



BILL LEE
GOVERNOR
STATE OF TENNESSEE

August 19, 2019

Mr. Scott Hamilton
Executive Director
Appalachian Regional Commission
1666 Connecticut Avenue, N.W.
Washington, D.C. 20009-1068

Dear Mr. Hamilton:

It is my pleasure to submit Tennessee's State Appalachian Strategy Statement for the 2020 fiscal year. This is a plan and corresponding strategy for the development of Appalachian Tennessee, not merely for the expenditure of ARC funds.

This document was prepared with my understanding and involvement. If you have any questions regarding content, you may call my ARC Alternate Board Member, Brooxie Carlton, or the ARC Program Manager, Logan McCoy, in the Department of Economic and Community Development at 629-201-0063.

Best Regards,

A handwritten signature in black ink that reads "Bill Lee".

Bill Lee



Department of
**Economic &
Community Development**

**Tennessee Appalachian Development Program
Fiscal Year 2020 Strategy Statement**

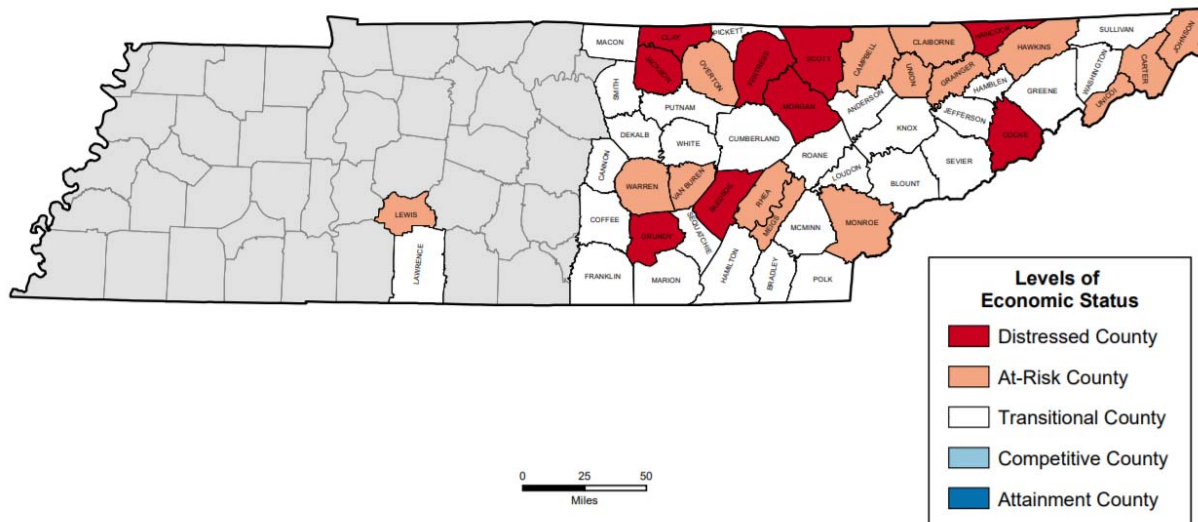
Introduction

Each year the thirteen member states of the Appalachian Regional Commission (ARC; arc.gov) submit strategy statements outlining their plans for the use of ARC funds in the region in accordance with Section 5.3 of the ARC Code. The 2020 Strategy Statement

1. Discusses the economic challenges and opportunities, as well as new developments and resources, that are impacting the state's Appalachian counties;
2. Provides an overview of targeted investment priorities for the program year;
3. Lays out specific state strategies for the state's Distressed Counties;
4. Sets forth the state operating program policies; and
5. Describes the methods used to review proposals.

Fifty-two Tennessee counties are included in the service region of the ARC. The Tennessee Department of Economic and Community Development (TNECD) administers the Appalachian Regional Commission funds in Tennessee. Within the department, the Community and Rural Development division is responsible for the day-to-day administrative duties. The Deputy Assistant Commissioner, Brooxie Carlton, is the State's Alternate member of the Commission; Logan McCoy, is the ARC Program Manager, and Lindsay Gainous is the ARC Program Coordinator.

County Economic Status in Appalachian Tennessee, Fiscal Year 2020



Economic Challenges and Opportunities

Challenges

The Appalachian region of Tennessee faces a few key challenges:

Infrastructure: lack of adequate or outdated infrastructure is a persistent problem in Appalachian Tennessee. This includes water and sewer, transportation and broadband infrastructure.

