordable technology wherever possible.

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. The reduction in rent reflects revised cost allocation policy whereby the rental space used by the federal staff will be a direct cost in the federal staff budget rather than in the trust fund.

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 required additional funding significantly above plan assumptions.

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 39 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.

- The organization of technical and professional staff under a CEO provides stability as 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 envisioned by FISMA and similar requirements. 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. 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. The new plan is the basis for this performance-based budget request.

E-Government

ARC seeks to apply appropriate and affordable 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 public documents in electronic form, as well as a new on-line resource center that makes 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. 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.

APPENDIX B
Designated 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 2005, 82 counties, or 20 percent of the 410 counties in the Appalachian Region, are designated as economically distressed. Designations for FY 2006 will be made in February of 2005. Counties designated for FY 2005 are as follows:

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

Kentucky (31) **-** 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, 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 (5) **-** Athens, Meigs, Pike, Scioto, and Vinton

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

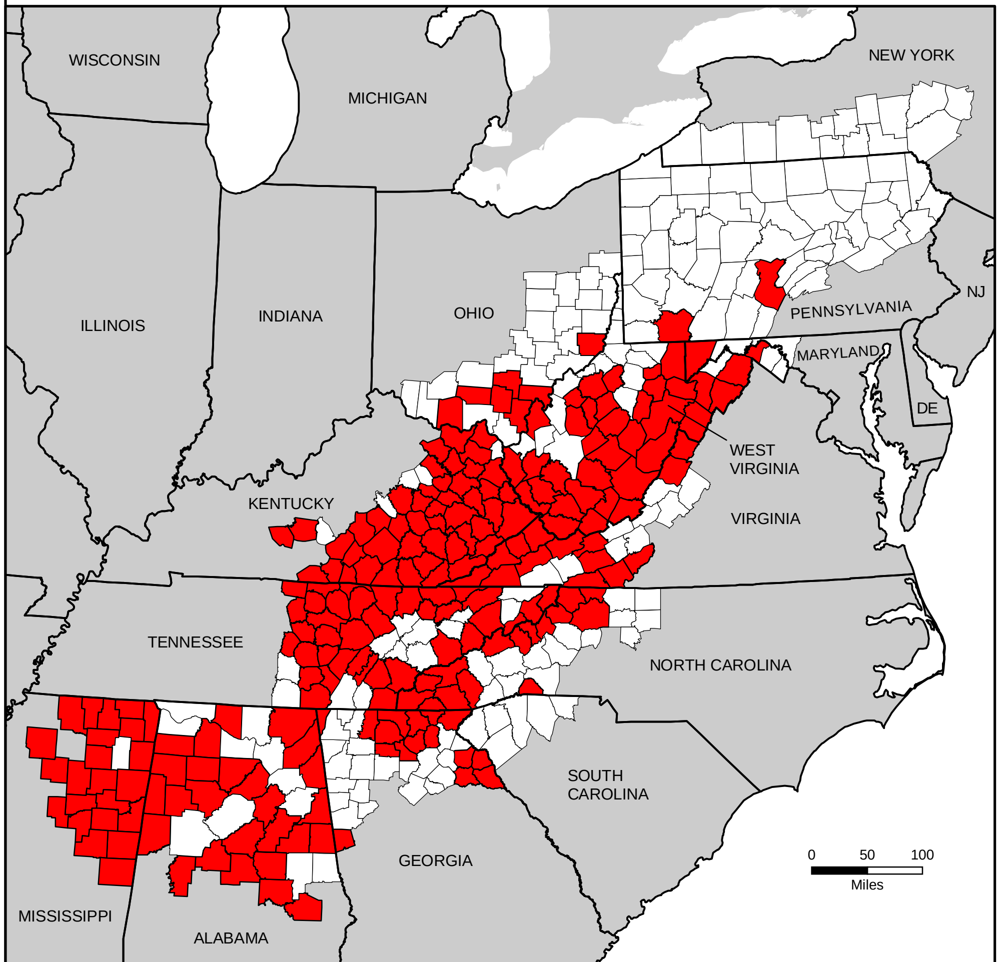
Virginia (2) – Buchanan and Dickenson

West Virginia (19) **-** Barbour, Boone, Braxton, Calhoun, Clay, Fayette, Gilmer, Lincoln, Logan, Mason, McDowell, Mingo, Nicholas, Ritchie, Roane, Webster, Wetzel, Wirt, and Wyoming

