

COMMONWEALTH OF KENTUCKY

**APPALACHIAN REGIONAL COMMISSION ANNUAL
INVESTMENT STRATEGY STATEMENT**

FISCAL YEAR 2015

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GOVERNOR**

I. OVERVIEW OF KENTUCKY'S APPALACHIAN REGION— ITS STRENGTHS AND NEEDS

Appalachian Kentucky is a region where some economic and social indicators show advances have been made; however, paradoxically, other indicators show the region lags behind the rest of the state and nation—seriously, in some cases. Statistics indicate the region's efforts to catch up with the state's profile are far from over.

While standing in sharp contrast to the state as a whole, Appalachian Kentucky is a region of contrast unto itself. Certainly, advancements have been made in the region's economic and social profile; yet clearly, the mission is unfinished. Poverty rates have declined in recent years and education attainment levels have proven increase. Infrastructure improvements are evident as are accomplished changes in the region's healthcare system that enables improved access to affordable medical services. However, Appalachian Kentucky's social and economic character continues to trail that of the state as a whole. The poverty rate for the region hovers above the state rate and personal income measures lag as do education rates. While some Appalachian counties have adequate highway infrastructure to support economic development, many counties lack the infrastructure of the 21st Century: broadband and high speed Internet service access. Sixty-Eight percent of Kentucky's 54 Appalachian counties remain designated as distressed for Fiscal Year 2015. High unemployment persists due to slow recovery from the economic downturn and a tremendous increase in loss of coal mining jobs, and thus, the challenges for the area have actually increased.

A. Identification of Distressed Counties

A total of 37 counties have been designated as distressed by the ARC for Fiscal Year 2015. These counties are illustrated in Exhibit 1. These counties have demonstrated persistent, long-term problems that have resulted in extraordinary levels of economic and human distress. Within these counties are areas and communities of severe distress that persistently demonstrate poverty rates of more than three times the national average. A positive shift from FY 2014 occurred with two distressed counties (Hart and Robertson) moving up from distressed status and one county (Nicholas) moving up from At-Risk to Transitional. However, at the same time three at-risk counties (Carter, Johnson and Perry) moved down from at-risk to distressed status. This results in neither a gain nor loss. Kentucky continues to have more distressed counties and severely distressed communities than any other Appalachian state.

B. Identification of At-Risk Counties

A total of twelve counties have been designated as at-risk by the ARC for Fiscal Year 2015. A positive shift occurred from FY 2014 with Nicholas County moving up into transitional status from at-risk. At the same time, three counties (Carter, Johnson and Perry) moved down into distressed from at-risk. This results in a net loss of at-risk counties from 2014. These counties are illustrated in Exhibit 1.

C. **The Economy**

While vast investments in infrastructure development have dramatically increased the livability of the region and have rendered the area considerably more competitive for prospective commercial and industrial development, the array of job opportunities resulting from a diversified economy is not yet available. Initiating and sustaining economic advancement in Appalachian Kentucky continues to be a persistent challenge for the region's residents, its' local leadership and for the private sector business interests. The nation and the state is slowly emerging from an historic recession and governments at all levels strive to address the conflict between expanding needs and limited resources with which to address them. Against this backdrop, leaders must confront the challenge of positioning Appalachian Kentucky for future growth and progress while addressing issues that stymie immediate advancements. Following is a brief comparative analysis of the state vs. the Appalachian area economic trends and vital needs.

Population

Appalachian Kentucky's population trend from 2000 to 2010 offers a mixed message about the region. On the surface, the data relate the Appalachian district gained population from 2000 to 2010. However, the growth rate was below that for the state as a whole and for the entire 13-state Appalachian region. Almost half of Kentucky's Appalachian counties lost population during the period. Twenty-four of the 54 counties had fewer residents in 2010 than in 2000.

All of the counties losing population were in Eastern Kentucky, generally considered east of Interstate 75. Only Cumberland, Green and Monroe counties west of the interstate lost population. The most dramatic population declines were recorded in the core coal counties of Eastern Kentucky. Twelve coal counties experienced a population loss of almost 21,000 people during the period. Leading the coal county decline were Breathitt (-13.8%), Harlan (-11.8%), Clay (-11.5%), Leslie (-8.5%), Knott (-7.4%), Floyd (-7%) and Pike (-5.4%). All of these counties are designated ARC Distressed with the exception of Pike which is designated at-risk.

A total of 30 Appalachian counties gained population at an aggregate rate of 7.6% that slightly exceeded the overall state population growth rate of 7.4% and surpassed the 13-state Appalachian region rate of 6.8 %. The leading counties in population growth are Montgomery (17.5%), Madison (17%), Elliott (16.4%), Garrard (14.3%), Pulaski (12.2%) and Laurel (11.6%). Of these counties one is designated a transitional county, one is designated distressed and the remaining counties are designated as at-risk.

Population reports from the Kentucky State Data Center relate 27.3% of the state's population resided in Appalachian Kentucky when the 2010 Census was taken. However, the agency's projections forecast a slow decline from that level over the next

several years. The Center projects Appalachian Kentucky's population in 2020 will account for 26% of the total population of the Commonwealth and by 2030, the ratio falls to 24.7%.

Most sub-regions of grouped counties in Appalachian Kentucky are projected to experience population increase over the next 16 years. However, significant declines are forecast for the 12 counties that are most closely linked to the region's coal economy and coal culture. The coal counties are projected to lose 4.7% of their population from 2010 to 2020. The projected decline escalates from 2020 to 2030 as the loss for this period is forecast at 7.1%.

Poverty, Income and Employment

If people are the most valuable resource of a region, the status of that resource is vital in assessing the region's economic success, its social and commercial vitality and its movement toward socioeconomic objectives. One of the metrics employed in making this assessment is the poverty rate—the percentage of the population that has income below defined levels. For Appalachian Kentucky, the poverty rate has been one of the most common markers characterizing the status of the region and its people. While the poverty rate has declined dramatically over the past 60 years, the region's rate remains high and exceeds that of the state and the nation.

More than twenty-five percent of Appalachian Kentucky's population had income below the poverty level in 2012. The regional poverty rate stood at 26.1 percent while the national rate was 15.9 percent. Kentucky's state rate was 19.3 percent. Only five Appalachian counties had poverty rates less than that for the state: Boyd, Clark, Edmonson, Garrard and Greenup (all transitional or at-risk counties). The Area Development Districts in Kentucky with the highest poverty rates are those which host coal-producing counties. Continuing the irony of Appalachian development, the coal counties—those that are richest in natural resources and which have generated tremendous wealth over the years—have some of the highest poverty rates in the region. For example, Clay County's 2012 poverty rate was 42%, only 0.9 percent below the rate for Owsley County which has traditionally been one of the nation's poorest counties. The counties of Bell, Breathitt, Floyd, Knott and Knox all had poverty rates that placed about one third of the populations in poverty.

Closely linked to the poverty rate are median household income and per capita market income data. Only three Appalachian Kentucky counties—Clark (\$45,116), Garrard (\$42,620) and Greenup (\$43,869)—have 2012 median household incomes that are above the state's \$41,717. Two other counties approach the state rate: Boyd County with \$40,155 and Madison County with \$40,798. From this point, the median household income for the remaining Appalachian counties declines sharply. The lowest median household income is posted in Owsley County at \$22,148 and the second lowest is in Clay County at \$22,834.

Another measure, per capita market income, follows the same pattern as that of median household income. Appalachian Kentucky trails all other comparative groups. Kentucky's 2010 per capita market income (PCMI) is \$24,290. PCMI for the nation is \$32,562. Appalachian Kentucky's PCMI is \$16,923, while the entire Appalachian region is \$24,425. Only Clark County in Appalachian Kentucky has a PCMI (\$24,987) higher than the state's. The lowest Appalachian Kentucky PCMIs are recorded in McCreary (\$9,860), Wolfe (\$10,331), Jackson (\$10,360), Elliott (\$10,480) and Owsley (\$10,677) counties.

