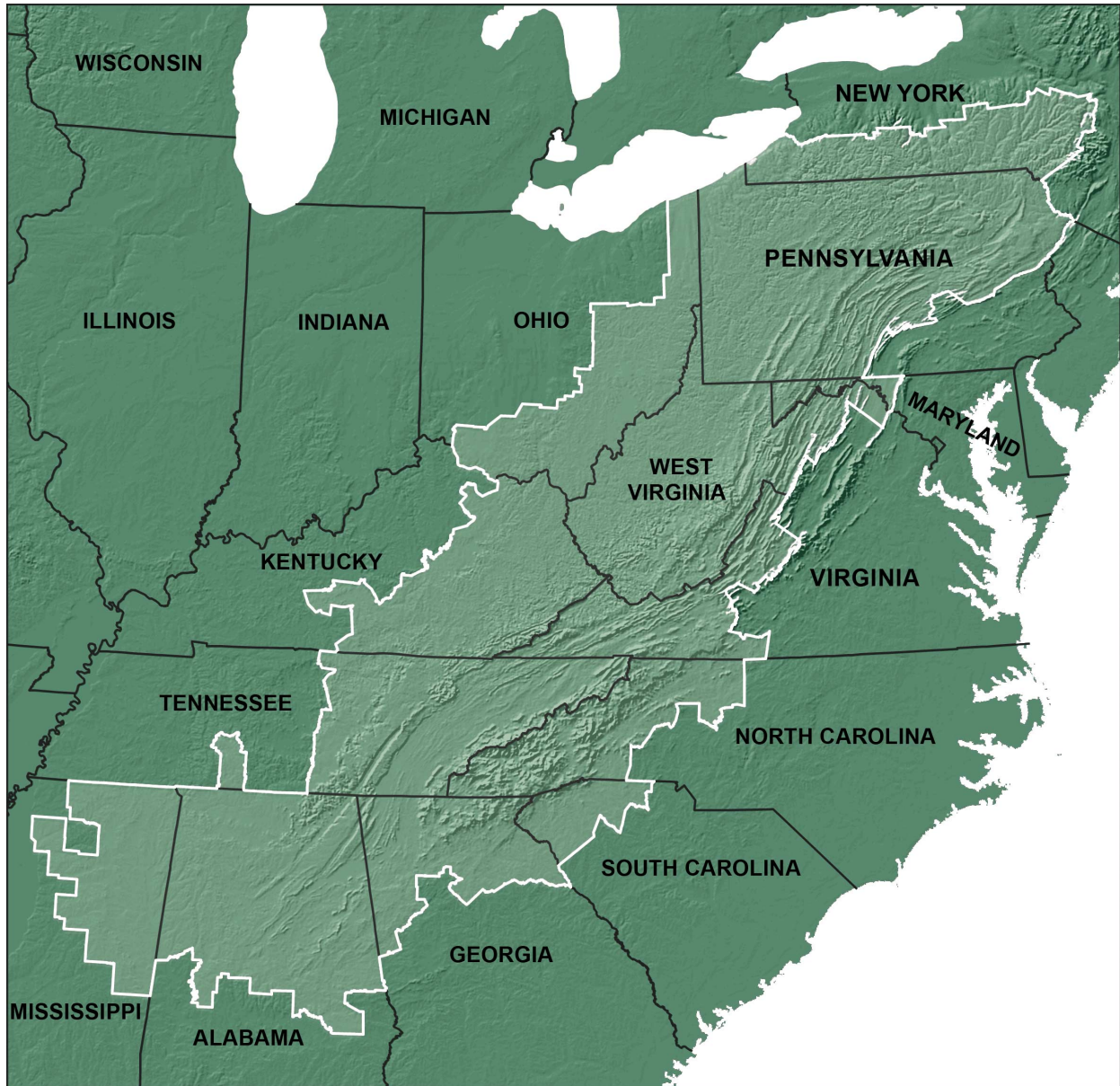




**APPALACHIAN REGIONAL COMMISSION**

# **FY 2020 Performance Budget Justification**

As Submitted by the Federal Co-Chair to the Appropriation Committees of the  
House and Senate  
March 2019



Appalachian Regional Commission  
**FY 2020 Performance Budget Justification**  
As Submitted by the Federal Co-Chair

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**Table of Contents**

<b>FY 2020 Budget Summary and Highlights.....</b>	<b>2</b>
<b>Major Program Justification: Area Development Base Program .....</b>	<b>8</b>
<b>Major Program Justification: Coal Impacted Communities Initiative.....</b>	<b>14</b>
<b>Major Program Justification: Special Regional Initiative for Distress .....</b>	<b>18</b>
<b>Major Program Justification:     Special Regional Initiative for Substance Abuse Mitigation.....</b>	<b>21</b>
<b>Performance.....</b>	<b>24</b>
<b>Salaries and Expenses .....</b>	<b>27</b>
<b>Comprehensive Reform Initiative .....</b>	<b>31</b>
<b>Appendices .....</b>	<b>38</b>
<b>A. High-Poverty Counties in the Appalachian Region</b>	
<b>B. County Economic Status Designations in the Appalachian Region, FY 2019</b>	
<b>C. Appalachian Regional Commission Organization Chart</b>	
<b>D. Commission Members</b>	



## Budget Summary and Highlights



The Federal Co-Chair requests \$165 million to fund the activities of the Appalachian Regional Commission (ARC) for FY 2020. This amount represents level funding with the amount appropriated by Congress in FY 2019. Seventy-three million is requested to continue the Area Development Base Program; \$50 million is requested to continue the effort to assist communities adversely affected by the downturn in the coal industry; \$32 million is requested for special regional initiatives to address distress; and \$10 million to address workforce challenges caused by the Region’s drug crisis. ARC will utilize this funding to

leverage emerging opportunities such as continued development of the southern automotive and aviation clusters and to address barriers such as effects of the drug crisis on the workforce, the lack of both water and sewer infrastructure as well as the lack of broadband infrastructure and service in rural areas. ARC is authorized through 2020.

The mission of the ARC is to help close the gap between Appalachia and the rest of the nation and bring the Region’s 420 counties and 25 million residents into the economic mainstream. The 13-state Appalachian Region has historically confronted a combination of challenges that few other parts of the country face—its mountainous terrain and isolation, dispersed population, inadequate infrastructure, lack of financial and human resources, and weak track record in applying for and receiving assistance from other federal programs. More recently, downturns in the coal economy and the disproportionately high rate of substance abuse have added to the burden on the Region. Because new challenges don’t eliminate or supersede old ones, this request features multiple initiatives that reflect the evolution of the challenges and opportunities facing Appalachia by including differing, yet complementary programmatic approaches.

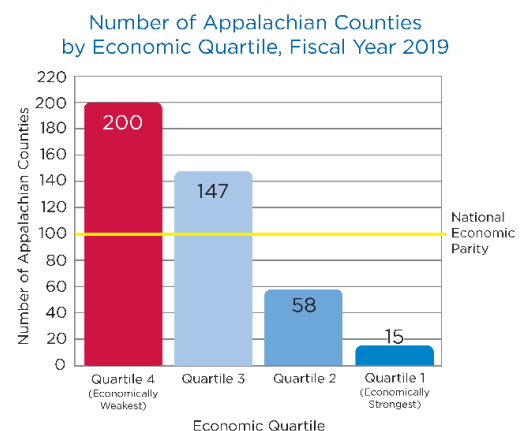
The Area Development Base Program will continue to address the specific needs of individual states, while the Coal Impacted Communities and substance abuse-related initiatives will

address activities that are multi-jurisdictional in nature, crossing state borders to connect activities. Multi-state projects are traditionally difficult for ARC to fund through the Area Development Base Program. This new approach will enable Appalachia to develop on both a micro and macro level to maximize the Region’s ability to participate in the global economy. ARC is the only federal agency statutorily mandated to address challenges specific to this Region. ARC’s work does not duplicate other federal programs; instead, it extends the reach of those programs into the most challenged parts of Appalachia by providing necessary gap funding and technical assistance that enables economically distressed communities to compete successfully in national programs. For federal partners at the national level, ARC brings deep knowledge of the Region, a strong track record of impact, and far-reaching networks of critical community, state, and regional partners established over the last 50 years.

For example, working through a multi-year partnership with the Centers for Disease Control and Prevention, ARC has implemented projects to address Appalachia’s disproportionately high rates of type 2 diabetes and obesity, as well as some types of cancer. Other recent partners include the U.S. Departments of Transportation, Agriculture, Commerce, Education, Housing and Urban Development, and the Treasury, the Environmental Protection Agency, Oak Ridge National Laboratory, the Federal Deposit Insurance Corporation, the National Endowment for the Arts, and the National Trust for Historic Preservation.

ARC also partners with private sector and nonprofit partners to increase the amount of financial and technical assistance flowing to the Region. ARC spearheaded development of Appalachian Community Capital (ACC), a new community development financial institution (CDFI) and wholesale development finance intermediary for development lenders that will increase the availability of capital to small businesses in the 13-state Appalachian Region. ARC made a lead investment of \$3.45 million in equity and operating support. Its regional lending partners raised an additional \$12 million in debt and equity from Bank of America, Deutsche Bank, Calvert Foundation, and the Ford Foundation. Additional supporters include the Mary Reynolds Babcock Foundation, the Claude Worthington Benedum Foundation, the Annie E. Casey Foundation, and BB&T Bank. A second round, totaling \$7 million, is anticipated to close in FY 2019.

To assess progress in completing the mission, ARC developed an index that compares the economic condition of Appalachian counties with all the counties in the nation (based on unemployment, per-capita income, and poverty rates). In FY 2019 Appalachia has proportionally more of the economically weakest counties and fewer of the economically strongest counties. Moreover, over 25 percent of the weakest counties in the nation are in Appalachia, while the Region has only 1.9 percent of



the nation's strongest counties. When this index demonstrates an equal share of counties across each quartile, Appalachia will be at socioeconomic parity with the nation.

Since its inception, ARC has created an impressive record of accomplishments. The number of high poverty counties in Appalachia has been cut by more than two-thirds, from 295 in 1960 to 93 today and the regional poverty rate has been cut almost in half, from 31 percent to 16.7 percent. A 2015 study commissioned by ARC found that over the period 1970–2012, employment and per capita income growth rates were higher in Appalachian counties that received ARC investments than in similar non-Appalachian counties that did not.

But despite the accomplishments, major challenges still confront the Region.

- Nearly one-fifth of Appalachia's counties still suffer from persistent and severe economic distress.
- Per capita market income in Appalachia was nearly 26 percent lower than the nation in 2015.
- *The Region has been disproportionately affected by the decline in manufacturing jobs. Between 2000 and 2016, Appalachia lost 603,000 jobs in the industry, which represents a decline of 31 percent over the time period. The United States as a whole lost 26 percent of its manufacturing jobs over the same time period.*
- Appalachia is underserved by basic infrastructure, including broadband service, and lags behind the nation in the percentage of adults with a college education.
- The Region has higher mortality rates than the nation as a whole in each of the following: heart disease (17 percent higher), cancer (10 percent higher), COPD (27 percent higher), injury (33 percent higher), stroke (14 percent higher), and diabetes (11 percent higher).
- The opioid epidemic has hit the Appalachian Region especially hard. In 2015, the opioid-related overdose mortality rate for people ages 15-64 was 49 percent higher in Appalachian than in the rest of the United States.

ARC recently released *Strengthening Economic Resilience in Appalachia* in which Downstream Strategies, the Northeast Regional Center for Rural Development, Dialogue + Design Associates and West Virginia University developed best practices for communities to transform and diversify economies and build resilience against future economic shocks.<sup>1</sup> The

#### Best Practices for Strengthening Economic Resilience in Appalachia



Best Practices for Strengthening Economic Resilience in Appalachia

<sup>1</sup> [https://www.arc.gov/research/researchreportdetails.asp?REPORT\\_ID=150](https://www.arc.gov/research/researchreportdetails.asp?REPORT_ID=150)



practices identified match closely with the goals and objectives of ARC’s Strategic Plan.