Leadership: many communities in Appalachia lack leaders who can identify needs and opportunities, develop effective and measurable economic development initiatives, and create community development opportunities in their communities.

Unemployment: The unemployment rate is higher in rural Appalachia than the state average. The lack of a skilled workforce is a continuing challenge for the area as well.

The designation of distressed counties is largely an identification of rural poverty. It may be useful, therefore, to identify some of the causes of rural poverty, which have resulted in distressed counties designations.

The trend in economic development in recent years has been for industries to locate and expand on the fringe of urban areas and in medium-sized towns, especially those which are located on or adjacent to interstates or other transportation corridors.

Rural areas often lack concentrations of business services needed to supplement manufacturing processes; similarly, they do not always offer the health services and other quality of life characteristics that are important to new and expanding industries.

Industries that may find a rural location advantageous often face the problem of inadequate skills in the labor force. Many rural areas traditionally have not had access to educational and training opportunities that prepare the labor force to operate in a high technology work environment. This deficiency becomes more of a problem as industry utilizes evermore complex machinery and equipment. This problem is sometimes compounded by the lack of training facilities to upgrade the skills of the local labor force in the immediate area. Therefore, even if industries locate in rural areas, it is often difficult for those individuals with inadequate skills to secure and maintain employment.

Opportunities and Strengths

Tennessee has considerable strengths that have led to economic growth over the last few years and that will continue to impact job creation and expansion over the coming year. The State ranks

- #1 for best business climate and #4 for Automotive Manufacturing Strength, (*Business Facilities*, July 2019)
- #1 for Shovel-Ready Sites Program, #4 in Top States for Doing Business, and #2 in Overall Cost of Doing Business (*Area Development*, 2018)
- #1 for overall infrastructure and global access (*Area Development*)
- 1st in the Southeast and 6th in the U.S. for net manufacturing jobs created since January 2011 (Bureau of Labor Statistics, Current Employment Statistics)
- 1st in the nation for lowest state debt per capita (The Tax Foundation) and one of only eight states with no income tax
- AAA Bond rating
- 402,000+ students enrolled in higher education institutions

Additionally, the state recorded almost 100,000 job creation commitments since 2015 along with \$21.58B of capital investment. And, Tennessee is the only state in the nation to offer two years of tuition-free education at a community college or technical center to high school graduates (Tennessee Promise) and adults who need to complete a post-secondary credential (Tennessee Reconnect).

The Center for Business and Economic Research (CBER) of the College of Business Administration at the University of Tennessee prepares the Tennessee Business and Economic Outlook yearly (<http://cber.bus.utk.edu/erg/erg2019.pdf>). According to this report, 2018 non-farm jobs expanded over 2% per quarter but is near “full employment” which will impact future growth. The State’s unemployment level dropped from 4.4% to 3.9% from 2017 to 2018 and is expected to fall to 3.4% in 2019 (CBER).

TNECD has a renewed focus on rural development under Governor Lee. Almost \$23M in new grants have been awarded in 2019 (as of August). Additionally, Governor Lee issued Executive Order 1 which aligns resources in the executive branch to target distressed counties (<https://publications.tnsosfiles.com/pub/execorders/exec-orders-lee1.pdf>). Governor Lee and the executive branch held a Rural Opportunity Summit in which 16 distressed counties were invited for a 2-day retreat to learn from them about the issues and concerns impacted rural communities. Representatives from each county included the county mayor, chamber or economic development director, nonprofit leader, community volunteer, K-12 superintendent, and industry.



Tennessee Targeted Investment Opportunities

Priorities for the use of ARC funds in FY 2020 continue to be based on three factors: the priorities of Governor Lee as expressed in the Tennessee Appalachian Development Plan (to be approved), priorities of local elected officials, and areas where the greatest gaps in services exist and where ARC funds can have the greatest impact. These factors may be updated based on Governor Lee's pending 4-year plan.

Funding Priorities

FY 2020 priorities are in the following areas which align with the 2016-2020 Investing in Appalachia's Future document, the ARC strategic plan:

ARC Investment Goal 1: **Economic Opportunities – Invest in entrepreneurial and business development strategies that strengthen Appalachia's economy**

Primary Objectives: Support entrepreneurs and local businesses; develop the infrastructure need to create new jobs including broadband infrastructure.