The unemployment rate also addresses the region's economic success, its social and commercial vitality and its movement toward socioeconomic objectives. Appalachian Kentucky again lags the state, the entire Appalachian region and the nation when this measure is applied. Appalachian Kentucky's three year (2009-2011) unemployment rate was 11.0%. The state rate stood at 10% and that of the entire Appalachian region was 9.4%. The national rate for the period was 9.3%.

D. Infrastructure

1. Transportation

Approximately 27.8 of the planned miles of ADHS in Kentucky remain to be constructed. Completion of the remaining links will achieve a goal to reduce the region's economic, cultural and physical isolation. Recognizing the value of ADHS in economic development, Kentucky has invested in the development of regional business parks along ADHS corridors. Financed through revenue generated by the state's coal severance tax, these parks provide large tracts of level land out of the flood plain where commercial development can occur. The proximity of these parks to the ADHS corridors enhances their value and potential as development sites. The regional business parks which have been completed or are under development and the ADHS corridors on which they are located are: Pine Ridge Regional Business Park (Wolfe County), Corridor I; Coalfields Regional Industrial Park (Perry County), Corridor I; Gateway Regional Business Park (Letcher County), Corridor B; and Pine Mountain Regional Business Park, (Bell County), Corridor F.

Completion of the ADHS will remain a priority with the state. Kentucky's commitment to completion of these roads is reflected in its use of the practice of pre-financing by completing sections of the system with other funds in anticipation of reimbursement from future ARC highway appropriations.

Efforts must be made to extend the benefits of improved transportation in the region through the carefully targeted use of state and other federal funds. In addition to the major highway corridors, there is considerable need for improved roads and bridges that link communities to county seats and county seats to the major corridors. Based on data from a 2011 report issued by the Kentucky Chapter of the American Society of Civil Engineers (KyASCE), approximately

one in three bridges across Kentucky were rated deficient. In Appalachian Kentucky, 51 percent or more of the bridges in Harlan, Letcher, Pike, Perry, Leslie and Clay were rated as deficient. In Whitley, Laurel, Lee, Wolfe, Knott, Floyd and Martin counties, the deficiency ratio ranged from 41% to 50 % of bridges. West of I-75, Appalachian Kentucky bridge deficiencies ranged from 11% to 30%.

2. Water and Sewer

For a variety of reasons, many Kentucky Appalachian communities have not kept pace with other parts of the state in providing basic community facilities and services. Underground aquifers are often contaminated from mining and various land uses. When public improvements are undertaken, the rugged terrain and population distribution inevitably increase per capita construction costs even while the poor economic condition of many Kentucky Appalachian communities hamper their ability to finance needed facilities. Additionally, operators of water and sewer facilities are often poorly trained in smaller communities. Regulatory agencies routinely cite Kentucky Appalachian local governments for stream discharge violations and often order through the courts that new sewage treatment plants be built or that existing ones be repaired.

In 1998 the Water Resource Development Commission was created, which compiled a strategic plan for development of water systems designed to ensure every Kentucky household has access to potable water by the year 2020. The plan developed by the Commission in 1999 resulted in adoption of numerous recommendations by the 2000 General Assembly. These measures include regionalization of water system delivery, implementation of improved management practices and development of a GIS Water Resource Information System administered via the Kentucky Infrastructure Authority (KIA). The Water Resource Information System (WRIS) was developed through the cooperative efforts of water and wastewater treatment systems and local, regional and state agencies. The WRIS is used by all these entities, and provides information needed for all aspects of water resource planning—from watershed protection to infrastructure development. The state's area development districts have been responsible for coordination and implementation of regional planning for the WRIS. Accordingly, ARC and other public resources are included in this plan to maximize available resources toward realization of the stated goal for the Appalachian communities.

Presently, the WRIS includes a geographic information system (GIS), and information on water resources, drinking water systems, wastewater treatment systems, project development, emergency response, regulations, and planning. Interactive maps in the system support planning and regionalization. All of the information in WRIS is accessible in a digital format via the internet. In addition to the fifteen Area Development Districts, WRIS contributors include the Kentucky Division of Water, Kentucky Infrastructure Authority, Kentucky

Division of Geographic Information, Kentucky Natural Resources Information System, Department for Local Government, Public Service Commission, Kentucky Geological Survey, Kentucky Rural Water Association, and over 400 water districts.

The Kentucky Infrastructure Authority has provided a listing of the County Percent Serviceability in both water and wastewater for our 54 Appalachian counties. This information is derived from a spatial analysis of mapped service lines of public water and wastewater systems and the census blocks from the U. S. Census Bureau. The results of this analysis reveal the percentages of service in both water and wastewater and reveals the following:

Drinking Water Service

As would be expected, all five of our transitional counties have service percentages between 93 – 100%. Likewise, all 12 of our at-risk counties have service percentages ranging between 90% and 100%. Also worthy of note is the fact that 28 of Kentucky’s distressed counties have service percentages ranging between 91% and 99%. The remaining distressed counties and their service percentages are: seven counties within the 81% to 89% range with the two lowest being Breathitt at 78% and Letcher at 67%.

Although a good percentage of Appalachian counties have accomplished high levels of service provision, it is also important to remember that many of these water systems are aged and in less than adequate condition to maintain provision of quality water service without expensive rehabilitation on treatment systems as well as quality of transmission lines. The need for support to Appalachian community systems is still evident.

Wastewater Treatment Service

While significant progress has been realized in Kentucky’s goal to provide access to a public water supply for all Kentuckians by the year 2020, including those within the Appalachian region, the provision of wastewater treatment service has been much slower to develop. The results from the Kentucky Infrastructure Authority analysis of service percentages within the Appalachian counties reveal the following.

Of the 54 Appalachian counties, wastewater service percentages include only six counties above 50% - Boyd (81%), Clark (71%), Madison (63%), Greenup (56%), Rowan (55%) and Montgomery (54%). Bell County has a 48% coverage. The remainder of the counties are grouped as: nine counties within the 39% to 30% range, twenty-six within the 21% to 29% range, eleven counties within the 10% to 17% range and Jackson County is at 8%. This reveals the vast amount of uncovered service areas remaining to be serviced within Appalachian Kentucky. At the same time, some of the mostly municipal sewage treatment plants currently

in service are in dire need of rehab or replacement of current plants to meet environmental standards and maintain service.

3. Housing

For a variety of reasons, the housing stock of Kentucky's Appalachian area has traditionally been among the least adequate in the state. The rough terrain drives up land costs, reduces availability of good housing sites, complicates site development and often makes it difficult and expensive to construct infrastructure to support housing development. Older existing dwellings become increasingly inadequate as needed repairs and maintenance are deferred due to relatively high poverty rates and low per capita income. In general, the largest single obstacle to the provision of safe and sanitary housing for low-income individuals and families in the region is affordability.

The State's overall housing policy is defined by a five-year needs analysis and strategy plan—the consolidated plan for fiscal years 2010 – 2014. Work is currently underway to develop and adopt the next plan for fiscal years 2015-2019. The plan outlines Kentucky's strategy for pursuing three statutory goals in the areas of decent housing, suitable living environment, and expanded economic opportunities. The Kentucky Housing Corporation, the state's designated housing finance agency, developed the plan in collaboration with the Kentucky Department for Local Government.