### Area Development Base Program

Through the Area Development Base Program, ARC continues to address widespread generational poverty through a flexible bottom-up approach working with state and local partners with \$73 million dedicated to this activity. ARC will accomplish this mission through implementation of activities within the five goals of the agency’s strategic plan. ARC will continue to work with state and local partners to address ongoing challenges in the Region in FY 2020.

### Coal Impacted Communities Initiative

The economic downturn of the coal industry has had significant impact on Appalachia.

Seventy-nine percent of the 39,759 coal mining jobs lost in the United States from 2011 to 2017 were in the Appalachian Region—a loss to the Region of 31,447 direct mining jobs. To address this, Congress appropriated \$50 million to ARC in each FY2016, 2017, 2018 and 2019 for activities that target federal resources to help communities and regions that have been affected by job losses in coal mining, coal power plant operations, and coal-related supply chain industries due to the changing economics of America's energy production. To date, ARC has invested \$144.8 million in projects serving 312 coal impacted counties. These projects are expected to create or retain more than 17,000 jobs, assist 7,200 businesses, leverage \$771.3 million, and prepare thousands of workers and students with globally competitive skills and opportunities in the Region's manufacturing, technology, entrepreneurship, agriculture, and other emerging sectors. This initiative is significantly oversubscribed with requests to fund activities to revitalize and transform the economy. A new request for proposals for FY 2019 funding was released early in the second quarter. The budget requests \$50 million to continue to assist communities adversely impacted by the downturn of the coal industry in FY 2020.

### Special Regional Initiative for Distress

ARC by law must direct at least half of its grant funds to projects that benefit economically distressed counties and areas in the Region; however, the agency routinely exceeds that requirement by investing significantly more funding for those areas. In FY 2018, 64 percent of ARC’s funds were invested in projects for the benefit of distressed communities. ARC gauges its long-term progress toward helping the Region achieve economic parity with the nation in terms of the gradual reduction in the number of such counties and areas over time. ARC will complement its efforts to reduce distress by directing funding to leverage emerging opportunities and to address barriers to economic development. Continued expansion of the



southern automotive and aviation clusters offers great potential for job creation in Appalachia. Other challenges such as inadequate water, sewer and broadband infrastructure and the effects of the drug crisis on the workforce present significant barriers and require substantial resources to overcome. The budget requests \$32 million in FY 2020 to develop projects focused the reduction/elimination of economic distress in the Region.

### **Special Regional Initiative for Substance Abuse Mitigation**

Recent research commissioned by ARC reveals that overdose-related mortality rates for Appalachia's 25-44-year-old age group—those in their prime working years—were more than 70 percent higher than for the same age group in the country's non-Appalachian areas. In addition to being considered a health and public safety issue, this problem is now recognized as a barrier to economic prosperity because of the impact of the drug crisis on the Region's workforce. The threat to economic prosperity in the Appalachian Region makes the issue a priority for ARC. The budget requests \$10 million in FY 2020 to develop projects focused on workforce reentry strategies that both strengthen local economies and support Appalachians who have achieved long-term recovery from a substance use disorder. This funding reflects the Administration's declaration that the drug crisis is a national emergency and supports the Administration's 2019 National Drug Control Strategy.

### **Local Development Districts**

Grassroots participation in the Area Development program comes from 73 Local Development Districts (LDDs), multi-county agencies and boards composed of local elected officials and businesspeople. The budget requests \$6.20 million to support the work of the LDDs.

### **Salaries and Expenses**

The budget requests funding for salaries and expenses totaling \$9.3 million for the full costs of the Office of the Federal Co-Chair, its immediate staff, and a portion of the cost associated with the Office of the Inspector General, programmatic costs of the Commission and the 50 percent federal share for administrative expenses of the Commission staff.

## ARC Proposed Budget for FY 2020

### Appalachian Regional Commission Funding

	FY2018	FY2019	FY2020	
	Actual	Enacted	President's	Change
Base Program	73,000	73,000	73,000	0
Power	50,000	50,000	50,000	0
Congressionally Directed Special Programs	32,000			0
Special Initiatives For Distress		42,000	32,000	(10,000)
Special Regional Initiative for Substance Abuse Mitigation			10,000	10,000
<b>Total</b>	<b>155,000</b>	<b>165,000</b>	<b>165,000</b>	<b>0</b>
<b>Area Development Program Grants</b>	<b>142,238</b>	<b>152,111</b>	<b>149,450</b>	<b>(2,661)</b>
<b>Local Development Districts</b>	<b>6,200</b>	<b>6,200</b>	<b>6,200</b>	<b>0</b>
<b>Salaries and Expenses</b>				
Commission Administration (50% Federal Contribution)	4,238	4,353	3,035	(1,318)
Commission Programatic			3,832	3,832
Office of the Inspector General	547	551	546	(5)
Office of the Federal Co-Chair	1,777	1,785	1,937	152
<b>Total</b>	<b>6,562</b>	<b>6,689</b>	<b>9,350</b>	<b>2,661</b>

ARC's appropriation has increased significantly. Five years ago, the Commission received less than \$65 million; today the amount is more than twice that at \$165 million appropriated in FY 2019. Because appropriation increases were incremental and initially appeared to be temporary, the Commission did not immediately add staff capacity to correspond to the additional grant demand caused by the higher appropriations. At this point, however, ARC's additional program responsibilities appear to be established, if not permanently, at least for the long term and staffing increases to match up with these new responsibilities can no longer be avoided in order to deploy the full appropriation each year. The request reflects the full costs of the Office of the Federal Co-Chair, its immediate staff, and a portion of the cost associated with the Office of the Inspector General. The request also includes funding for Commission operations through an alternative approach to budgeting that shifts all program costs out of the administrative category where expenses are shared by the states and the federal government. This is consistent with the original organization of ARC in which "administrative" expenses were largely those associated with the planning and research functions of the Commission and grant program costs were borne by the federal government alone through transfers to other agencies who administered ARC Investments. In recent years, ARC has been assigned programmatic responsibilities for appropriations that were previously transferred to other agencies necessitating this change.

The agency is currently engaged in a staff reorganization, of which these increases are a part, designed with the goal of maintaining necessary levels of services to the states while producing long term efficiency savings.





## Program Justification: Area Development Base Program

The Federal Co-Chair of the Appalachian Regional Commission requests a total of \$165 million -- \$73 million of which will continue the activities in the Area Development Base Program. This represents level funding with the amount appropriated by Congress in FY 2019. ARC funding decisions for this program **reflect local priorities** through a flexible “bottom up” approach, enabling communities to tailor the federal assistance to their individual needs. This program **extends the reach of other federal programs** into the most challenged parts of Appalachia by providing the necessary gap funding that enables economically distressed communities to compete successfully in national programs. Finally, this program helps **attract private sector investment** to areas that otherwise would not likely be considered competitive investment opportunities. Over the past five years, each \$1 of ARC grant funds leveraged \$6.49 in private investment and \$1.78 in other public funds.

ARC’s authorization expires at the end of FY 2020. The Administration expects to submit reauthorization during FY 2020 to avoid a lapse. During that same year, ARC will update its strategic plan through a comprehensive process that will include stakeholder input as well as socioeconomic and programmatic assessment. The new plan will take effect in FY 2021.

### **Goal 1: Economic Opportunities**

*Invest in entrepreneurial and business development strategies that strengthen Appalachia's economy.*

Appalachia is in the midst of an economic transition that presents significant opportunities for the growth of new and expanding businesses—and the new jobs that would result—especially in promising sectors such as health care, energy, local food systems, advanced manufacturing, and tourism. Fostering entrepreneurship and creating an entrepreneurial ecosystem to capitalize on these opportunities is a key component of ARC’s economic development efforts. For entrepreneurs to develop these opportunities, they need skilled employees, robust support systems, the right types of investment, and engaged communities. With these fundamentals in place, Appalachian entrepreneurs can increase the number of high-quality jobs, build local wealth, and contribute broadly to sustained economic and community development across the Region. To promote entrepreneurship and business development in Appalachia, ARC has pursued a wide range of activities, including improving access to capital and credit for small businesses, supporting business incubators and accelerators, providing education and training

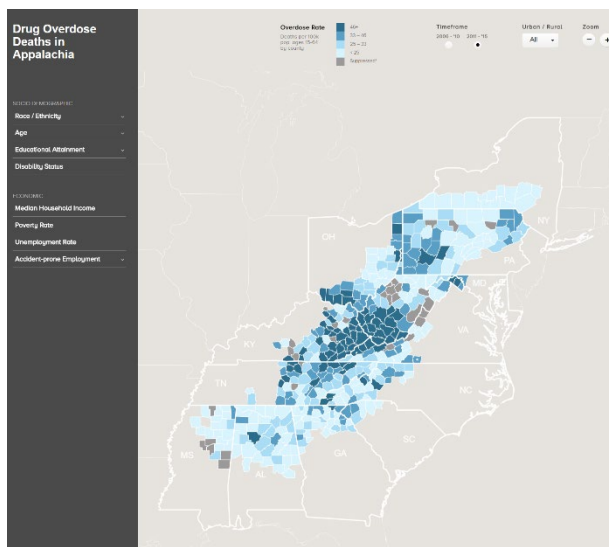
for entrepreneurs, and helping rural firms expand their international market opportunities.

#### Economic Opportunities

In FY 2018, ARC invested **\$185,000** to purchase additive manufacturing equipment for the Youngstown Edison Business Incubator in Youngstown, OH. The new equipment will allow firms from Appalachian Ohio access to shared equipment that is often prohibitively expensive for startups and small companies. The high costs of prototyping and post-processing prevent many startups from exploring the benefits of additive manufacturing. Housing equipment in a shared-use facility and providing technical assistance to the firms will improve competitiveness by allowing them to experiment with ways to integrate 3-D printing and other additive processes into their existing and new lines of business while assuming lower risk. The equipment purchase will benefit eight businesses and help to train approximately 340 students and 47 existing faculty and staff from Youngstown State University and Eastgate Community College who will have access to the equipment.

## Goal 2: Ready Workforce

*Improve the education, knowledge, skills, and health of residents to work and succeed in Appalachia.*



A healthy, skilled, and ready workforce is a building block for a more prosperous Appalachian Region. The opioid epidemic has hit the Appalachian Region especially hard and has dealt a blow to the workforce and the economy. In 2015, the opioid-related overdose mortality rate for people ages 15-64 was 49 percent higher in Appalachian than in the rest of the United States. In FY 2018, ARC released the *Appalachian Overdose Mapping Tool*<sup>2</sup>, a data visualization tool illustrating the impact of the opioid epidemic in the Appalachian Region and its relation to socioeconomic factors such

as unemployment, poverty, education, and disability. The tool demonstrates the high concentration of opioid overdose cases in Central Appalachia. ARC is currently engaged with partners through active participation in both the Federal Regional Opioid Subcommittee convened by the Administration and the USDA Opioid Misuse Partnership consisting of Federal and non-profit partners collaborating to address this issue. ARC is well positioned to assist in increasing the treatment and recovery workforce and expanding employment opportunities for people in recovery as described in the Administration's 2019 National Drug Control Strategy.

The Region also suffers higher rates of cancer, heart disease, and diabetes than the nation. In FY 2018, ARC released *Exploring Bright Spots in Appalachian Health: Case Studies* which found that the Region had made some progress in a number of health measures, but often comes up short when compared to the progress made by the United States overall, indicating a widening gap in the overall health between Appalachia and the nation as a whole. ARC will

<sup>2</sup> <https://overdosemappingtool.norc.org/>

leverage its resources and partner with other public, private, and non-profit organizations to advocate for and address the challenges posed by the drug epidemic and generally poor health conditions and other health barriers that keep Appalachians from being active and productive workers.

Education, particularly postsecondary education, is a key component of the business and entrepreneurial ecosystem and is often an economic driver. However, Appalachia lags behind the nation in the proportion of adults with a college degree (23 percent compared with 30 percent for the nation). Investments by ARC and its partners aim to connect education, workforce, and business interests in a seamless system that prepares the Region's young people to succeed in existing and emerging sectors, and that creates new opportunities for workers transitioning to new employment, such as those who have lost jobs in manufacturing and mining or other coal-related industries. This requires providing education and training matched to the Region's current sectors and jobs, while increasing access to advanced skills training for the high-growth, high-demand jobs of the future.