ARC Investment Goal 2: **Ready Workforce – Increase the education, knowledge, skills, and health of residents to work and succeed in Appalachian**

Primary Objectives: Align programs with the "Drive to 55" initiative; provide training opportunities for the current and future workforce.

ARC Investment Goal 3: **Critical Infrastructure – Invest in critical infrastructure – especially broadband; transportation, including the Appalachian Development Highway System; and water/wastewater systems**

Primary Objectives: Provide quality basic infrastructure in distressed counties and distressed areas; invest in infrastructure that creates jobs in the industrial and tourism sectors.

ARC Investment Goal 4: **Natural and Cultural Assets – Strengthen Appalachia's community and economic development potential by leveraging the Region's natural and cultural heritage assets**

Primary Objective: Develop local and regional tourism assets.

ARC Investment Goal 5: **Leadership and Community Capacity – Build the capacity and skills of current and next-generation leaders and organizations to innovate, collaborate, and advance community and economic development**

Primary objective: Plan for strong, sustainable economic development.

In addition to these goals and the corresponding objectives that are more fully described in the pending Tennessee Appalachian Development Plan, Tennessee is focused on eliminating distressed communities. Projects that create economic and community

development opportunities, create jobs, promote leadership and community capacity development, and develop the distressed communities based on their assets will be prioritized.



Tennessee Strategies for Distressed Counties

Of Tennessee's 52 Appalachian counties, 9 are designated as distressed by ARC for FY 2020. These counties are among Tennessee's most distressed regardless of the measures used and will receive special consideration and treatment in order to move them from their distressed county designation as indicated above.

Development Strategy

Tennessee's strategy for reducing the number of distressed counties consists of the following elements:

1. Economic Development and Job Creation

Special efforts in job creation will be made in distressed counties. This will involve industrial recruitment efforts, assistance to existing industries, and helping to nurture high growth industries. The regional Jobs Base Camps support growth of businesses, economic development planning and the recruiting of new industry to the area. Accelerators through the Launch Tennessee network in the region provide mentoring, education, training, strategic support, technical support and assistance in identifying sources of capital for high growth potential companies in the region. These efforts will involve preferential treatment of distressed areas, including staff attention, tax credits, higher grant rates, lower interest rates on industrial loans, and other incentives designed to specifically help distressed counties reach economic parity with the rest of Tennessee.

2. Leadership Development

Leadership development is crucial in distressed counties to develop the skill sets required to engage citizens and organizations and to identify the needs, resources and opportunities to develop viable economic development strategies to move communities forward.

3. Infrastructure Improvements and Expansion

The provision of infrastructure, for both quality of life and economic development purposes, is a high priority in distressed counties. For this reason, infrastructure grants in distressed counties will be funded at the maximum 80 percent. Communities are encouraged to use other sources of funding as well for infrastructure projects including USDA Rural Development, Community Development Block Grants and the State Revolving Loan fund.

4. Workforce Development

Inadequate education and training in many of Tennessee's rural areas represents a serious disadvantage to economic development. The Basic Education Program, funded by the Tennessee General Assembly, and administered by the Tennessee Department of Education, represents a major initiative to equalize access to education and training. Other opportunities to enhance the capabilities of the workforce in distressed counties will be sought. ARC funding will also be targeted to supporting the TN Promise and TN Reconnect programs.

5. Community Development

Community Development and quality of life must be in place before economic development can occur. TNECD has a renewed focus on promoting community and economic development in rural areas. Initiatives including the Three-Star program and Community Development Block Grant program, will be targeted to rural, distressed communities with the goal of eliminating distressed counties.



Tennessee ARC Operating Policies

Ineligible Activities

There are certain types of projects which are inappropriate for federal funding. Except for very unusual circumstances, which will be documented, the following types of activities will not be eligible for ARC funding in Tennessee:

1. Projects that would result in the relocation of business enterprises from another state to Tennessee.

2. Funding commitments that will influence the location of new industry or the expansion of existing business enterprises within the state. This restriction, however, will not extend to assisting a community in meeting the infrastructure or social demands that may be placed on it by a business that has already decided to locate or expand.
3. Projects that are related to the general operation of local governments. This would include the construction of city halls, courthouses, jails, fire halls, etc., as well as salaries and operating costs related to these governmental functions. This restriction will not, however, extend to programs operated by local governments that provide direct service to the residents of Appalachian Tennessee such as education or health services.
4. Political activities of any kind, at the local, state or national level, will be ineligible for ARC funding.