The Kentucky Appalachian Housing Program was established in 1976 as a means of utilizing ARC funds to address housing needs. Over \$22.5 million of commission funds have been channeled into this program, and program results have been quite successful. During the past two years, we have worked with KHC and ARC to develop a more effective funding allocation plan for the KAHP that allows KHC to include the KAHP with their annual funding cycle and application process for other federal and state housing programs. Kentucky remains committed with the intent to continue utilization of ARC funds to support this program for Appalachian Kentucky. In addition to the Kentucky's Appalachian Housing Program, HUD has allocated funding for housing development to Kentucky for the program year Fiscal Year 2014. Itemized funding by program area includes \$3,000,000 in CDBG funding to be utilized for housing activities, \$9,848,166 has been allocated to the HOME Investment Partnership Program, \$2,234,783 for the Emergency Shelter Grants (ESG) Program and \$523,765 for the Housing Opportunities for Persons with AIDS (HOPWA) Program.

4. Telecommunications Infrastructure

Telecommunications infrastructure has grown to be as vital to commerce and economic development and expansion as highways and rail services. The importance of electronic communication through the internet and dedicated networks increases as the quality and speed of data exchange grows and as the

hardware that supports the telecommunication system becomes more sophisticated. Given the importance of the Internet and high speed service as a driver of commerce, areas with access to high speed Internet services have the advantage of and are more likely to benefit from its use than those without that access. Access to high speed Internet service is a benefit that also illustrates another important factor in its usage – the need for education so that consumers have the ability to access and utilize the service.

When assessing the availability and use of high speed Internet infrastructure, Appalachian Kentucky is like many other rural areas across the country. Most counties in the region have access to high speed Internet service with a download speed of 3 megabytes per second (Mbps) or more. However, household penetration of this service trails other areas and national statistics suggest usage is only mediocre at the household level. According to data from the National Telecommunications and Information Administration (NTIA), 79.6% of the households in Kentucky's Fifth Congressional District (which includes most of the state's Appalachian counties) have access to what is traditionally considered high speed Internet service. That rate is the lowest among the state's six Congressional Districts. Six of these counties have household penetration rates of less than 40% - Breathitt, Powell, Knott, Martin and Leslie counties. Lee County has the lowest accessibility rate in the state at 21.8%. At the other end of the spectrum, NTIP reports 16 Appalachian counties have household access penetration rates of 90% or greater – Adair, Bath, Boyd, Clark, Garrard, Green, Greenup, Laurel, Lincoln, Madison, Montgomery, Nicholas, Pulaski, Rockcastle, Rowan and Russell.

Fiber optic technology, which converts electrical signals to light and transmits the light through transparent glass fibers about the diameter of a human hair, permits the higher transmission speeds. Fiber technology supports data transmission speeds that far exceed current DSL or cable modem speeds, typically by tens or even hundreds of Mbps. In Kentucky's Fifth Congressional District, only 5.5% of households have access to fiber optic high speed Internet service. This service is not available in 33 counties. Among the rural households without high speed Internet usage in the home, the most prevalent reason given for lack of adoption of the technology is a perception that the service is not needed or the household is not interested. Other reasons given are: too expensive; no computer or inadequate computer; service not available; or, can use the service elsewhere.

Taken as a whole, the data highlighting regional service availability and the conclusions that can be drawn regarding adoption suggest Appalachian Kentucky should focus on both network upgrades and build out as well as educating the region's residents about the value of broadband Internet and encouraging them to adopt it.

On January 2, 2015, Governor Beshear and Congressman Hal Rogers announced the launch of a statewide broadband initiative that will begin in Eastern Kentucky.

This new public-private partnership will develop a robust, reliable, fiber “backbone” infrastructure to bring high-speed Internet connectivity to very corner of the Commonwealth – with the critical first components scheduled to be operational in less than two years. The Center for Rural Development at Somerset, in cooperation with the Commonwealth Office of Technology in the State Finance and Administration Cabinet are working in collaboration with Macquarie Capital, which was chosen as private sector partner the design and develop the statewide system, to focus on the underserved eastern Kentucky region as the first priority area for the project. This important initiative to benefit Appalachian Kentucky is an important part of the SOAR Initiative which is entering its second full year of development and operation in the region.

E. Education Attainment

Education attainment levels generally indicate how well a population is prepared to perform in the workplace. They also provide guidance about individuals’ current and future earning potential and non-economic matters such as civic engagement and leadership capacity. Again, a familiar pattern emerges when this metric is investigated for Appalachian Kentucky: The region’s high school and college graduation rates are much better than they were 40 years ago, but, once again, the current numbers trail those of the state and the U. S. Appalachian region as a whole.

In 1970, slightly more than one in four Appalachian Kentuckians 25-years old and older had completed high school. For the state as a whole, the high school education rate was 38.5%. By 2011, the region’s rate had increased to almost three in four (72, 6%) and the state rate had grown to 81.7%. An identical pattern marks the progress in attaining a bachelor’s degree or higher, but the absolute numbers are much lower. In 1970, only 5 percent of Appalachian Kentuckians had a college degree while the state rate was 7.2 percent. In 2011, the regional college completion rate was 12.7 percent and the state rate was 20.6 percent. This data comes from data tables completed by the ARC and included on their research data provided on the arc.gov website and updated annually.

While the 2011 Appalachian Kentucky education attainment rates for (1) a high school diploma and greater and (2) a bachelor’s degree or greater are well below the state rates for these categories, more intense discrepancies are identified when the rates for individual counties are investigated. For example, only two counties, Boyd and Madison (both transitional counties), have high school diploma and greater attainment rates that exceed the state rate. Just over one-half, 28, of Appalachian Kentucky counties have an attainment rate in this category of 70 percent or less—about 12 points below the state rate. Of these 28 counties, 19 are in Eastern Kentucky. Ten of the 19 are core coal counties.

After graduation, it is also important that students successfully transition from high school to post-secondary education or employment in order to lead a productive adult life. According to the Kentucky Department of Education, high school graduates who enroll in postsecondary education institutions or gain employment, including active

military service within six months after graduation are considered to have made a successful transition. In addition, it is important to note that college graduates consistently earn more than those without a degree.

As can be seen by reviewing Table 1, the percentage of persons in distressed and at-risk counties completing four or more years of college has steadily increased over 32 years but remains significantly lower than the state overall. Although the percentage of persons completing four or more years of college in transitional counties has been consistently higher than Kentucky’s Distressed and At-Risk Counties, the gap between transitional counties and state averages have also consistently widened over the past thirty-two years. In 1980, transitional counties were only .6 percent less than the state overall. By the year 2010, the gap had widened from .6 percent to 3.3 percent, and in 2012 only decreased to 3.1 percent.

**TABLE 1
PERCENT COMPLETING 4 OR MORE YEARS OF COLLEGE**

	1980	1990	2000	2010	2012
Kentucky	11.1	13.6	17.1	20.3	21.0
FY 15 Distressed Counties	6.3	7.0	8.5	9.9	10.1
FY 15 At-Risk Counties	6.2	7.3	9.4	12.0	12.3
FY 15 Transitional Counties	10.5	12.2	14.1	17.0	17.9

Source: Kentucky State Data Center (1980, 1990, 2000, 2010 Census) and KY County Profiles, Kentucky Center for Education & Workforce Statistics

It is clear there continues to be a role for ARC funds in education. There continue to be instances of individuals who have fallen through the cracks, so to speak, and are undereducated and even lack literacy. Adult education still lacks adequate funding particularly in Appalachian Kentucky. The utilization in the past few years of Flex-E-Grant and Area Development funding to supplement Kentucky’s AHED Program at Morehead State University with the purpose of providing more assistance to distressed counties’ school districts with increasing the college going rate within their districts has proven to be quite effective. We plan to continue to encourage and support the AHED program in Fiscal Year 2015. The Kentucky Center for Education & Workforce Statistics has published two Kentucky County Profiles Documents – One for 2012 and the latest for 2014-2015. In this document they include County Profiles for each Kentucky County relative to provision of data about the Commonwealth’s education and workforce processes to better inform policy making and practice. Data from these documents provides an accounting of progress made in the years 2010 and 2011 in regard to the college going rates for our Appalachian counties. This data indicates a positive increase within 21 Appalachian counties. This includes one transitional county, four at-risk counties and 16 distressed counties with the highest increases occurring in Martin Co. (12.3%), Cumberland Co. (10.7%), Knox Co. (9.8%), Lewis Co. (7.8%), and Leslie Co. (7.4%) – these are all distressed counties. In addition, the Profile Document for

2014-15 has added two new profiles – one for the Appalachian Region Counties and one for the Non-Appalachian Region Counties. In comparing the Overall College Going Rates for both profiles – the Appalachian Region was higher at 41.3% than that for the Non-Appalachian region at 39.1%. Clearly the efforts to increase the College Going Rate for our Appalachian counties is showing progress, but also illustrates we have much more work to do to foster improvement in more of our counties.