#### Ready Workforce

In FY 2018 ARC invested **\$150,000** in Northeast State Community College's effort to revise its aviation technology curriculum to secure Federal Aviation Administration Airframe and Powerplant program certification. Funds will be used to purchase instructional trainers such as Maintenance Procedures, Cabin Atmosphere and Pressure, and Cockpit Instrumentation. This training will develop a reliable pipeline of trained and certified aviation maintenance professionals in support of regional economic development priorities critical to the success of the Tri-Cities Airport's planned Aerospace Park. The park is expected to create up to 2,000 high skilled aviation jobs.

### Goal 3: Critical Infrastructure

*Invest in critical infrastructure—especially broadband; transportation, including the Appalachian Development Highway System; and water/wastewater systems.*

Equipping Appalachia's communities with basic infrastructure has been a major focus of ARC since its creation. In order to compete in the global economy, Appalachia must continue to develop and improve the infrastructure necessary for economic development, including broadband and telecommunications; basic infrastructure, such as water and wastewater systems; diversified energy; housing; and transportation, including the Appalachian Development Highway System (ADHS) and local access roads.

#### Growing Industry Clusters

**\$462,544** In FY 2018, ARC and EDA made a joint investment in a \$1.5 million project in the city of Chickamauga, Georgia, for critical upgrades to the water system serving a flooring manufacturing factory. The infrastructure improvements will also benefit additional business in the area and will help protect 1,000 manufacturing jobs, including those at the area's largest employer, and could attract up to \$100 million in private investment. Northwest Georgia is known as "The Carpet Capital of the World," with 85 percent of all carpet manufactured in the US is produced in Georgia. The region's industry base is comprised of a diverse set of companies, including multinationals, medium-sized firms, and innovative start-up companies, primarily in textile and textile mill manufacturing. This project supports Floor 360, a voluntary group of industry stakeholders led by the Northwest Georgia Regional Commission and Georgia Tech's Enterprise Innovation Institute.

ARC’s infrastructure projects have traditionally addressed the Region’s need for modern water and wastewater systems. Typical grants extend a water line to provide municipal water, fire protection, and development options for future and existing businesses; replace a water tank, transmission line, and relocate sewer lines in order to create and retain jobs and alleviate potential health and environmental hazards; provide safe, reliable sewer service to support existing businesses and attract future investment in the region; or expand critical health-care facilities in underserved areas.

**Critical Infrastructure for Distressed Counties**

The City of Hindman, in distressed Knott County, KY received an ARC grant to rehabilitate its wastewater treatment plant that had accrued numerous violations and was under an Agreed Order with the Kentucky Energy and Environment Cabinet. ARC used special funding available only to distressed counties and its statutory authority to increase in the allowable federal share of a project located in a distressed county and funded the project at 100%. A total of **\$2,000,000** was invested in FY 2018 to bring the system back into compliance and provide service to 420 households and 60 businesses in the community.

Increasingly ARC infrastructure projects fund new, emerging, and innovative development activities, including a “dig once” strategy to deploy fiber for broadband connectivity at the same time water and sewer lines are being installed or repaired; downtown revitalization efforts, such as streetscape and utility improvements to support existing and future businesses and residences; and creative re-use of formerly mined lands and brownfields. Physical infrastructure projects have been among the primary generators of new jobs in Appalachia. These investments are fundamental building blocks for further economic development. Congress has devoted special funding for broadband deployment and basic infrastructure in Central Appalachia. These activities are discussed in more detail in the section titled Special Regional Initiatives for Distress.

Congress authorized construction of the ADHS as part of ARC’s original enabling legislation. This highway system, which supplements the Interstate Highway System, was designed to generate economic development in previously isolated areas by connecting Appalachia to the interstate system, and providing access to areas within the Region as well as to markets in the rest of the nation. The ADHS has been a key element of ARC’s economic and community development programs.



**Goal 4: Natural and Cultural Assets**

*Strengthen Appalachia's community and economic development potential by leveraging the Region's natural and cultural heritage assets.*

Appalachia’s natural and cultural heritage assets offer great economic potential. They contribute to a sense of regional identity, catalyze entrepreneurship and other economic development activities, and make communities more attractive to visitors and more livable for residents. ARC works with partners to leverage the productive use of the Region’s assets in support of existing and emerging economic opportunities.

ARC has invested in a range of downtown revitalization projects across the Region to help communities strengthen their local economies and improve quality of life. In addition, to capitalize on the expanding recreational tourism industry in the Region, the Commission invested in projects creating and extending hiking, biking, and motorsports trails. In partnership with the National Endowment for the Arts (NEA), ARC supports the Appalachian Gateway Communities Initiative to provide technical assistance with natural and cultural heritage tourism development to communities that are geographically positioned as “gateways” to the Region’s public lands and heritage areas. In FY 2017, ARC and NEA developed a pilot for communities that had previously developed plans and activities under this initiative and needed to develop strategies to evolve to the next level.

**Natural and Cultural Assets**

In FY 2018, ARC invested **\$500,000** in the “Outdoor Recreation Investments for the Coalfields of Virginia” project to develop 50 miles of multi-use trails, six river access points, and two parks to connect recreational assets to local communities. This investment is part of an ongoing asset-based development effort in Virginia to restructure the economy and fill gaps left by declining coal, manufacturing, and agriculture industries. It is expected to create 10 new businesses and 54 new jobs in the tourism sector and increase visitation to the region by 15 percent each year for the next five years.

**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.*

Cultivating the next generation of Appalachian leaders is key for the Region’s future. ARC’s strategic investments and partnerships achieve the greatest impact by helping build the capacity and skills of current and next-generation leaders and organizations to advance the Region’s community and economic development.

In FY 2018, ARC launched the ***Appalachian Leadership Institute*** with the mission of equipping a diverse network of leaders with the skills, expertise, and vision to address the Region’s most pressing issues and increase Appalachia’s economic competitiveness. This program includes a year-long leadership module aimed at current or emerging leaders. Ongoing networking and collaborative activities will be encouraged through an active alumni engagement program. The goal of this activity is to provide a toolkit to address challenges and opportunities unique to the Appalachian Region.

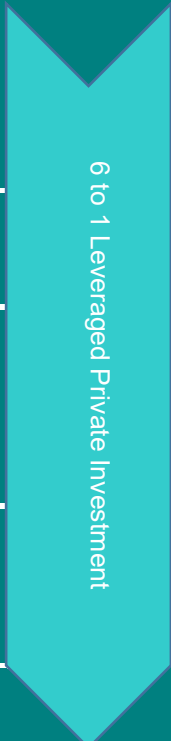
**Leadership and Community Capacity**

ARC invested **\$125,000** to continue the multi-year partnership with the **Benedum Foundation** to deploy the FLEX-E Grant program in West Virginia. The program assists communities in developing small-scale, non-construction projects that develop or strengthen community leadership, encourage the formation of community-based groups or coalitions, promote community-wide strategic planning, create tools such as feasibility studies that assess or promote economic development opportunities, or increase the ability of a community or region to leverage a local asset for economic development. In FY 2018, a total of 100 persons in 15 communities were projected to receive training.

## ARC Area Development Base Program Performance Targets

**Based on annual appropriation of \$73 million**  
(Subject to final allocation by the Commission)

<u>Priority Goal</u>	<u>Investment Strategy</u>	<u>Annual Performance Target</u>	<u>Five-Year Performance Target</u>
<b>Economic Opportunities</b>	Invest in entrepreneurial and business development strategies that strengthen Appalachia's economy	2,500 Businesses created or strengthened	112,500 Businesses created or strengthened
	Improve the education, knowledge, skills, and health of residents to work and succeed in Appalachia.	20,000 Jobs created or retained	100,000 Jobs created or retained
	Improve the education, knowledge, skills, and health of residents to work and succeed in Appalachia.	22,000 students, workers, and leaders improved	110,000 students, workers, and leaders improved
	Invest in critical infrastructure—especially broadband; transportation, including the Appalachian Development Highway System; and water/wastewater systems	22,000 businesses and households with access to improved infrastructure	110,000 businesses and households with access to improved infrastructure
	Strengthen Appalachia's community and economic development potential by leveraging the Region's natural and cultural heritage assets	250 communities with enhanced capacity	1,250 communities with enhanced capacity
<b>Ready Workforce</b>	Improve the education, knowledge, skills, and health of residents to work and succeed in Appalachia.	22,000 students, workers, and leaders improved	110,000 students, workers, and leaders improved
<b>Critical Infrastructure</b>	Invest in critical infrastructure—especially broadband; transportation, including the Appalachian Development Highway System; and water/wastewater systems	22,000 businesses and households with access to improved infrastructure	110,000 businesses and households with access to improved infrastructure
<b>Natural and Cultural Assets</b>	Strengthen Appalachia's community and economic development potential by leveraging the Region's natural and cultural heritage assets	250 communities with enhanced capacity	1,250 communities with enhanced capacity
<b>Leadership Capacity</b>	Build the capacity and skills of current and next-generation leaders and organizations to innovate, collaborate and advance community and economic development	250 communities with enhanced capacity	1,250 communities with enhanced capacity







## Program Justification: Coal Impacted Communities Initiative

The Federal Co-Chair of the ARC requests \$50 million for its regionally competitive Coal Impacted Communities Initiative. This represents level funding with the amount appropriated by Congress in FY 2019. Appalachia has been disproportionately affected by the downturn in the coal industry with 79 percent of the 39,759 coal mining jobs lost in the United States from 2011 to 2017 were in the Appalachian Region—a loss to the Region of 31,447 direct mining jobs. This initiative assists communities and regions adversely affected by job losses in coal mining, coal power plant operations, and coal-related supply-chain industries that have occurred because of the changing economics of America’s energy production. It is designed to assist the Region in better competing in the global economy by addressing activities that are multi-jurisdictional in nature, crossing state borders to connect multi-state development efforts. Prior year requests for proposals have been significantly oversubscribed, demonstrating both the significant need and the volume of transformational opportunities in the Region. Therefore, the Federal Co-Chair will take measures to expedite deployment of these funds.

The Coal Impacted Communities Initiative seeks to create a more vibrant economic future for coal-impacted communities by cultivating economic diversity, enhancing job training and re-employment opportunities, creating jobs in existing or new industries, and attracting new sources of investment. ARC has funded activities in coal-impacted communities through a competitive grant process with a preference for one or more of four priority areas:

- Building a competitive workforce;
- Enhancing access to, and use of, broadband services;

### Building a Competitive Workforce

**\$600,000** ARC made a grant to Hazard Community and Technical College (HCTC) in Hazard, KY in FY 2018, to expand the college’s welding technology program. HCTC’s welding technology program is operating at capacity and the demand generated by regional employers exceeds the resources available to the college. The grant will fund renovations, equipment, and personnel, serving at least 12 more students per cohort in each short-term training. The training is developed in consultation with area employers. At the end of the grant period, HCTC expects 70 workers/trainees will obtain a job in the field for which they were specifically trained and 60 students will complete the credit-bearing training program. The expansion of the welding program builds on a prior POWER grant to HCTC to expand its course offerings in four other career clusters.

### Enhance access to Broadband Services

**\$948,673** ARC made a grant to Somerset County, PA, in FY 2017 for the *Somerset County Fiber Extension Project*. ARC funds will be used to install 22 miles of fiber optic cable on existing pole lines that will allow a variety of business, residential, medical, and educational customers in Somerset County access to broadband services. The area does not currently have cable broadband available and DSL service is not offered ubiquitously. The project will serve 1,094 businesses and 3,962 households and will act as an economic and tourism driver in the county.

- Fostering entrepreneurial activities; and
- Growing industry clusters in communities.

To date, ARC has invested \$144.8 million in projects serving 312 coal impacted counties. These projects are expected to create or retain more than 17,000 jobs, assist 7,200 businesses, leverage \$771.3 million, and prepare thousands of workers and students with globally competitive skills. Funded activities range from fostering a strong drone cluster in southwest Virginia and strengthening the local food economy in Central Appalachia, to training workers for private-sector technology jobs in eastern Kentucky, boosting entrepreneurship and innovation in southwest Pennsylvania, and expanding support for tourism businesses in West Virginia.