Distressed Counties in the Appalachian Region

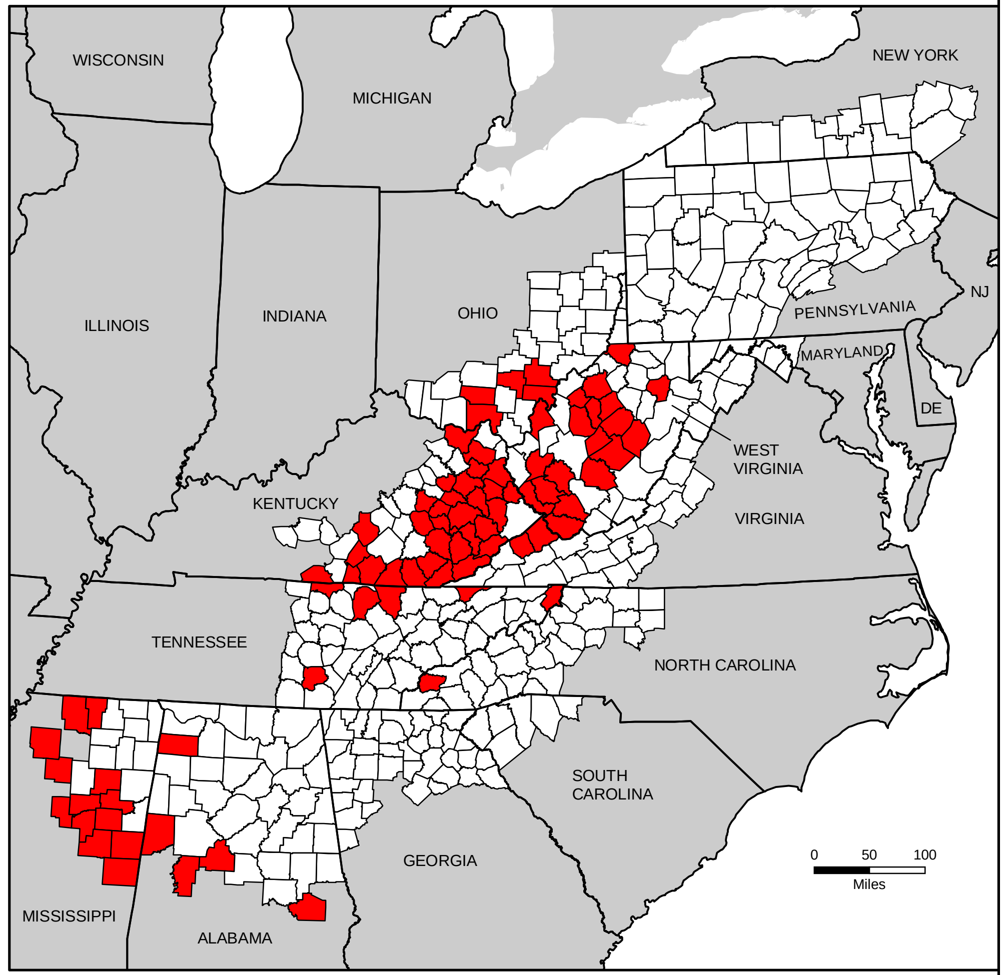
1960

223 Distressed Counties



FY 2005

82 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 2005:
Distressed counties have a three-year average unemployment rate that is at least 1.5 times the U.S. average of 4.8 percent; a per capita market income that is two-thirds or less of the U.S. average of $26,309; 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, 2000-2002;
Income: U.S. Department of Commerce, Bureau of Economic Analysis, 2001;
Poverty: U.S. Department of Commerce, Census Bureau, 2000.

ARC
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Regional
Commission

APPENDIX C:
Project Performance Review

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

Measuring project performance involves three components:

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

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

Performance results for each of ARC's goal areas across recent years are presented 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—2 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 2 Years as a result of ARC investments (sample of completed projects). Recent results are noted below.

Year	Target	Actual	2 Yr 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	Results to be validated in FY2005			

Long Term Measure: Jobs Created or Retained—5- 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 -2 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 2 years as a result of ARC investments plus other funds (sample of completed projects). Recent results are noted below.

Year	Target	Actual	2 Yr Intermediate Results- % 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	Results to be validated in FY2005			

Long Term Measure: Households served with Water/Sewer –5 Year Review. Households served with water and sewer within a 5 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—2 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 2 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	Results to be validated in FY2005			

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	Results to be validated in FY2005			

Long-term Measure: Students and Trainees: 5-Year Review. Over a five plus year period ARC requests an outside consultant to review the overall performance of a major investment category. The vocational education and workforce training activities of the ARC were evaluated by Westat in 2000. Another multi-year evaluation will be conducted in 2006-2008. The results for the 1995-1999 sample set of projects are reported below. The ARC has a target of achieving 70% of its objectives in seven activities categories.

1995-1999	Percent 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%	**Exceeded Goal**
2002	100	96	96%	of Goal Achieved
2003	60	79	132%	**Exceeded Goal**
2004	50	43	86%	of Goal Achieved

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%

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 Sector 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	$66,310,422	$265,241,688	$490,247,346	**Exceeded Target**