The Education and Workforce Development Cabinet’s Department for Workforce Investment has broad-based programs that address workforce training needs in Appalachian Kentucky as well as the entire state via their Kentucky Career Center Services. Regional universities, community and technical colleges and private colleges in the area as well as non-profit organizations provide a solid foundation for addressing the workforce training/education needs in the region. However, ARC funds will continue to be used to supplement special unmet needs in the area, particularly in the area of finding employment for the vast amount of mining workers that have lost employment in the past two years.

F. Local/Regional Capacity

Development of local/regional leadership/civic capacity to mobilize and work together for improved communities and sustained economic progress is one of the major components necessary for elevating Kentucky’s distressed counties out of that designation. Local efforts must be strengthened and encouraged to begin and maintain the continuous community civic entrepreneurship development strategic planning process implementation required to achieve sustained economic progress and improved communities.

The Leadership East Kentucky program that targets adult leadership development is still active after fifteen years of operation in Appalachian Kentucky. Adult and youth leadership development activities in distressed communities will continue to be among eligible activities considered for ARC funding.

Kentucky has strengthened its flex-e-grant program for Appalachian distressed counties and communities within that includes a targeted program focused on community capacity building during the past six years. This program is conducted via the Brushy Fork Institute at Berea College and the Center for Rural Development in Somerset. Both administering entities include either an annual institute or annual forum to introduce their programs and begin leadership team development from distressed counties and communities within. Those leadership community teams are then eligible to apply for mini-grants to either complete strategic planning activities for their communities or work toward implementation of plan strategies to develop their communities. This investment of our flex-e-grant funding is proving very beneficial and we plan to continue support through Fiscal Year 2015 even though the individual flex-e-grant funding category has been removed from the ARC budget matrix. Kentucky utilized recovered flex-e-grant funding from prior years to support the creation of the Appalachian Rural Development Philanthropy Initiative (ARDPI) Pilot Program for Kentucky’s Distressed Appalachian

counties during Fiscal Years 2011 - 2014. The emphasis of this program is development and expansion of community foundations within Appalachian distressed counties. Since the utilization of community foundations within Appalachian communities is listed among the recommendations resulting from the SOAR listening sessions and short-term goal target activities, Kentucky will include needed support from our Appalachian program to further develop the successful community foundations that have established funds or have made significant progress toward fund establishment.

G. Health Care

Governor Beshear has called Kentucky's overall health status dismal. Supporting his assessment are the results of the 2013 Gallup-Healthways Well-being Index, which found Kentucky had the second lowest well-being rating in the nation. The Governor's characterization can easily be extended to the state's Appalachian region, where the economic and education posture of the people impact the status of their health. More Appalachian Kentuckians generally smoke, are obese, have diabetes, heart disease and breast/lung cancer and are without health insurance than the state's population as a whole.

Based upon data from 2009 report from the National Center for Chronic Disease Prevention and Health Promotion, Division of Diabetes Translation, the following statistics relate as follows. On average, 13.2 percent of the adult population of Appalachian Kentucky counties is diabetic. From a statewide perspective, 11.6 percent of the total adult population is diabetic. Only five of the 54 Appalachian counties (Clark, Hart, Madison, Montgomery and Rowan) have adult populations with diabetes at a lower ratio than that of the state. At the other end of the spectrum, at least 15 percent of the adult population of eight counties (Bell, Boyd, Floyd, Greenup, Harlan, Leslie, Letcher and Pike) has the disease.

Utilizing data provided by the University of Kentucky Community & Economic Development Initiative of Kentucky, 2005-2011, Behavioral Risk factor Surveillance System, we find that slightly more than one in four adult Kentuckians (26.4 %) smoke. In Appalachian Kentucky, the average ratio among adults approaches one in three at 31.6%. Again, only five Appalachian region counties have an adult smoking rate below the state ratio.

Adult obesity in Appalachian Kentucky almost mirrors the occurrence of the physical condition in the statewide adult population. About one in three Kentuckians is obese. The average obesity rate for the adult population in Appalachian counties is 34.6 percent. In only nine Appalachian counties (Clark, Green, Magoffin, Martin, Madison, Montgomery, Pulaski, Robertson and Wolfe) is the county obesity ratio less than one in three adults.

Appalachian Kentucky has made substantial strides over the years to improve access to healthcare services. While the region still has counties that are characterized as having low access to primary care physicians, many counties are rated as having high or

intermediate access to these healthcare providers. Today, the issue may focus more on the affordability of healthcare than on availability. While the federal Affordable Care Act will impact the size of the pool of insured Appalachian Kentuckians, data from 2010 provided by the University of Kentucky Community & Economic Development Initiative of Kentucky, Small Area Health Insurance Estimates, related most Appalachian counties had adult populations without health insurance at an incidence higher than the state rate of 21.8 percent. During a 2005-2011 sampling period, one in four adults in a dozen Appalachian counties said they could not see a doctor due to cost reasons. In another 30 counties, the ratio rose to one in five adults. Statewide, 17 percent of adults cited cost as a reason for not seeing a doctor. In Appalachian Kentucky, only six counties were below that level.

As stated in the latest Kentucky Appalachian Development Plan, Progress Through Partnerships: Shaping Our Appalachian Region, the state of the overall health of Kentuckians, and particularly the poor demographic indicators from the people of Appalachian Kentucky, is and will continue to be of great concern to the Governor. It is a top public priority policy and addressing the problem is a major strategic goal of his Appalachian Development Plan.

Those troubling demographic statistics for the Fifth Congressional District (Eastern Kentucky) serve as a call to action as observed by Governor Beshear and Congressman Rogers. East Kentuckians rate of certain diseases are significantly higher than the rest of the nation: 84% higher rates of heart disease, 67% higher rates of lung cancer, 47% higher rates of all cancers and 26% higher rates of obesity.

In taking account of the serious implications indicated by the above numbers and the recognition that many thousands of Kentuckians were without health coverage, the Governor created “Kynect”: Kentucky’s implementing program under the National Affordable Care Act. One of the most successful and utilized programs in the nation, Kynect has made it possible for over one-half million Kentuckians to experience the security of having reliable health insurance coverage. One hundred and fifty-five thousand of the newly insured are citizens of Appalachian Kentucky.

A critical component of the Governor’s implementation of the Affordable Care Act in Kentucky involved the expansion of Medicaid coverage to newly eligible Kentuckians. To date, nearly 132,000 Appalachian Kentuckians are now covered through this expansion. An additional 23,000 have obtained medical coverage through the Kentucky Health Insurance Exchange. The exchange facilitates access to private sector and other insurance products. As a result of the Governor’s resolute leadership 155,000 Appalachian Kentuckians can now experience a better quality of life and have realistic expectations for a more healthy and productive future.