Additionally, ARC has commissioned research on the economics of the coal industry supply chain, supported research on opioid abuse issues in coal-impacted communities, and advanced the use of broadband in the revitalization of downtowns. ARC contracted Chamberlin/Dunn, LLC to evaluate ARC's work on this initiative and those findings will guide future investments.

A request for proposals for the FY 2019 funds was released early in the second quarter. This round features a \$15 million set aside for broadband deployment projects and a new emphasis on activities that address substance abuse focusing on workforce re-entry. Priorities for FY 2020 may shift to emphasize underserved programmatic or geographic areas.

The change in coal mine employment by county and ARC Coal Impacted Communities Initiative project grant awards are depicted in the maps that follows.

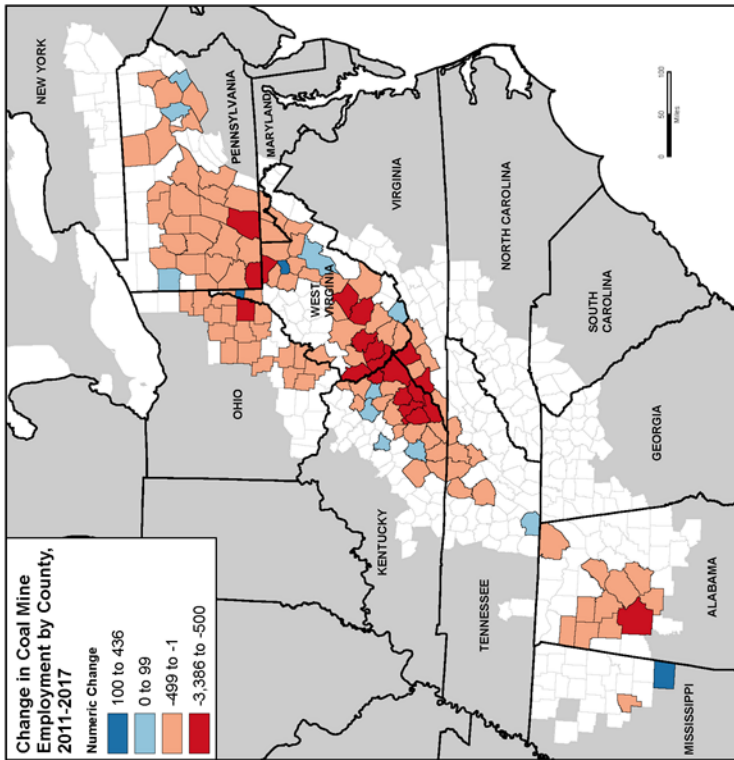
#### Fostering Entrepreneurial Activities

**\$940,000** In FY 2018, ARC made a grant to the Mountain BizWorks to engage in strategies to grow the outdoor gear manufacturing sector in Western North Carolina. Activities will include workforce development training, entrepreneurship training and access to capital, increasing market share, supply chain optimization and engaging local and regional development practitioners. Western North Carolina University will develop a new degree and certificate program to provide career pathways. Matching funds will provide a lending pool for small and medium sized businesses within the outdoor recreation industry. As a result, 100 businesses will be improved, 45 workers will be trained, and 150 new jobs will be created.

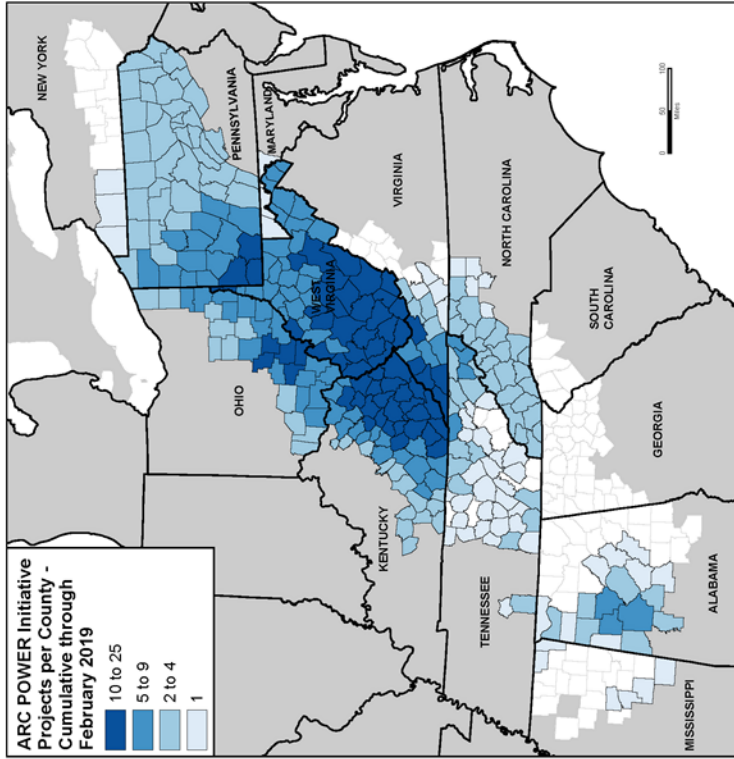
#### Growing Industry Clusters

**\$1,870,000** ARC partnered with Claude Worthington Benedum Foundation in FY 2016 in a grant to the Coalfield Development Corporation in Wayne, WV, for the *Appalachian Social Entrepreneurship Investment Strategy*. ARC funds will be used to incubate job-creating social enterprises; scale-up Coalfield Development Corporation's innovative 33-6-3 on-the-job training/education/life skills workforce development model; and expand Coalfield Development Corporation's service territory to other coal-impacted areas in Southern West Virginia. The award projected creation of 85 new jobs and training for 500 participants to pursue quality jobs in high-demand industries in the Appalachian Region.

When the grant closed in FY 2018, it had exceeded projected goals creating over 100 jobs and training 600 workers and 5 new businesses. ARC made a follow-on investment of **\$2,034,667** to continue and expand this successful effort which had a waiting list of 120 recruits for positions on social enterprise work crews. The Benedum Foundation and Bloomberg Philanthropies contributed cash match of \$560,000. This round added a new component to its family of enterprises with SustainU, LLC, a clothing manufacturer that hires people recovering from substance abuse and a new program targeting youth in coal impacted communities.



Appalachian Regional Commission, February 2018



Appalachian Regional Commission, February 2019

# ARC Area Development Program – Coal Impacted Community Initiative

## Performance Targets

Based on \$50 Million

Includes \$1 Million for Administration

Investment Strategy	Annual Performance Target
Invest in entrepreneurial and business development strategies that strengthen the Appalachian Economy	5,000 Students/Workers Improved
Improve the education, knowledge, skills, and health of residents to work and succeed in Appalachia	5,000 Jobs Created/Retained
Invest in critical infrastructure – especially broadband; transportation; including the Appalachian Development Highway System and water/wastewater systems	2,000 Businesses Improved
Strengthen Appalachia’s community and economic development potential by leveraging the Region’s natural and cultural heritage assets	400 Businesses Created
Build the Capacity and skills of current and next-generation leaders and organizations to innovate, collaborate and advance community and economic development	100 Communities Improved
	1:1 Match to ARC Ratio
	2:1 LPI to ARC Ratio

This Initiative targets communities that face extreme economic challenges due to the downturn in the coal economy and will require significant upfront investment to achieve long term goals.



## **Program Justification: Special Regional Initiative for Distress**

The Federal Co-Chair of the Appalachian Regional Commission requests \$32 million for Special Regional initiatives for Distress in Appalachia. ARC will use this funding to augment the existing work being done in distressed areas through the Area Development Base Program and the Coal Impacted Communities Initiative and reduce the disproportionately high rate of distress in the Appalachian Region. In FY 2018, 64 percent of ARC's funds were invested in projects for benefit of distressed communities. ARC gauges its long-term progress toward helping the Region achieve economic parity with the nation in terms of the gradual reduction in the number of such counties and areas over time. ARC will complement its efforts to reduce distress by directing funding to leverage emerging opportunities and to address barriers to economic development. Continued expansion of the southern automotive and aviation clusters offers great potential for job creation in Appalachia. Other challenges such as inadequate water, sewer and broadband infrastructure and the effects of drug crisis on the workforce present significant barriers and require substantial resources to overcome.

Nearly one-fifth of Appalachia's counties still suffer from persistent and severe economic distress driven primarily by the Region's reliance on single sector economic driver. During the period 2000-2016, Appalachia had a net loss of 603,000 manufacturing jobs. In the coal-mining sector, the United States lost 39,759 jobs between 2011 and 2017; 79 percent of those (31,447) were in the Appalachian Region. And of that number, 22,673 were in Kentucky and West Virginia alone. Today the Region faces another economic crisis as the drug epidemic unfolds and impacts the workforce. Recent ARC research reveals that opioid-related overdose mortality rate for people ages 15-64 was 49 percent higher in Appalachian than in the rest of the United States in 2015.

In addition to being sicker than the rest of the country, Appalachia's population is older than the rest of the nation. The share of Appalachia's population under 20 years old has fallen substantially since 1970— from just under 38 percent in 1970 to around 25 percent in 2012. This decline occurred at the same rate in the U.S. as a whole from 1970 through the early 1980s, but since then has been more pronounced in Appalachia. Similarly, in the 2011–2015 period, the share of residents ages 65 and over in the Appalachian Region exceeded the national average by two percentage points. Net population loss occurred in almost two thirds of the Region's

counties between 2000 and 2010. And the Region continues to lag behind the nation in the proportion of adults with a college degree (23 percent compared with 30 percent for the nation). Taken together, these conditions create major barriers to development of a strong regional economy and require a special targeted approach.

Despite these challenges, opportunities exist in the Region. ARC will use funds available through this initiative to leverage emerging opportunities such as the development of the southern automotive and aviation clusters. ARC was an early investor in the automotive manufacturing industry, with the Appalachian governors voting to allocate funding across multiple states to assist South Carolina in providing the necessary infrastructure for BMW to expand in the Region. Twenty years later, in 2012, automotive cluster analysis found that BMW alone was responsible for creating 7,000 jobs. With the company's growth, an extensive supplier network has developed in the state, creating additional jobs.

#### **Southern Automotive Cluster Development**

**\$1,000,000** In FY 2018, ARC assisted the City of Dayton in Tennessee with construction of a 500,000 gallon elevated storage tank and waterline extension in a business park where a multinational tire company was locating. The applicant provided the additional \$700,000 in matching funds for the project that serves economically at-risk Rhea County, which was recently plagued by the loss of 600 manufacturing jobs. This strategy capitalizes on the automotive industry and helps to transform the economy for the area. At least four existing businesses and one new business will be served by the storage tank when the project is complete. The tire manufacturer plans to invest \$360 million in private capital to build and equip a new 830,000-square foot manufacturing facility, and will create 320 new jobs within three years of the project's completion.

In recent years the automotive sector in southern Appalachia has grown to include major assembly plants for Mercedes, Toyota, and Honda. All of those have benefitted from ARC investments, primarily for basic infrastructure. The presence of these manufacturing facilities has sparked the growth of a vibrant automobile-parts sector across the southern part of Appalachia and transitioned communities out of economic distress. ARC is leveraging this opportunity by providing funds to expand workforce opportunities and develop necessary infrastructure. This is an appealing strategy for the state of Alabama and Mississippi as Toyota-Mazda opens a new manufacturing facility anticipating jobs for 4,000 employees who will need enhanced training.

Along with activities that develop existing opportunities, funds from this initiative will address deficits in the Region. Appalachia, like most of rural America, continues to lag the nation in access to advanced telecommunications infrastructure. Many areas still do not have cell coverage and broadband service; if broadband is available, it is usually only in the downtown and the immediately surrounding area. Even when available, rural access tends to be slower and less reliable. ARC has had a special focus on access and use of broadband for a number of years. As part of the agency's

#### **Central Appalachia Distressed County Infrastructure**

The City of Spencer in economically distressed Roane County, West Virginia received **\$800,000** in from ARC in FY 2018 to make critical repairs to its wastewater plant and collection system in order to bring the system back into compliance with West Virginia Department of Environmental Protection standards. ARC funds were matched by an additional \$704,000 in form of a loan from USDA Rural Development. The project includes total rehabilitation of sewer line, connections, tank and clarifier, and manholes. When complete, the project will provide service to 1,314 households and 213 businesses and position the city to pursue economic development opportunities not available while the system is out of compliance with state regulations.



reauthorization in 2015, Congress reinforced this focus by creating a new authority for ARC to work in broadband deployment. This strategy aligns with the FY 2017 recommendations of the Department of Agriculture’s Interagency Task Force on Agriculture and Rural Prosperity, which acknowledges that reliable and affordable high-speed internet e-connectivity will transform rural America as a key catalyst for prosperity.