Grant Rates

Distressed counties may be funded to the maximum 80 percent ARC funding; At-Risk counties will be eligible for 70 percent. Transitional counties may be funded to the maximum 50 percent ARC funding, and total federal funding for all projects will be limited to 80 percent. These percentages apply to construction projects. Non-construction projects may have different requirements.

For multi-county projects, if half or more of the counties participating are distressed, the project may be funded at 80 percent. If less than half but at least one of the participating counties are distressed counties, ARC assistance may be limited to the higher of 50 percent or the average percentage applicable to the various counties in the project. If a multi-county project includes at least one competitive county but no distressed counties, funding will be limited to the average percentage applicable to the various counties in the project.

Development district funding is at 75 percent with the remaining 25 percent as non-federal if a district has at least one distressed county. Four of Tennessee's five Appalachian developments have at least one distressed county.

Maximum Grants

Grant amounts will not exceed \$500,000 in most cases. However, for very large and complex projects with high total costs, a \$500,000 maximum grant may place an inordinate burden of funding on the local government. Therefore, projects which reach the \$500,000 ceiling will be individually evaluated against the financial ability of the potential grantee, and grants in excess of \$500,000 will be recommended if warranted.

Exceptions Authorized

Applications may be submitted at any time in which job creation is an outcome. Potential grantees should discuss the project and a potential application with the Program Manager.

Additionally, the above policies are reasonable, and the state fully intends to implement them as stated. The state also recognizes that there may be instances where one size does not fit all, and unusual conditions will warrant exceptions. It is not possible at this time, however, to identify conditions which will warrant exceptions because this will be different in each situation. Therefore, each situation which warrants an exemption to the state's base policies will be fully explained when the application is submitted.

Notices

The state sends emails to eligible grantees when pre-applications are due. The information is also given to the development districts and consultants.

Development Districts

Local Development Districts (tennesseedevelopmentdistricts.org) are enabled by state statute and organized by local governments to provide planning and technical assistance to the governmental entities in their areas.

Tennessee relies on the development districts for regional and local planning, project development, application preparation and grant administration. These are extremely useful services, especially in the rural areas and distressed counties. This will continue, and the state will look for additional opportunities to strengthen the development districts. The development districts that serve the ARC region are as follows:

First Tennessee Development District
3211 N. Roan St.
Johnson City, TN 37601
(423) 928-0224, ftdd.org

Upper Cumberland Development District
1225 South Willow Avenue
Cookeville, TN 38506
(931) 432-4111, ucdd.org

East Tennessee Development District
216 Corporate Place
Alcoa, TN 37701
(865) 273-6003, etdd.org

South Central Tennessee Development District
101 Sam Watkins Blvd.
Mount Pleasant, TN 38474
(931) 379-2929, sctdd.org

Southeast Tennessee Development District
1000 Riverfront Pkwy
Chattanooga, TN 37405
(423) 266-5781, sedev.org



Tennessee ARC Operating Policies

Additional project information including the pre-application, when available, is at <https://www.tn.gov/ecd/community-development-block-grant/appalachian-regional-commission.html>.

Pre-applications are available in the fall and are emailed to local governments, local development districts and non-profit and community agencies that have indicated interest in the program. Pre-applications will be due in December. Notifications that full applications will be accepted and submitted to ARC generally occurs in the Spring. Full applications are due to ARC approximately six weeks after they are requested.

Applications are reviewed by the TNECD Rural Development staff for eligibility and alignment with the ARC and State goals and priorities. Applications are ranked based on impact to community, alignment with goals of ARC and the State, feasibility of the project approach, ability of the community or organization to fund the project on their own, timeline, and on outputs, outcomes and performance measures. All projects must also be approved by the Governor's office.

Construction projects must have a preliminary engineering report included with the pre-application. Additional funding required must be fully committed before the project can receive final approval.