Any discussions regarding improving the state of Appalachian Kentuckians’ health will center around the Governor’s kyhealthnow 2019 Initiative. This initiative will fully integrate into the goals and strategies of the Governor’s Plan. In kyhealthnow the Governor has formally launched a campaign to improve the health and well-being of Kentucky’s children, families and the workforce. These goals and strategies will be

formalized by Executive Order and legislative action. The kyhealthnow goals will be a frontal assault against the all so familiar maladies that plague Kentuckians but are more pronounced in the Appalachian counties. These goals are:

- Reduce Kentucky's rate of uninsured individuals to less than 5%
- Reduce Kentucky's smoking rate by 10%
- Reduce the rate of obesity among Kentuckians by 10%
- Reduce Kentucky cancer deaths by 10%
- Reduce cardiovascular deaths by 10%
- Reduce the percentage of children with untreated dental decay by 25% and increase adult dental visits by 10%
- Reduce deaths from drug overdose by 25% and reduce by 25% the average number of poor mental health days of Kentucky.

One of the key recommended action items of SOAR's Working Group was to invite the Center for Disease Control to form a taskforce to accurately map the current state of health in Eastern Kentucky and to create a strategic plan for the region.

In addition, the group recommended efforts be made to ramp up oral health initiatives to encourage school-based oral health services in every school district in the Appalachian region. Governor Beshear has provided a foundation for that effort by having recommended the investments of \$1.5 million of ARC funding to establish 12 oral health improvement coalitions and a demonstration program entitled "Smiling Schools" which offered a preventive education component and most importantly, an effort to apply fluoride varnish to the teeth of children attending elementary school systems in distressed ARC counties. Both initiatives involved collaboration with local public health departments, school system leadership and locally interested parties and health professionals.

Health Care Resources Available Within Appalachian Kentucky Include:

The Kentucky Oral Health Program (KOHP), located within the Kentucky Department for Public Health, is headed by the State Dental Director. This program is moving forward to bring optimum oral health status to Kentucky citizens. The oral health-general health link is becoming more evident through research and the KOHP plans to work with policy makers, universities, local health departments, government bodies and the private sector to ensure access for dental care to all Kentuckians. It is widely recognized within this program and Governor Beshear's administration that the lack of affordable preventive dental care as well as adequate oral health education and awareness coverage in Appalachian Kentucky is even more pronounced than the state as a whole.

The KOHP has implemented a comprehensive oral health initiative as a pilot within distressed Appalachian counties in Kentucky. This program will work to extend the reach of enhanced oral health education and train parents, caregivers, local dental care providers, and local health departments with methods to accomplish this goal. ARC

funding has been made available via Kentucky's distressed counties grant program to support this initiative.

The Kentucky College of Osteopathic Medicine (KYCOM), located at the University of Pikeville within the Appalachian region has graduated 902 physicians since opening in 1997. UPSOM reports that 37 percent of its graduates are either practicing or completing residencies within the Appalachian Region. With an estimated researchers' annual impact of \$2 million each on their local community, and an additional \$1.5 million for their referring hospital, these physicians are already having a tremendous impact on the regional and state economies.

The University of Pikeville has constructed a new building on campus with ARC funding support among other resources that has enabled an increase to 135 in students enrolled per year at KYCOM. The KYCOM received approval from the Accreditation Board to increase its enrollment to 135 beginning with the Class of 2016 that began July 30, 2012. This expansion will better enable the school to fulfill the tremendous need for family care physicians in Eastern Kentucky, Central Appalachia and the Southern United States.

In 2014 KYCOM earned high marks in rural medicine, ranking fifth among all medical schools in the nation, both D.O. and M. D., in *US News & World Report's* 2014 edition of Best Graduate Schools.

The University of Kentucky Center of Excellence in Rural Health was established in 1990 to address health disparities in rural Kentucky, including a chronic shortage of health professionals and residents' poor health status and is located in Hazard, Kentucky. The Center accomplishes this through health professionals education, health policy research, health care service and community engagement. The Center also serves as the federally designated Kentucky Office of Rural Health (KORH). This program provides a framework for linking small rural communities with local, state and federal resources while working toward long-term solutions to rural health issues.

Kentucky Homeplace has been created by the Center to address health issues related to lifestyle choices, environmental factors, inadequate health insurance and general lack of understanding of the healthcare system. Their mission is to provide access to medical, social and environmental services for the citizens of the Commonwealth.

The Center recently began a new affiliation with the University Center of the Mountains (UCM), a higher education center located on the campus of Hazard Community and Technical College. This new partnership will enable the Center student services representatives to have an office within the UCM to be conveniently accessible to students who may be considering a degree in social work, medical lab science or physical therapy.

The Drug Epidemic in Kentucky is one of the leading problems hindering economic progress in Appalachian Kentucky. The eastern Kentucky region in particular has been a primary source of marijuana cultivation. The high poverty rate throughout Appalachian

Kentucky contributes to an acceptance of marijuana cultivation as a source of income. Also, several counties in eastern Kentucky lead the nation in terms of grams of narcotic pain medications distributed on a per capita base. In many Appalachian communities, marijuana cultivation is a multigenerational trade; young family members are introduced to the trade by older members who have produced the drug for many years. Cocaine, particularly crack, poses a serious threat to the Appalachia HIDTA region because of the drug's wide availability, the high levels of violence associated with cocaine distribution and the high number of cocaine-related treatment admissions to publicly funded facilities. Methamphetamine is also an increasing threat throughout Kentucky, and is also becoming more prevalent in eastern Kentucky as well. Kentucky meth production is a simple process taught among violators and dominated by Caucasians in the lower social and economic classes, including former marijuana cultivators, who are beginning to realize the greater profit margin and diminished threat from law enforcement posed by meth production versus marijuana cultivation. Methamphetamine laboratory seizure data from the National Drug Intelligence Center (NDIC) shows rising meth production in the Appalachian region.

Unfortunately, heroin has had a resurgence in our nation and Kentucky is no exception. Especially hit hard have been Northern Kentucky, Louisville and Lexington raising fears that a heroin scourge will soon ravage the entire Commonwealth – including Eastern Kentucky. A key driver behind the uptick in heroin abuse was the reformulation of two widely abused prescription pain drugs (OxyContin and Opana), making them harder to crush and snort. A growing number of young people who began abusing expensive prescription drugs are switching to heroin, which is cheaper and easier to buy. The reason comes down to basic economics: illegally obtained prescription pain killers have become more expensive and harder to get, while the price and difficulty in obtaining heroin have decreased. To impact the problem, the Kentucky Office of Drug Control Policy continues to work toward increased public education, increased access to treatment, and enhanced penalties for major traffickers.

Another very important factor in addressing the critical needs in stemming the negative impact of the drug abuse epidemic that plagues Kentucky, and especially eastern Kentucky, has been the successful benefits realized in Kentucky after enactment of House Bill 1 in 2012 by the Kentucky General Assembly and was supported by Governor Beshear. The results of enactment of this legislation have significantly impacted the use and diversion of prescription pills in the Commonwealth. This landmark legislation is credited with closing non-compliant pain management clinics (so-called “pill mills”) and reducing the number of prescriptions for heavily abused controlled substances. HB1 also included multiple elements to prevent the abuse and diversion of prescription drugs and enhanced law enforcement's tools to investigate illegal prescribing practices.

Kentucky programs addressing the drug problems include:

- **Operation UNITE**, Unlawful Narcotics Investigations, Treatment and Education serves 32 counties in eastern and southern Kentucky. The program was launched in April 2003 by Congressman Hal Rogers. Operation UNITE seeks to fight the

drug epidemic by expanding drug awareness and education programs to keep people from using drugs; coordinating drug treatment and outreach programs for those who are already addicted; and operating regional undercover law enforcement task forces for interdiction and prosecution of those dealing drugs. Operation UNITE consists of three core components – law enforcement investigation, treatment including Drug Courts and coalitions/education that includes youth & education activities. Operation UNITE works closely to support substance abuse treatment programs such as the two new residential treatment facilities, one in Clay and the other in Pike County, which serve Appalachian Kentucky.