ARC is a key partner in the effort to develop broadband access throughout eastern Kentucky through the creation of a large middle-mile network known as KentuckyWired. This network will bring enhanced broadband access to 119 community anchor institutions in eastern Kentucky and provide the platform necessary for providers to branch out and provide last-mile facilities in selected areas. ARC has already invested over \$43 million in this initiative, which has received special congressional funding for improving broadband service to distressed counties in Central Appalachia.

Substance abuse poses a major threat to the economic prosperity of Appalachia. In October, the Administration declared a national public health emergency, underscoring the challenge this crisis poses nationally. This issue is particularly striking for central Appalachia. West Virginia has an opioid-related overdose rate over three times as high as the rate for non-Appalachian United States. The Appalachian parts of Kentucky, Maryland, and Ohio all have opioid-related overdose rates more than twice as high as that found in the non-Appalachian U.S. The pervasiveness of drug abuse has a negative impact on the Region’s workforce, diminishing regional economic opportunity.

Throughout FY 2020, ARC will continue to work with public and private sector partners to leverage opportunities and eliminate economic barriers such as the lack of critical infrastructure including broadband, and the effects of substance abuse and other diseases of despair on the Appalachian workforce in order to reduce economic distress in the Region. Outcome measures will be developed in conjunction with state and local partners as this initiative is developed through the Appalachian states.

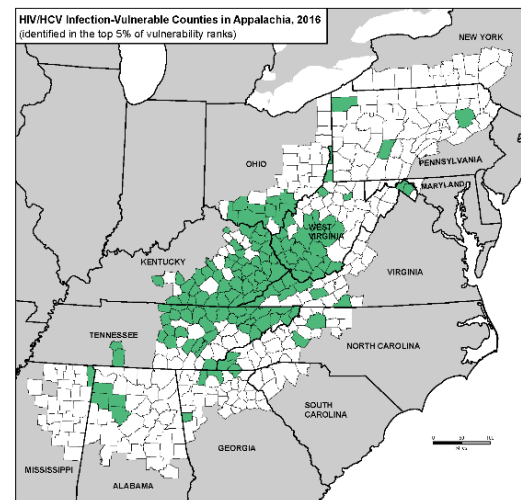
<b>Potential Outcomes for Project Development</b>
Businesses Improved
Communities Improved
Households Improved
Participants Improved
Students Improved
Workers and Trainees Improved



## Program Justification: Special Regional Initiative for Substance Abuse Mitigation Pilot

The Federal Co-Chair of the ARC requests \$10 million to implement a regionally competitive pilot initiative to address the substance abuse crisis that disproportionately affects Appalachia. In addition to being considered a health or public safety issue, substance abuse presents a barrier to economic prosperity because of its impact on the workforce, making this issue a priority for ARC. Efforts will focus on the build-out of the recovery ecosystem necessary to support those in recovery as they reenter the workforce. The Federal Co-Chair will design an implementation plan to best deploy these funds on a regionally competitive basis to foster successful recovery outcomes while also strengthening economic potential. This funding reflects the Administration's declaration that the drug crisis is a national emergency and supports the Administration's 2019 National Drug Control Strategy.

ARC will continue to focus efforts on the existing economic challenges such as the Region's lack of adequate water and sewer infrastructure and the significant downturn of the coal economy, but the pervasive nature of this epidemic, and the resulting negative impact on various sectors important to economic prosperity, requires targeted funding. Recently, ARC released a study titled *Appalachian Diseases of Despair* completed by NORC at the University of Chicago which revealed that in 2015, overdose-related mortality rates for Appalachia's 25-44-year-old age group—those in their prime working years—were more than 70 percent higher than for the same age group in the country's non-Appalachian areas.



Appalachian Regional Commission, February 2019  
Data source: Viri Handel, et. al. 2016, Table S1 of "County-level Vulnerability Assessment for Rapid Dissemination of HIV or HCV Infections among Persons who Inject Drugs, United States", accessed online at <https://www.norc.uchicago.edu/wp-content/uploads/2016/02/20160219>

The Centers for Disease Control (CDC) identified 220 counties in the nation as being at risk for HIV and Hepatitis C infections due to injection drug use. This data is used as a proxy for opioid abuse vulnerability as well. A total of 140 or 64 percent of the vulnerable counties identified in the

nation are located in the 13-state Appalachian Region. This disproportionately high statistic conveys the direct threat to the workforce and the Region's economy. The socioeconomic conditions within this issue are not surprising: unemployment is high, educational attainment is low and life expectancy is poor -- all challenges that have plagued Appalachia for decades. The burden placed on communities attempting to compete in the global economy while facing this barrier is almost unsurmountable. This suggests a cyclical relationship between poverty and substance abuse that presents a special challenge for Appalachia.

While the Region has made progress in achieving its mission of reaching parity with the nation, it has recently been buffeted by a number of economic challenges such as the disproportionately high job losses in both manufacturing and coal mining sectors. A total of 603,000 manufacturing jobs were lost during the period 2000-2016 and the downturn of the coal industry has resulted in the loss of 31,447 direct mining jobs between 2011 and 2017. ARC was authorized to address the specific barriers facing the Appalachian Region and is therefore, well positioned to confront this issue as well.

ARC's work does not duplicate other federal programs; instead, it extends the reach of those programs into the most challenged parts of Appalachia by providing necessary gap funding and technical assistance that enables economically distressed communities to compete successfully in national programs. ARC participates in both the Federal Regional Opioid Subcommittee convened by the Administration and the USDA Opioid Misuse Partnership consisting of federal and non-profit partners collaborating to address substance abuse.


Through the SUPPORT for Patients and Communities Act, Congress and the Administration recognized the severity of the substance abuse issue in Appalachia and provided special guidance for ARC to address this issue through the following activities:

- Facilitate the sharing of best practices among States, counties, and other experts in the region with respect to reducing drug abuse;
- Initiate or expand programs designed to eliminate or reduce the harm to the workforce and economic growth of the region that results from drug abuse; attract and retain relevant health care services, businesses, and workers;
- Attract and retain relevant health care services, businesses, and workers;
- Develop relevant infrastructure, including broadband infrastructure, which supports the use of telemedicine.

Building on the recent Congressional guidance, ARC is conducting a series of listening sessions in the Region throughout FY 2019 to determine the best entry points for ARC to assist in mitigating the impact of this crisis. In FY 2020, ARC will use its grassroots delivery system by collaborating with state, local, other federal, and private sector partners to address this epidemic through activities that:

- Strengthen the substance abuse workforce by providing opportunities to attract healthcare professionals in behavioral health, psychiatric and other fields and ensuring proper training resources are available to expand the pool of qualified health providers.
- Support recovery-to-work efforts by working with state and local counterparts to connect individuals in recovery with employment opportunities.
- Encourage Entrepreneurial and Collaborative Solutions through social enterprises and cross-sector partnerships. Increase the use of telemedicine by expanding broadband access in rural Appalachian areas that lack a sufficient healthcare workforce.
- Engage businesses and leverage community economic leadership in becoming a part of the solution, which will improve the overall health of their communities, strengthen their workforce and encourage economic development.


Below is a list of activities that ARC will undertake as a part of this pilot initiative.



**THE APPALACHIAN REGIONAL COMMISSION**  
**IS INVESTING IN COMMUNITY-BASED STRATEGIES TO ADDRESS THE REGION'S SUBSTANCE ABUSE CRISIS**


Overdose-related mortality rates for Appalachia's 25–44-year-old age group—those in their prime working years—were more than 70 percent higher than for the same age group in the country's non-Appalachian areas.<sup>1</sup>

CAPITAL INVESTMENT OPPORTUNITIES




- > Health care infrastructure including clinics, hospitals, recovery centers, residential treatment centers, transitional housing, and equipment.
- > Broadband access, telemedicine facilities, and equipment.
- > Training and certification programs for physicians, counselors, and other behavioral health professionals.
- > Training and education programs focusing on workforce reentry.

TECHNICAL ASSISTANCE



- > Facilitate collaboration opportunities with other partners, communities, and leaders.
- > Consultations, workshops, and project review.
- > Leadership development and capacity building.
- > Application guidance for funding opportunities.
- > Research, data, and mapping resources.
- > J-1 Visa Program assistance.

DATA AND RESOURCES



- > *Appalachian Overdose Mapping Tool* to visualize overdose statistics with other socio-economic data. <https://overdosemappingtool.norc.org>
- > *Appalachian Diseases of Despair* study analyzing the impact of overdose, suicide, and alcohol-related liver disease. [www.arc.gov/research](http://www.arc.gov/research)
- > [www.healthinappalachia.org](http://www.healthinappalachia.org) mapping population health measures in the Region.
- > *Health Disparities in Appalachia* report measuring population health in the Region and documents health disparities between the Region and the rest of the country. [www.arc.gov/healthdisparities](http://www.arc.gov/healthdisparities)
- > Exploring *Bright Spots in Appalachian Health: Case Studies* profiling 10 Appalachian counties with better-than-expected health outcomes. [www.arc.gov/research](http://www.arc.gov/research)
- > Identifying *Bright Spots in Appalachian Health: Statistical Analysis* compiling regional health measures and outcomes. [www.arc.gov/brightspots](http://www.arc.gov/brightspots)

<sup>1</sup> *Appalachian Diseases of Despair* report, prepared for the Appalachian Regional Commission by The Walsh Center for Rural Health Analysis, NORC at the University of Chicago, published 2017.



## **Performance and Evaluation**

ARC is a performance-driven organization with a systematic program for performance measurement in place, in accordance with its 2016–2020 strategic plan. The strategic plan establishes both long- and short-term goals and performance measures to track progress in meeting the agency’s mission. A multi-level evaluation system was designed in accordance with the Government Performance and Results Act.

Grant information and performance is tracked by ARC’s intranet management system, ARC.net. Data elements are geared to performance measures and strategic objectives from the strategic plan. As each grant is closed, ARC staff collects output and outcome information and tracks data against anticipated performance. The performance data is validated through a process that confirms project outcomes three years after the projects have been completed. The three-year period allows ARC to accurately capture data on performance measures, which can continue to accrue after a project has been completed.

ARC conducts an outside evaluation of each strategic goal area on a rotational basis. Each study assesses how well ARC projects met their projected performance targets and offers recommendations for ways to improve the grants process. This information is published on the ARC website and used to guide future Commission policy. ARC performance is published annually in its Performance and Accountability Report, which is available on the agency’s website at [www.arc.gov](http://www.arc.gov).

ARC will update its strategic plan through a combination of stakeholder input as well as programmatic and socioeconomic assessment in FY 2020.

## SUMMARY OF ACHIEVEMENTS

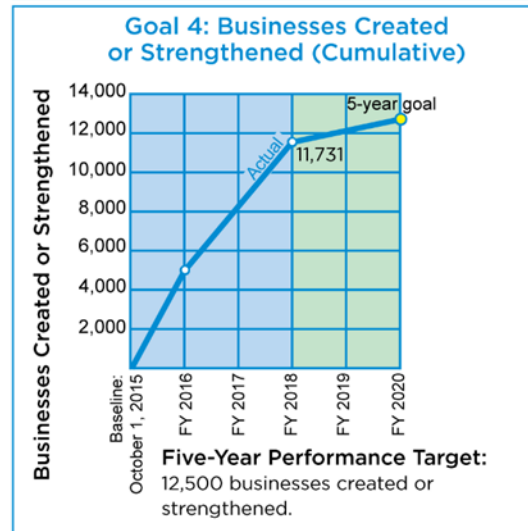
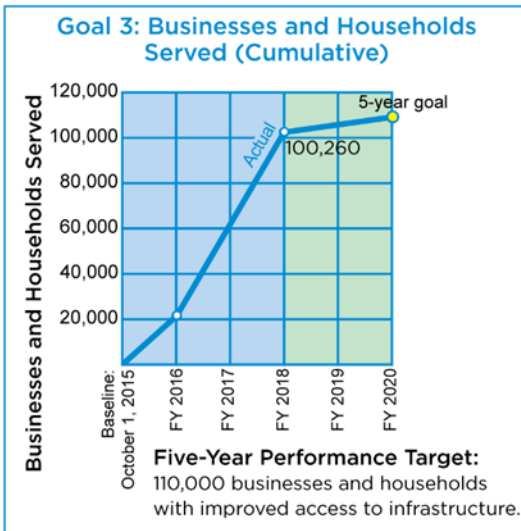
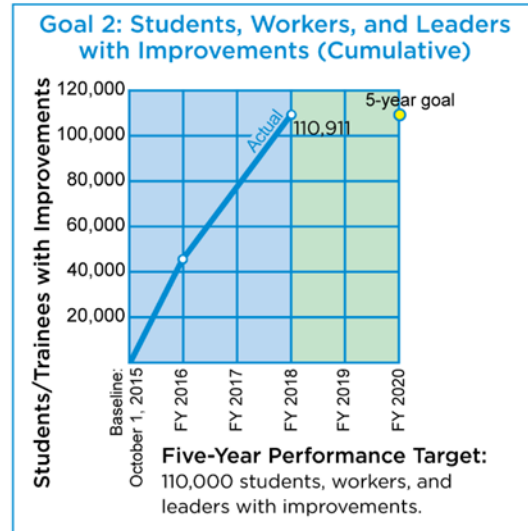
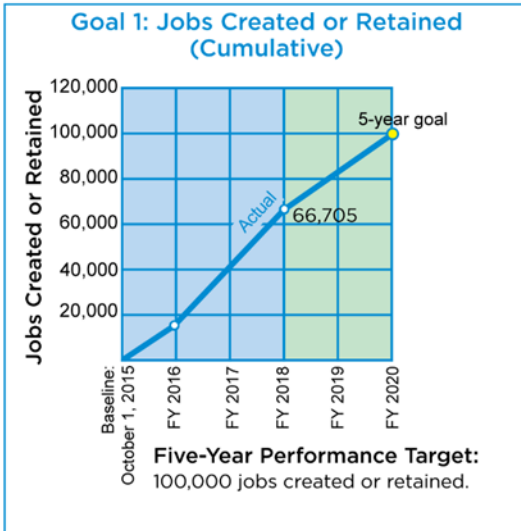
### PERFORMANCE TARGETS AND RESULTS FOR FISCAL YEAR 2018 PROJECTS

ANNUAL PERFORMANCE TARGETS	RESULTS: INITIAL ESTIMATES	RESULTS ACHIEVED
<b>Outcome Targets</b>		
20,000 jobs created or retained	26,662 jobs created or retained	Exceeded Target by 33%
22,000 students, workers, and leaders with improvements	34,135 students, workers, and leaders with improvements	Exceeded Target by 55%
22,000 businesses and households with access to improved infrastructure	31,378 businesses and households with access to improved infrastructure	Exceeded Target by 43%
2,500 businesses created or strengthened	2,500 businesses created or strengthened	Met Target
250 communities with enhanced capacity	562 communities with enhanced capacity	Exceeded Target by 125%
<b>Leverage Target</b>		
Achieve a 6:1 ratio of leveraged private investment to ARC funds	Achieved a 12:1 ratio	Exceeded Target by 98%
<b>Matching Target</b>		
Achieve a 2:1 ratio of matching funds to ARC funds	Achieved a 2:1 ratio*	Met 75% of Target
<b>Distressed Counties/Areas Target</b>		
Direct 50% of ARC funds to benefit distressed counties or areas	Directed 64% of funds**	Exceeded Target by 14 percentage points
<small>*Ratios are rounded to the nearest whole number.  **Project funds are included if the project primarily or substantially benefits distressed counties or areas.</small>		

ARC's performance annual performance targets are established in the agency's 2016 – 2020 strategic plan. These targets are based on an annual appropriation of \$70 million as was the trend at the time the plan was developed. Congress provided additional funding for regional initiatives that have resulted in significantly higher results estimates for FY 2018.



## Progress toward ARC Strategic Plan Performance Goals, Fiscal Years 2016–2020





## Salaries and Expenses

The Federal Co-Chair requests \$9,350 million for Salaries and Expenses to implement the Area Development program and its associated costs. The chart below summarizes ARC’s total request for salaries and expenses in for the base program for FY 2020 compared with prior year appropriations. ARC’s appropriation has increased significantly. Five years ago, the Commission received less than \$65 million; today the amount is more than twice that at \$165 million. ARC did not immediately increase staff as the appropriation increases were incremental and initially appeared to be temporary. At this point, however, ARC’s additional program responsibilities appear to be established, if not permanently, at least for the long term and requested staffing increases are necessary to match up with these new responsibilities and can no longer be avoided in order to fully deploy the annual appropriation.

### ARC Salaries and Expenses Appropriation History

	2018 Enacted	2019 Enacted	2020 President's Budget	Change in Federal Request
<b>Commission Administration Federal Contribution</b>	4,239	4,354	3,035	(1,319)
State Contribution	4,239	4,354	3,035	
<b>Inherently Federal Base Program Costs</b>	--	--	3,832	3,832
Commission Operations Total	8,477	8,707	9,902	2,514
<b>Office of the Federal Co-Chair</b>	1,777	1,785	1,937	152
<b>Inspector General</b>	547	551	546	(5)
<b>TOTAL FEDERAL REQUEST</b>	<b>6,563</b>	<b>6,690</b>	<b>9,350</b>	<b>2,661</b>

Additionally, ARC has developed an alternative approach to budgeting that shifts all program costs out of the administrative category where expenses are shared by the states and the federal government. This is consistent with the initial intent in which ARC was created where “administrative” expenses were largely those associated with the planning and research functions of the Commission and grant program costs were borne by the federal government alone through transfers to other agencies who administered ARC Investments. In recent years,

ARC has been assigned programmatic responsibilities for appropriations that were previously transferred to other agencies necessitating this change.

This request reflects the full costs of the Office of the Federal Co-Chair, its immediate staff, and a portion of the cost associated with the Office of the Inspector General. The Commission is currently engaged in a staff reorganization, of which these increases are a part, designed with the goal of maintaining necessary levels of services to the states while producing long term efficiency savings. As directed by Congress, in FY 2019 ARC will commission a cost benefit analysis of relocating operations to the Region.

The request 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. 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; 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 the Federal Co-Chair**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Change</b>
	<b>Actual</b>	<b>Enacted</b>	<b>President's Budget</b>	
Personnel Compensation	621	1,022	1,121	99
Personnel Benefits	218	280	313	33
Travel & Transportation	130	85	100	15
Rent, Communications	169	170	175	5
Printing	1	1	1	
Services	340	206	206	
Supplies	5	11	11	
Equipment	1	10	10	
<i>Total:</i>	1,485	1,785	1,937	152

The Office of the Inspector General’s request funds a three-person staff, related expenses, and required contract audit, investigative, training, legal support and support for the Council of the Inspectors General on Integrity and Efficiency as required by the Inspector General Reform Act (PL 110-409) passed by Congress in 2008. This legislation placed increased requirements on the office of each Inspector General. 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 Modernization Act of 2010*, 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. This budget has been certified by the Inspector General.

### Office of the Inspector General

	2018 Actual	2019 Enacted	2020 President's Budget	Change
Personnel Compensation	173	195	213	18
Personnel Benefits	29	62	65	3
Travel & Transportation	2	25	25	
Rent, Communications	39	37	39	2
Printing		1	1	
Services	285	225	195 <sup>1</sup>	
Supplies	2	4	2	(2)
Equipment		2	2	
Training			4	
<b>Total:</b>	<b>530</b>	<b>551</b>	<b>546</b>	<b>21</b>

<sup>1</sup> An additional \$300,000 in Coal Impacted Communities funding will be provided to the IG for work on that Initiative.

Each year, the states and the Federal Co-Chair must approve the Commission's operating budget. Following completion of appropriations action, final non-federal staffing decisions are made and must be approved at a Commission meeting of the member states with the Federal Co-Chair. As a result of this consultative process, final allocations may differ from the estimates of operating expense amounts by object class for 2020. The following table shows ARC Commission operating expenses.

### Commission Operations

	2018 Actual	2019 Enacted	2020 President's Budget	Division of of 2020 Operating Expenses Areas		Change
				Administrative		
				Split State/Fed	Programatic	
Personnel Compensation	4,595	5,082	6,059	3,379	2,680	977
Personnel Benefits	1,866	1,919	2,127	1,210	917	208
Travel & Transportation	141	130	146	46	100	16
Rent, Communications	900	897	938	924	14	41
Printing	1	19	17	17	0	(2)
Services	578	582	537	416	121	(45)
Supplies	25	34	34	34	0	0
Equipment	24	44	44	44	0	0
<b>Total:</b>	<b>8,130</b>	<b>8,707</b>	<b>9,902</b>	<b>6,070</b>	<b>3,832</b>	<b>1,195</b>

ARC's authorizing legislation specifies that Commission staff 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.

Personnel compensation for Commission staff generally follows that of federal employees in the metropolitan area and benefits are budgeted accordingly. The FY 2020 request reflects costs associated with the Commission's responsibility for funding its own private pension plan for Commission staff. Periodically, prior year balances are invested to meet the fiduciary requirements of the plan. Accounts payable and related activities have been transitioned to the US Department of Agriculture and several federally required system administration responsibilities have been outsourced. Additionally, the salary of the Inspector General has transitioned to the Commission in accordance with *Dodd-Frank Wall Street Reform and Consumer Protection Act* as mentioned above.



**Comprehensive Reform Initiative**



## Organizational Effectiveness Initiatives

*Status as of August 2018*

The Appalachian Regional Commission (ARC) has been identifying, analyzing, and implementing workplace efficiencies to ensure the highest possible output using cost- and time-effective resources. ARC has proactively made these decisions during its normal course of business while adjusting to internal and external forces which demand innovation and evolution. On April 12, 2017, the Office of Management & Budget (OMB) released Memo M-17-22 “Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce”. Below, ARC has documented key actions that align with this directive, highlighting accomplishments already completed and those in progress, towards maximizing employee performance, organizational restructuring, improving efficiency and effectiveness, and workforce management. These changes will enhance ARC’s mission and effectiveness in carrying out the critical work of economic development in the Appalachian Region.