Operation UNITE has 32 community coalitions within the 32 counties. Over \$4 million in funding has been allocated to the community coalitions to date. Extension education/training programs continue to be conducted via the coalitions. A large focus centers on youth education activities within the region. More than 87,000 youth have participated in UNITE-sponsored programs. In addition, coalition-sponsored youth programs have reached thousands more participants.

Operation UNITE has been directly involved in the creation and successful hosting and implementation of the National Rx Drug Abuse Summit, the largest national collaboration of professionals from local, state and federal agencies, businesses, academia, clinicians, treatment providers, counselors, educators, state and national leaders, and advocates impacted by prescription drug abuse. Three highly successful summits were held during the years 2012, 2013 and 2014 with another scheduled for 2015. The Appalachian Regional Commission has provided funding and technical support to Operation UNITE in this effort.

- **Recovery Kentucky** is an initiative to help Kentuckians recover from substance abuse which often leads to chronic homelessness. The original program goal was to have at least two recovery centers in each of Kentucky's six congressional districts. However, we have been able to exceed the original goal and have expanded to include more centers. The initiative is a joint effort by the Department for Local Government (DLG), the Department of Corrections, the Kentucky Housing Corporation (KHC) and the Kentucky Office of Drug Control Policy. Currently eleven of the centers are open and in operation. Four of the centers are located in the Appalachian Region. They include The Liberty Place for Women in Richmond (Madison Co.), Cumberland Hope Community Center for Women in Evarts (Harlan Co.) and the Morehead Inspiration Center for Men in Morehead (Rowan Co.), and the Hickory Hill Recovery Center for Men in Knott County.
- **Kentucky Office of Drug Control Policy** was created in September 2004. Its mission is to serve as a leader and a catalyst for improving the health and safety of Kentuckians by collaborating with other agencies to reduce drug use and related crime. This agency coordinates Kentucky's response to substance abuse,

addressing duplication, gaps in service and administrative issues to improve drug control programs, strategies and long range planning. The Kentucky Agency for Substance Abuse Policy (KY-ASAP) is placed in this office, also. This agency works with local KY-ASAP boards that work continually within their respective communities to bring about policy changes to reduce substance abuse.

II. GOALS, OBJECTIVES AND STRATEGIES

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

State Objective 1.1: Develop leaders and strengthen community capacity.

Strategies:

- 1.1.1 Support planning for community based economic development strategies targeted to building sustainable local economies.
- 1.1.2 Support provision of training and consultant services to local governments and nonprofits engaged in economic development activities.
- 1.1.3 Support the development of broad-based local and regional leadership structures, such as community development foundations and financial institutions, including support for development and implementation of the Appalachian Rural Development Philanthropy Initiative activities and to support development and implementation of the proposed SOAR Community Development Philanthropy Initiative being led by the Foundation for Appalachian KY (FAKY). Also, to support development and establishment of a Regional Philanthropy Network of community foundation partners to benefit the Appalachian region of Kentucky.
- 1.1.4 Encourage efforts to establish ongoing local and regional civic and leadership development programs.
- 1.1.5 Encourage community leadership to develop skills and tools necessary to utilize existing and innovative technology to assist in their community and economic development efforts.

State Objective 1.2: Stimulate and support community-based economic development efforts by county/city development authorities and regional public/private entities to diversify the economic base to provide new employment opportunities in Appalachian Kentucky.

Strategies:

- 1.2.1 Provide funding and technical assistance support to local economic development/industrial authorities for business creation, retention and expansion.
- 1.2.2 Encourage the establishment and development of workforce training programs, entrepreneurial support, and export activities within Appalachian Kentucky.

- 1.2.3 Expand efforts to modernize and strengthen existing businesses in the region and develop new businesses that can expand the economic foundation of Kentucky's Appalachian region.
- 1.2.4 Support downtown development efforts that are part of an overall community development strategic plan for Appalachian communities.
- 1.2.5 Support planning and implementation of programs/projects such as food economy initiatives that are increasing in the Appalachian region that will provide for diversification of the economic base in areas impacted by changing agricultural industry needs.
- 1.2.6 Support planning and implementation of programs/projects that will provide for diversification of the economic base in areas of the Kentucky Appalachian Region impacted by coal industry decline and resulting large job losses. This will include the SOAR Program and the Promise Zone Designation for eight counties, as well as others.
- 1.2.7 Kentucky will develop research and development capacity along with technical assistance capacity to provide much needed technical assistance services to communities within the Central Appalachian Region and to support SOAR initiatives.
- 1.2.8 Promote partnerships with and leverage research opportunities generated by government-sponsored and private-sector research labs.

State Objective 1.3: Enhance entrepreneurial activity in Appalachian Kentucky.

Strategies:

- 1.3.1 Support programs/initiatives including business incubators that provide new opportunities to launch into entrepreneurial ventures which are self-sustaining.
- 1.3.2 Educate current and future entrepreneurs in the region through training programs in elementary schools, middle schools, high schools, community colleges and four-year colleges and universities.
- 1.3.3 Support the establishment of programs/initiatives that will serve to deliver applicable training in computer coding to assist in securing jobs in this emerging field.
- 1.3.4 Improve access to investment capital and credit for local businesses including micro-enterprises through resources such as venture capital funds, revolving loan funds and other financing mechanisms.

State Objective 1.4: Develop and market strategic assets for local economies in Appalachian Kentucky.

Strategies:

- 1.4.1 Support efforts to maximize economic benefits of Kentucky's Appalachian cultural and heritage tourism and crafts industries.
- 1.4.2 Support leadership, marketing and planning efforts to enhance local strategies for tourism development.
- 1.4.3 Support efforts to identify local and regional assets for development in the region.

State Objective 1.5: Increase the domestic and global competitiveness of the existing economic base in the region.

Strategies:

- 1.5.1 Assist small and mid-sized businesses to locate and access markets for their products, with emphasis on export training that will enable them to participate in the international marketplace.
- 1.5.2 Support the Governor's Export Trade Initiative developed for the entire state in efforts that will support provision of technical assistance and ongoing business consultation to help small and medium businesses to connect to national and international markets within the Appalachian region.
- 1.5.3 Encourage development of telecommunications and other technologies to facilitate improving the participation of Appalachian businesses in the international marketplace.

State Objective 1.6: Capitalize on the economic potential of the Appalachian Development Highway System (ADHS) in Appalachian Kentucky.

Strategies:

- 1.6.1 Support local and regional economic and community-development initiatives that effectively utilize completed sections of the ADHS.
- 1.6.2 Promote cooperative projects and programs between economic development officials and transportation officials.

State Objective 1.7: Encourage sustainable economic use of natural resources in Appalachian Kentucky.

Strategies:

- 1.7.1 Promote activities and initiatives that effectively utilize walking, cycling and other outdoor recreation trails for local economic benefit. Continue support of Kentucky's implementation of an Adventure Tourism Plan developed with ARC support within our Appalachian counties.

- 1.7.2 Support economically sustainable uses for Appalachian Kentucky natural and environmental assets, including its forests and wood products, water features and watersheds, agricultural resources and local food systems, and scenic view sheds.
- 1.7.3 Encourage research on natural resources that can make a vital contribution to sustainable economic growth in Appalachian Kentucky.
- 1.7.4 Support efforts to implement the Green Forests Work for Appalachia program that will work to build human-resource capacity and infrastructure to restore forests on former mine sites that will generate jobs and economic activity with Appalachian Kentucky.

State Objective 1.8: Encourage investments in energy projects that create jobs in Appalachian Kentucky.