The OMB memo directs agencies to act on:

- Short-term workforce reductions
- Short-term cost savings
- Maximizing employee performance
- Long-term workforce reductions







When implemented, the efforts are expected to result in the following objectives:


1. Lean, more accountable, more efficient government
2. Effectively and efficiently deliver programs that are highest need to citizens
3. Align workforce to meet needs of today and future
4. Remove barriers that hinder employees from delivering results



<b>Date</b> <i>completion or estimated completion</i>	<b>Strategy or Action</b>	<b>Description</b>	<b>Status</b> Complete  In-progress 	<b>Analysis Impact</b> 1. Eliminate activities 2. Restructure/merge 3. Improve org efficiency & effectiveness 4. Workforce management
September 2015	Internal Communications Strategy	With leadership guidance from the executive director, increased frequency and transparency of all-staff communications related to ARC mission, operations, and processes. Through quarterly all staff meetings, monthly lunchtime presentations, and collaborative working groups, relevant information is shared and discussed to ensure strong decisions are made in the best interest of ARC’s investments. With this level of		Efficiency & Effectiveness; Workforce management




		communication, employees are provided necessary resources to maximize their performance.		
August 2015	External Communications Strategy	Consolidated Public Relations Information Officer position within the Communications team. Hired Communications Director and implemented communications strategy including e-newsletter, updated web pages, and social media outreach. Streamlined and strengthened communications with partners, states and others to coordinate information sharing related to investments and successes in the region.		Efficiency & Effectiveness; Workforce management
September 2015	Document Position Descriptions	In coordination with a subject matter expert (SME) consultant, conducted a compensation and classification analysis. Interviewed all employees and directors to obtain accurate and current data on job tasks and responsibilities. Utilizing external resources, knowledge and experience, drafted, discussed, and finalized position descriptions and pay grades for every ARC position.		Workforce management; Restructure
October 2016 January 2018	Performance Management	Provide all staff training on SMART-ER Goal development and provide in-house consultation on goal setting to ensure alignment with ARC strategy and priorities. Enhanced performance management and reward/pay process to objectively align outcomes with employee goals, impact of job functions and relevant competencies. Implemented new appraisal form which better emphasizes job responsibilities, goal achievement, and competencies along with integrated professional development. Conducted all staff training on the new system, its purpose, outcomes and action items. Provide additional staff resources and support through goal setting workshops, coaching and employee performance criteria development.		Workforce management
December 2016	Organizational Effectiveness	Working with a consultant, identified organizational effectiveness opportunities to leverage knowledge management, develop a more efficient team structure, and develop action plan for mission priorities and strategies. Reduced administrative burden for project coordinators by re-allocating administrative functions to a centralized role. Implemented new team structure to balance changing workloads.		Restructure; Efficiency & Effectiveness
December 2016	Cross-training	Conduct cross training and SOP documentation in all critical roles and functions. This proactively provides critical function coverage for staff departures and		Efficiency & Effectiveness; Workforce management

		identifies any areas for improved efficiency in work process.		
January 2017 May 2018	Consolidate Positions	Using job analysis to ensure agency needs are met sufficiently, combined Administrative Assistant and Executive Assistant roles into one and leveraged use of technology to reduce time spent on administrative requirements. Anticipate further position consolidation and workforce re-structuring in Communications, Local Development District, and Finance teams following RIO.		Workforce Management; Restructure
February 2017	Enterprise Technology	Through an RFP process, selected and worked with a consultant team to facilitate an analysis of the current grant management work processes. From that, the team identified efficiencies and enhanced workflow. Engaged services of an applications developer to code those identified technical efficiencies and enhance user experience in current system.		Restructure; Efficiency & Effectiveness
December 2018	Enterprise System	Developing a Request for Proposals (RFP) to source then identify a technology consultant to complete the build out of the grants management system. The result will be an end-to-end, web based automated system, incorporating best practices and identified work flow efficiencies. The system will be designed to be user friendly and capitalize on technology capabilities to minimize administrative tasks.		Efficiency & Effectiveness
May 2017	Retirement Plan, Pension	Analyzed current plan document related to eligible creditable service for early retirement; determined gap for potential early retirement between age 55 and 62; evaluating return on investment of plan amendment allowing relevant non-ARC employment to apply towards creditable service thereby allowing participants to reach early retirement eligibility sooner. (does not impact benefit amount; only years to early retirement)		Workforce management
December 2018	Retirement Plan, 401(k)	Review options and opportunities to maintain same plan design but change to a newer platform which shifts administrative burden/tasks to the administrator (currently performed by ARC staff). Also review option to provide expanded investment options for participants to maximize retirement earnings.		Efficiency & Effectiveness
May 2017	Retirement Incentive Option (RIO)	Offered a Retirement Incentive Option (RIO) to 16 eligible employees. Six (6) employees accepted the offer with retirement effective dates between January and April 2018. Goal met to reduce staff overhead costs and align workforce to meet the needs of today and the future through a voluntary offer. Provided		Workforce management

		eligible employees with financial planning resources to help with decision-making.		
July 2017	Phone System	Implemented technology-based phone system to leverage integration with Microsoft Outlook. This change will remove barriers that hinder ability to do the work by being able to provide more timely responses to telephone communications despite travel, work locations or job function.		Efficiency & Effectiveness
June 2017	Travel System	Implemented web-based travel agency system to leverage technology, streamline of information and 24/7 access bypassing costly services performed by outsourced services. This enhancement will make travel administration and reservations easier, faster, and more accurate, using online profiles, internet-based access to travel arrangements and streamlined internal approvals.		Efficiency & Effectiveness
June 2017	Policy Updates	Updated personnel policies which result in more efficient workforce management, increased efficiencies and strengthen accountability through performance management and reward program tied to performance.		Efficiency & Effectiveness; Workforce management
October 2018	HR Policy Updates	Implementing additional Human Resources policy changes and updates to reflect enhancements in staff accountability and efficiency. Areas of substantive updates include performance management, professional development, benefits, employee status, and leave management.		Efficiency & Effectiveness; Workforce management
November 2017	Excel Training	Conducted Excel Level 1 and Level 2 training for approximately 25 employees. Developed learning objectives to align with ARC roles and responsibilities. Majority of participants learned new tools that will be useful in their job and enable more efficient work processes.		Efficiency & Effectiveness; Workforce management
December 2017	Anti-Harassment and Anti-Discrimination	Conducted training to provide awareness to all employees about activities that are not professionally acceptable in the workplace as well as specific personnel policies and EEO items. This resulted in an organization-wide understanding of ARC's policy along with culture of respect and professionalism.		Efficiency & Effectiveness; Workforce management
August 2018	Re-organization	Implemented a staff re-organization to address increased scope and depth of programs (last five years operating budget increased from \$65M to \$155M) as well as the assumption of additional programmatic responsibilities previously assigned to other Federal agencies. This change will enhance staff capacity. The key elements of the reorganization include:		Restructure/merge; Efficiency & effectiveness; Workforce management

		<p>1. Dividing Division of Community Investment into two separate divisions – each with its own Division Director:</p> <ul style="list-style-type: none"> <li>- Infrastructure &amp; Transportation, including all investments and opportunities pertaining to broadband, transportation and other regional infrastructure needs. This involves moving transportation staff to this division to increase collaboration related to the Region’s needs.</li> <li>- Business &amp; Talent Development, including all investments and opportunities pertaining to workforce development, entrepreneurship, education, health and other issues affecting the Region’s workforce.</li> </ul> <p>2. Renaming the Planning &amp; Research Division to the Research &amp; Evaluation Division to better reflect the Division’s focus on research, evaluation and analysis. This includes moving transportation staff from this division to the Infrastructure &amp; Transportation Division.</p> <p>3. Establishing a separate IT Division with a dedicated Division Director to assess, implement and lead technological enhancements which will increase workforce efficiency.</p> <p>4. Recognizing POWER, the Appalachian Leadership Initiative and LDD support as regional programmatic initiatives which will report directly to the Executive Director.</p>		
July 2018	Technical Assistance	ARC States and grantee partners have identified increased needs for technical assistance to support grant funded programs in the Region. Many grantees and partners may not have the resources to fully understand and comply with the evolving requirements and conditions for federally funded programs. This re-designed role (vacated as a result of the Retirement Offer) provides technical assistance by developing, delivering, and assessing strategic and tactical training, support and education to more than 70 Local Development Districts (LDD), 13 State Program Managers, potential and current grantees, and others.		Efficiency & effectiveness; Workforce management
October 2018	Applicant Tracking System	Implementing an applicant tracking system (ATS) to increase efficiency in recruitment efforts. The ATS is expected to reduce administrative work and time to fill while increasing the availability of data and metrics to assist with strategic decision-making and strategic workforce planning.		Efficiency & effectiveness

August 2018	Employee On-boarding & Resources	<p>Implemented an on-boarding program to decrease time to assimilation for new hires. Program includes first day agenda covering topics such as benefits, operating procedures, policy review, and performance management training. Developed and implemented an internal Portal utilizing SharePoint technology to provide Benefit/Payroll and ARC Resources/Information to all staff. Access to the Portal is through secure Office 365 site and updates are made weekly to ensure timely and accurate information is made available to all staff. The Portal compiles information that was previously stored in various electronic and hard copy documents in various locations.</p>		Efficiency & Effectiveness; Workforce management
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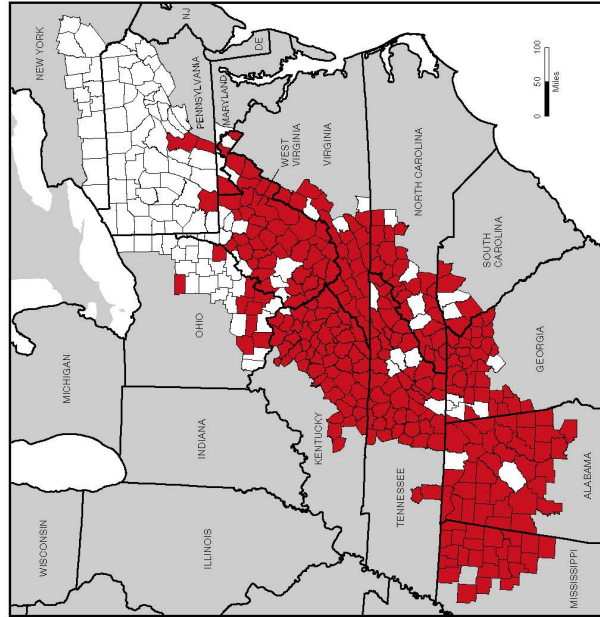


**Appendices**

# APPENDIX A

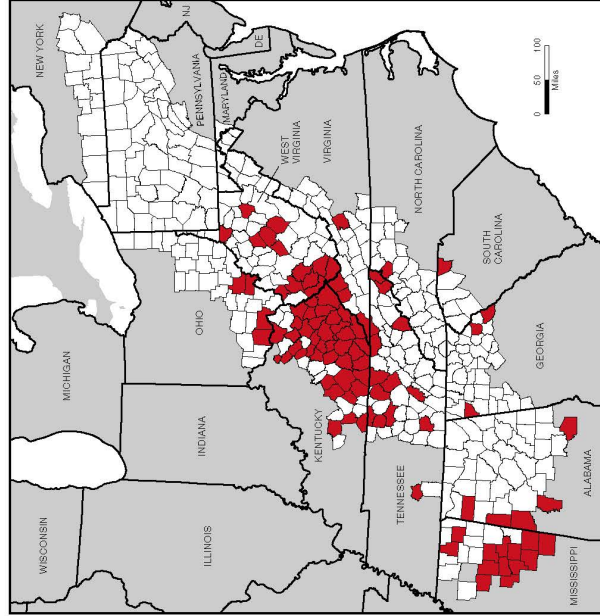
## High-Poverty Counties in the Appalachian Region (Counties with Poverty Rates At Least 1.5 Times the U.S. Average)

1960  
295 High-Poverty Counties



Data Source: U.S. Census Bureau, 1960 Census

2013-2017  
98 High-Poverty Counties

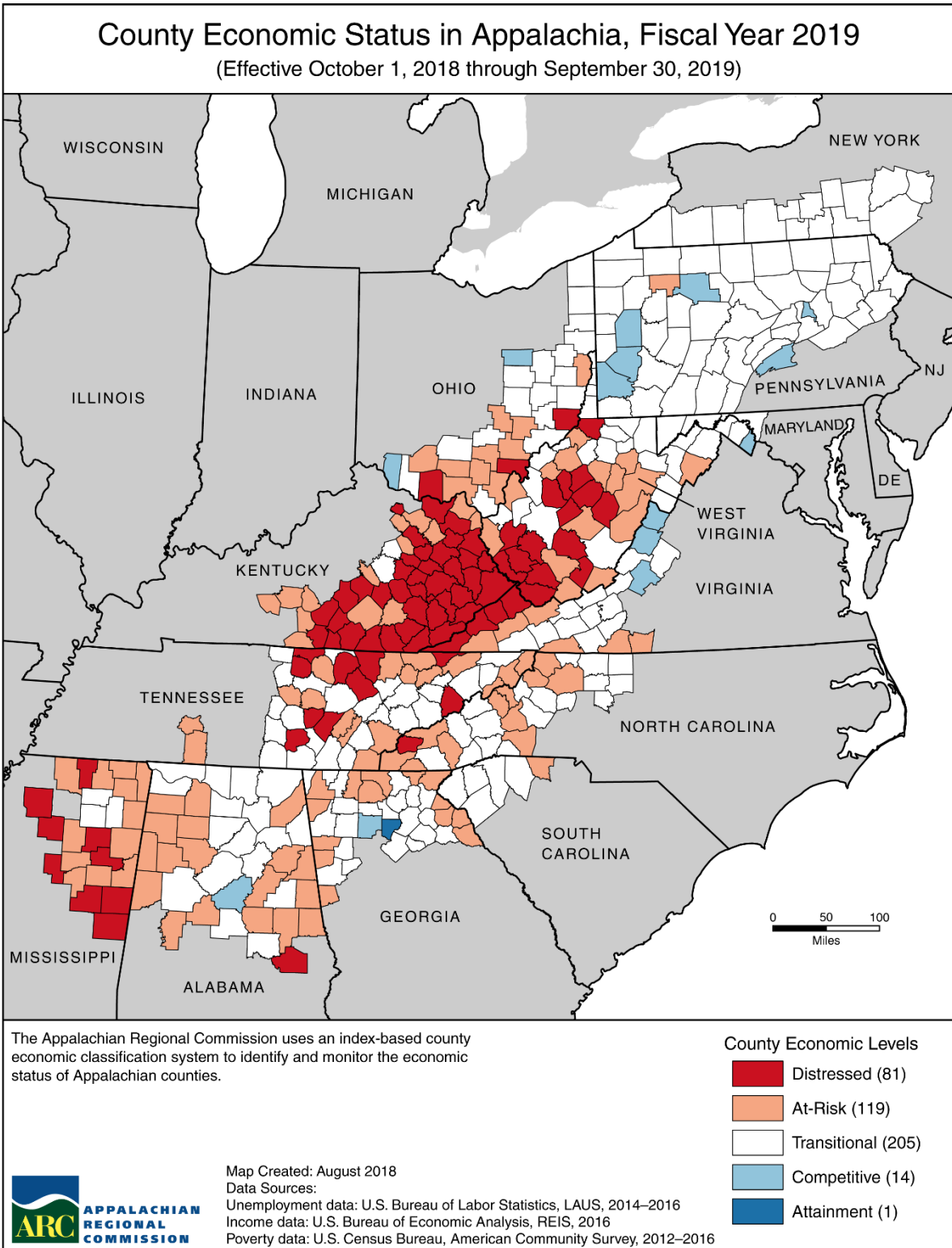


Data Source: U.S. Census Bureau, American Community Survey, 5-Year Estimates, 2013-2017





## APPENDIX B



## **County Economic Status Designations in the Appalachian Region FY 2019**

In accordance with the Commission's policy for determining the economic status of the 420 Appalachian counties, the Research staff has analyzed the distribution of distressed, at-risk, transitional, competitive, and attainment counties for FY 2019 using the most current data available. ARC uses an index-based county economic classification system to identify and monitor the economic status of Appalachian counties. The system involves the creation of a national index of county economic status through a comparison of each county's averages for three economic indicators—three-year average unemployment rate, per capita market income, and poverty rate—with national averages. The resulting values are summed and averaged to create a composite index value for each county. Each county in the nation is then ranked, based on its composite index value, with higher values indicating higher levels of distress.

### **Distressed Counties**

- Alabama (1) – Macon
- Kentucky (38) – Adair, Bath, Bell, Breathitt, Carter, Casey, Clay, Clinton, Cumberland, Elliott, Estill, Floyd, Harlan, Jackson, Johnson, Knott, Knox, Lawrence, Lee, Leslie, Letcher, Lewis, Lincoln, Magoffin, Martin, McCreary, Menifee, Morgan, Owsley, Perry, Pike, Powell, Robertson, Rockcastle, Russell, Wayne, Whitley, and Wolfe
- Mississippi (9) – Benton, Chickasaw, Clay, Kemper, Montgomery, Noxubee, Panola, Winston, and Yalobusha
- North Carolina (1) – Graham
- Ohio (3) – Adams, Meigs, and Monroe
- Tennessee (10) – Bledsoe, Clay, Cocke, Fentress, Grundy, Hancock, Jackson, Morgan, Scott, and Van Buren
- Virginia (4) – Buchanan, Dickenson, Lee, and Wise
- West Virginia (15) – Boone, Braxton, Calhoun, Clay, Fayette, Gilmer, Lincoln, Logan, McDowell, Mingo, Roane, Summers, Webster, Wetzel, and Wyoming

### **At-Risk Counties**

- Alabama (18) – Bibb, Calhoun, Chambers, Cleburne, Coosa, DeKalb, Fayette, Franklin, Hale, Lamar, Lawrence, Marion, Pickens, Randolph, Talladega, Tallapoosa, Walker, and Winston

- Georgia (14) – Chattooga, Elbert, Fannin, Franklin, Gilmer, Haralson, Hart, Heard, Murray, Polk, Rabun, Stephens, Towns, and Walker
- Kentucky (14) – Boyd, Edmonson, Fleming, Garrard, Green, Greenup, Hart, Laurel, Metcalfe, Monroe, Montgomery, Nicholas, Pulaski, and Rowan
- Mississippi (12) – Alcorn, Calhoun, Choctaw, Itawamba, Lowndes, Marshall, Monroe, Oktibbeha, Prentiss, Tippah, Tishomingo, and Webster
- North Carolina (11) – Ashe, Cherokee, Clay, Jackson, McDowell, Mitchell, Rutherford, Swain, Watauga, Wilkes, and Yancey
- Ohio (10) – Athens, Gallia, Highland, Jackson, Jefferson, Morgan, Perry, Pike, Scioto, and Vinton
- Pennsylvania (1) – Forest
- South Carolina (1) – Cherokee
- Tennessee (17) – Campbell, Carter, Claiborne, DeKalb, Grainger, Hawkins, Johnson, Lawrence, Lewis, Meigs, Monroe, Overton, Polk, Rhea, Unicoi, Union, and White
- Virginia (6) – Grayson, Henry, Patrick, Russell, Scott, and Tazewell
- West Virginia (15) – Barbour, Hardy, Lewis, Mason, Mercer, Monroe, Nicholas, Pocahontas, Raleigh, Randolph, Ritchie, Tyler, Upshur, Wayne, and Wirt

### **Transitional Counties**

- Alabama (17) – Blount, Cherokee, Chilton, Clay, Colbert, Cullman, Elmore, Etowah, Jackson, Jefferson, Lauderdale, Limestone, Madison, Marshall, Morgan, St. Clair, and Tuscaloosa
- Georgia (21) – Banks, Barrow, Bartow, Carroll, Catoosa, Dade, Dawson, Douglas, Floyd, Gordon, Gwinnett, Habersham, Hall, Jackson, Lumpkin, Madison, Paulding, Pickens, Union, White, and Whitfield
- Kentucky (2) – Clark and Madison
- Maryland (3) – Allegany, Garrett, and Washington
- Mississippi (3) – Lee, Pontotoc, and Union
- New York (14) – Allegany, Broome, Cattaraugus, Chautauqua, Chemung, Chenango, Cortland, Delaware, Otsego, Schoharie, Schuyler, Steuben, Tioga, and Tompkins

- North Carolina (17) – Alexander, Alleghany, Avery, Buncombe, Burke, Caldwell, Davie, Forsyth, Haywood, Henderson, Macon, Madison, Polk, Stokes, Surry, Transylvania, and Yadkin
- Ohio (17) – Ashtabula, Belmont, Brown, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Hocking, Lawrence, Mahoning, Muskingum, Noble, Ross, Trumbull, Tuscarawas, and Washington
- Pennsylvania (45) – Armstrong, Beaver, Bedford, Blair, Bradford, Cambria, Cameron, Carbon, Centre, Clarion, Clearfield, Clinton, Columbia, Crawford, Erie, Fayette, Fulton, Greene, Huntingdon, Indiana, Jefferson, Juniata, Lackawanna, Lawrence, Luzerne, Lycoming, McKean, Mercer, Mifflin, Monroe, Northumberland, Pike, Potter, Schuylkill, Snyder, Somerset, Sullivan, Susquehanna, Tioga, Union, Venango, Warren, Wayne, Westmoreland, and Wyoming
- South Carolina (5) – Anderson, Greenville, Oconee, Pickens, and Spartanburg
- Tennessee (25) – Anderson, Blount, Bradley, Cannon, Coffee, Cumberland, Franklin, Greene, Hamblen, Hamilton, Jefferson, Knox, Loudon, Macon, Marion, McMinn, Pickett, Putnam, Roane, Sequatchie, Sevier, Smith, Sullivan, Warren, and Washington
- Virginia (12) – Alleghany, Bland, Carroll, Craig, Floyd, Giles, Montgomery, Pulaski, Rockbridge, Smyth, Washington, and Wythe
- West Virginia (24) – Berkeley, Brooke, Cabell, Doddridge, Grant, Greenbrier, Hampshire, Hancock, Harrison, Jackson, Kanawha, Marion, Marshall, Mineral, Monongalia, Morgan, Ohio, Pendleton, Pleasants, Preston, Putnam, Taylor, Tucker, and Wood

### **Competitive Counties**

- Alabama (1) – Shelby
- Georgia (1) – Cherokee
- Ohio (2) – Clermont and Holmes
- Pennsylvania (6) – Allegheny, Butler, Elk, Montour, Perry, and Washington
- Virginia (3) – Bath, Botetourt, and Highland
- West Virginia (1) – Jefferson

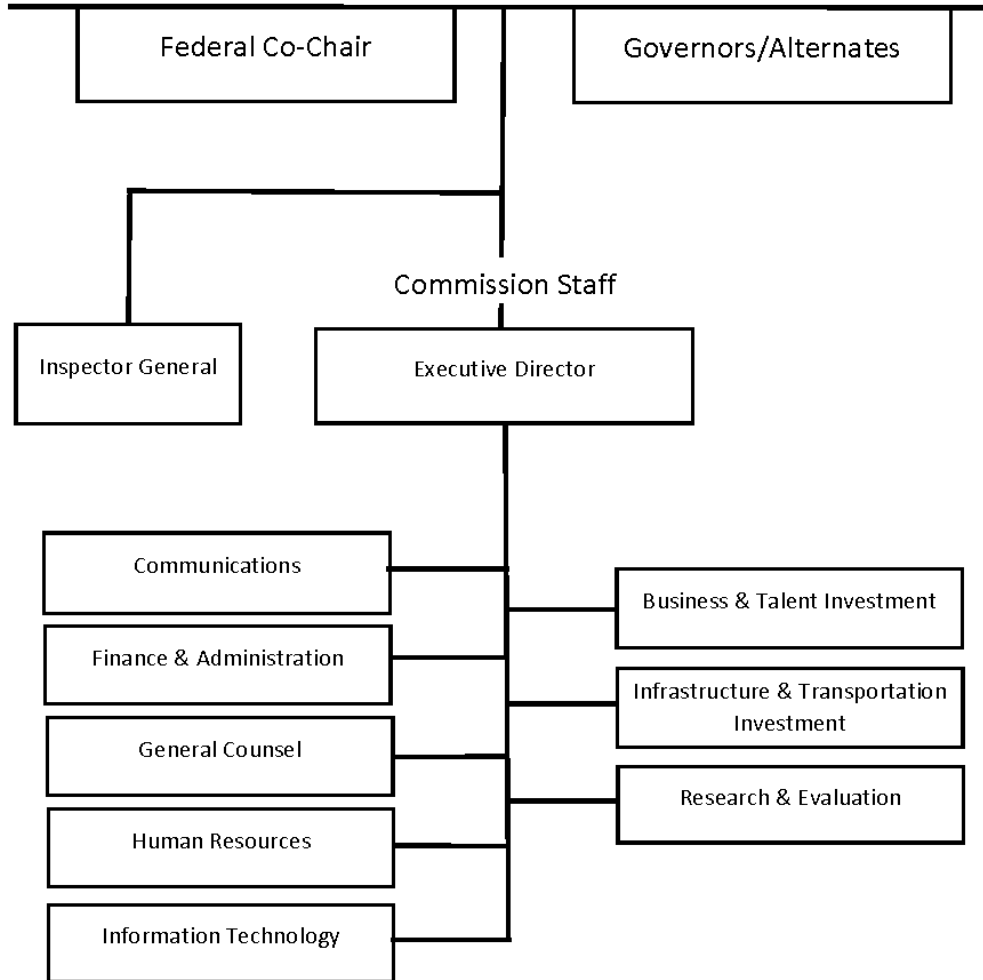
### **Attainment Counties**

- Georgia (1) – Forsyth

# APPENDIX C



## Appalachian Regional Commission (ARC) Organizational Chart



August 2018