Strategies:

- 1.8.1 Support technical assistance to local governments, businesses, school districts and organizations for achievement of improved energy efficiency to enhance Appalachian Kentucky’s economic competitiveness.
- 1.8.2 Support efforts to increase the use of renewable energy resources in Appalachian Kentucky, including biomass, solar, geothermal and wind, to produce alternative transportation fuels, electricity and heat.

Commission Goal 2: Strengthen the capacity of the people of Appalachia to compete in the global economy.

State Objective 2.1: Develop leaders and strengthen community capacity.

Strategies:

- 2.1.1 Support youth leadership development programs and encourage greater involvement of youth in community activities such as tutoring and serving on advisory boards.
- 2.1.2 Support strengthening school-based civic education through service learning and youth community development efforts.
- 2.1.3 Promote community-based dialogue and management of critical local health issues.

State Objective 2.2: Enhance the workforce skills of Appalachian Kentuckians by increasing opportunities for training and education in preparation for a changing global economy.

Strategies:

- 2.2.1 Support development of new, expanded and modernized workforce training and education programs in strategic industry sectors.

- 2.2.2 Support schools and agencies engaged in job training targeted to improving the capacity of the region's workforce to work with new technology applications.
- 2.2.3 Support schools and agencies engaged in workforce development that supports green jobs in the fields of energy efficiency and conservation, environmental remediation, and alternative energy development.
- 2.2.4 Partner with community colleges, technical schools and universities to support strategic workforce development initiatives, particularly in areas impacted by the vast coal industry employment reductions..
- 2.2.5 Support training efforts that enable basic skills training for unemployed or underemployed residents in the region.

State Objective 2.3: Increase access to quality child care and early childhood education in Appalachian Kentucky.

Strategies:

- 2.3.1 Support initiation and expansion of programs that focus on early childhood education and increase access to the programs
- 2.3.2 Support local and regional efforts that increase access to quality child care particularly within employment and educational institution service areas.

State Objective 2.4: Encourage partnerships within communities and the region to extend the reach of educational systems to accomplish increase in educational attainment and achievement.

Strategies:

- 2.4.1 Continue to support local and regional efforts to provide life-long learning opportunities.
- 2.4.2 Upgrade and expand adult education services and strive to coordinate financial resources for adult education with geographic areas having the greatest need for these services.
- 2.4.3 Support local and regional efforts to better prepare students, out-of-school youths and adults for post-secondary-level training that will improve the enrollment and attainment of post-secondary education in Appalachian Kentucky.
- 2.4.4 Continue to support non-traditional education ventures that provide extraordinary learning opportunities for the region's students.
- 2.4.5 Continue to support the expansion of educational opportunities in the region through telecommunications and innovative technologies.
- 2.4.6 Support efforts to increase parent and student awareness and involvement in educational initiatives in the region.

State Objective 2.5: Expand community-based wellness and disease-prevention efforts within Appalachian Kentucky.

Strategies:

- 2.5.1 Support partnerships and programs that educate children and families about basic health risks and encourage lifelong healthy lifestyles.
- 2.5.2 Pursue opportunities to address specific health issues that especially affect Appalachian Kentucky (i.e. breast and lung cancer, diabetes, obesity, substance abuse, heart disease, geriatric issues and health education needs).
- 2.5.3 Continue to support programs and initiatives that address prevention and treatment of oral health issues that are prevalent in Appalachian Kentucky.
- 2.5.4 Support local and regional programs/initiatives that will assist efforts to eliminate drug and /or alcohol abuse in the region.

State Objective 2.6: Provide access to health-care professionals that can increase the availability of affordable, accessible and high-quality health care to meet the needs of Kentucky's Appalachian communities.

Strategies:

- 2.6.1 Support educational institutions and programs that train health-care professionals who will practice in the region.
- 2.6.2 Continue to support local efforts to expand access to health-care programs and recruit health-care professionals through the J-1 Visa Waiver Program and other programs, especially in Health Professional Shortage Areas.
- 2.6.3 Support development and improvement of facilities and infrastructure to extend the provision of high-quality clinical health care in underserved areas of the region.
- 2.6.4 Support the use of new and emerging technology and telecommunications systems to enhance and expand medical services in the region and reduce the high cost of health-care service provision in the region.

State Objective 2.7: Kentucky recognizes health care as a substantial economic sector and will pursue strategies to grow the sector.

Strategies:

- 2.7.1 Engage strategies that will keep health care dollars within the region.
- 2.7.2 Seek to expand the health care economic sector by steering government-sponsored projects, programs and services to the region.

Commission Goal 3: Develop and improve Appalachia’s infrastructure to make the Region economically competitive.

State Objective 3.1: Develop leaders and strengthen community capacity.

Strategies:

- 3.1.1 Support efforts to build the local and regional organizational capacity needed to meet increasing demands relative to technology, environmental standards and changing revenue sources.
- 3.1.2 Support the provision of training, consultation and financial assistance for local leaders and organizations to build their capacity to address infrastructure challenges.
- 3.1.3 Support partnerships and regional efforts among local and state governments, nonprofit agencies and citizens engaged in infrastructure development.
- 3.1.4 Support strategic planning initiatives for local and regional agencies to capitalize on economic development opportunities created by the ADHS.

State Objective 3.2: ARC funds in Kentucky will continue to be used to leverage federal, state, local and private capital for development of community facility projects that directly support economic development and ensure the conditions for an acceptable quality of life for Appalachian region residents.

Strategies:

- 3.2.1 Commission funds will be used to supplement other available resources to develop water, wastewater and other public infrastructure that directly supports economic development.
- 3.2.2 Consistent with the ARC policy for residential infrastructure projects, water supply and wastewater treatment projects will continue to be recommended for ARC funding assistance to alleviate environmental public health concerns and ensure an acceptable quality of life for local residents.
- 3.2.3 Encourage planning, design, coordination and construction practices that improve the energy efficiency of all infrastructure investments.
- 3.2.4 Support the study and demonstration of alternative water supply sources, alternative water and wastewater treatment methodologies, service consolidations and the planning and delivery of services under such approaches.
- 3.2.5 Support for planned countywide or regional solid waste management will be utilized through education, collection and recycling programs to advance improved waste disposal practices.

- 3.2.6 Continue to support the Kentucky Appalachian Housing Program, as administered by Kentucky Housing Corporation to assist in providing safe, affordable housing for citizens of Appalachian Kentucky that supports economic development efforts within the region.
- 3.2.7 Build and enhance environmental infrastructure, such as brownfields redevelopment and eco-industrial activities.

State Objective 3.3: Increase the accessibility and use of telecommunications technology within Kentucky’s Appalachian region.

Strategies:

- 3.3.1 Provide strategic support for development of high-speed telecommunications infrastructure to increase local and regional connectivity and affordability within the region.
- 3.3.2 Encourage the integration of telecommunications as an element in economic development at all levels of government.
- 3.3.3 Support initiatives that provide the region’s citizens with skills and knowledge necessary to fully utilize and benefit from contemporary telecommunications systems.
- 3.3.4 Support initiatives/programs that promote the adoption of e-commerce methods by existing and new businesses.
- 3.3.5 Provide planning assistance for telecommunications development that coincides with other public infrastructure development.

State Objective 3.4: Preserve and enhance environmental assets in Appalachian Kentucky.

Strategies:

- 3.4.1 Raise awareness of and leverage support for the reclamation and redevelopment of brownfields and mine-impacted communities.
- 3.4.2 Encourage and support eco-industrial development that can responsibly take advantage of the Region’s natural-resource assets.
- 3.4.3 Promote efforts to protect and enhance the quality of surface and ground water.
- 3.4.4 Support regional planning and economic development that promote good stewardship of the Region’s natural resources.

State Objective 3.5: Promote the Development and Implementation of an Intermodal Transportation Network in Appalachian Kentucky.

Strategies:

- 3.5.1 Provide support for studies relative to enhancing economic development opportunities in the region by intermodalism.
- 3.5.2 Support the planning and development of infrastructure that enhances economic development opportunities presented by intermodalism within the region.
- 3.5.3 Construct access roads that link economic development opportunities to the ADHS corridors and other transportation networks in the region.

Commission Goal 4: Build the Appalachian Development Highway System to reduce Appalachia's isolation.

State Objective 4.1: Develop leaders and strengthen community capacity.

Strategies:

- 4.1.1 Support collaboration and coordination between transportation and economic development interests to strengthen access to domestic and international markets and to maximize economic and employment benefits to the Region.

State Objective 4.2: Administer completion of the ADHS in Kentucky and plan for expansion and upgrade of existing roadways in rural communities to facilitate greater access to resources and opportunities for increased economic growth.

Strategies:

- 4.2.1 The Kentucky Transportation Cabinet, in cooperation with the Governor and his ARC alternate, will continue to work closely with ARC in administration of the ADHS funds to complete the Appalachian Corridor System with emphasis on connectivity to major regional routes within and outside of Kentucky.
- 4.2.2 Encourage strategic, appropriate development along ADHS corridors (industrial parks, commercial development, intermodal transportation, asset-based development projects).
- 4.2.3 Promote a development approach for the ADHS that preserves the cultural and natural resources of the Region while enhancing economic opportunity.

State Objective 4.3: Develop a transportation system in Appalachian Kentucky that enhances and preserves the region's environmental quality.

Strategies:

- 4.3.1 Encourage planning, coordination and cooperation to achieve a reliable, safe and cost-efficient transportation system that can both contribute to the Region's economic progress and help protect the environmental quality.

- 4.3.2 Promote the use of technologies that reduce the environmental impact of moving Appalachian Kentucky's travelers and cargo.

III. KENTUCKY'S DISTRESSED COUNTIES STRATEGY

For Fiscal Year 2015, thirty-seven of Kentucky's 54 ARC counties are designated as distressed and are eligible for special assistance under section 7.5 of the ARC Code. These counties have demonstrated persistent, long-term problems that have resulted in extraordinary levels of economic and human distress. Within these designated counties are areas and communities of severe distress that persistently demonstrate extreme poverty rates.

Kentucky has more distressed counties and severely distressed communities than any other Appalachian state. For Fiscal Year 2015 three additional counties are designated as distressed – Carter, Johnson and Perry Counties originally At-Risk from 2014. At the same time, two distressed counties (Hart and Robertson) moved up to at-risk from 2014. Also, Nicholas County moved up from at-risk to transitional. Governor Beshear's goal for Kentucky's ARC program is to close the gap between these distressed counties and their more prosperous neighbors and reduce the number of designated distressed counties.

In order to better facilitate more effective coordination of community/economic development efforts in Kentucky's Appalachian communities, Governor Beshear initiated an initiative through establishment of a full time Development Coordinator position located within Appalachian Kentucky. Previously, this position was located in Pike County at the University of Pikeville. Effective in Fiscal Year 2015, the position has been moved to Morgan County affiliated with Morehead State University. This Coordinator reports directly to the Executive Director of The Center for Regional Engagement at Morehead State University, and works in cooperation with the Office of the Governor, Cabinet for Economic Development and the nine Appalachian Area Development Districts. This Coordinator is undertaking a range of activities, including: facilitation of interagency coordination with other state agencies; strengthens local institutions such as universities, non-profits and local government programs; works with local leaders to initiate project development; partners with and meets regularly with the Appalachian ADDs; and also works regularly with organizations such as MACED, SKED, KHIC and other leading development non-profits.

The comprehensive emphasis on Kentucky's distressed counties within its central Appalachian region is the central focus of our ARC investment strategy, which is consistent with the stated initial goals of the SOAR Initiative in Appalachian Kentucky. Priority will be given to projects that strengthen the capacity for sustainable community economic development within our thirty-seven ARC-designated distressed counties. Initiatives or projects within Kentucky's transitional or at-risk counties that will contribute to development of jobs and workforce development to benefit distressed counties will also be given priority in the investment strategy for area development funding available.

The distressed communities' strategy is aimed at accomplishing the following:

- Facilitating collaboration with and participation in the Shaping our Appalachian Region (SOAR) Initiative for Appalachian Kentucky and also with the Kentucky Promise Zone activities as directed by the Kentucky Highlands Investment Corporation (KHIC) to benefit eight Appalachian distressed counties.
- Encourage distressed communities to develop a comprehensive local strategic plan that will help locales establish a sustainable community-based local economy or will improve access to jobs and services located at economic opportunity centers within a fifty mile radius of the community. This effort can be assisted via implementation of the Brushy Fork Institute and the Center for Rural Development Flex-E-Grant programs.
- Beginning in August 2011, the Appalachian Rural Development Philanthropic Initiative (ARDPI) has been development and implemented to assist distressed Appalachian counties. This initiative focuses on creating an infrastructure that engages local people in communities and builds the capacity of the region through prudent stewardship of local resources and supports the growth of local wealth through permanent community foundation endowments. As communities develop and attempt to implement local strategic plans they often encounter a lack of available funding to be able to work toward achievement of established goals. With implementation of the ARDPI, it is anticipated that resulting establishment of community foundations either on a local or regional basis will provide a means to finance some of the work required to achieve their community goals in the distressed counties. This activity is consistent with stated SOAR reports that reflect the importance of philanthropy to empower communities to support developed strategic goals and community development strategies to achieve economic growth in these communities.
- Encourage state government agencies, local development districts, institutions of higher education and nonprofit organizations to provide technical assistance to communities that wish to establish a community partnership that promotes broad based citizen participation, collaboration and alliances among local groups and organizations.
- Connect funding for distressed counties to objectives, strategies and measurable outcomes identified by these community-based plans.
- Utilize Kentucky's distressed counties program allocation to provide assistance up to 80 percent of the total eligible cost of a project that meets state program criteria, meets ARC project eligibility criteria, builds local capacity and promotes collaboration.
- Encourage regional and multi-county approaches to addressing the infrastructure and economic development challenges of distressed communities and encourage linkages between rural service areas and selected centers of economic activity.
- Establish benchmarks for measuring the progress of each distressed county toward establishing a foundation of adequate physical infrastructure, civic capacity, human resources and job opportunities for self-sustaining economic growth.

Distressed Communities Focus Areas:

Infrastructure:

- Telecommunications – In December 2014 Governor Beshear and Congressman Hal Rogers launched a statewide broadband initiative to bring high-speed Internet connectivity to the entire state with the underserved eastern Kentucky region to be the first priority area for the project. This new public-private partnership will develop a robust, reliable fiber “backbone” infrastructure and is already underway after the award of a contract with Macquarie Capital chosen as the private sector partner to design and develop the statewide system. As stated by both Governor Beshear and Congressman Rogers, Kentucky’s Internet speed and accessibility have lagged behind the rest of the nation far too long with the Appalachian region of Kentucky lagging further than other portions of the state. This partnership puts Kentucky on the path of propel the entire state forward in education, economic development, health care, public safety and much more. The Center for Rural Development will partner with the state, focusing on communities east of Interstate 75 – most of the Appalachian region. Federal funds included in the ARC appropriation for both Fiscal Years 2014 and 2015 will provide a critical element within this total partnership to ensure benefit for the Appalachian region of Kentucky.
- Housing – the Kentucky Appalachian Housing Program will continue to be an emphasis for support with ARC funding. Kentucky Housing Corporation, the state’s designated housing finance agency, administers a variety of state and federal programs with the goal of safe and affordable housing provision for Kentucky’s citizens, including the distressed Appalachian communities. ARC funds are utilized to bridge gaps to prevent Appalachian communities from not qualifying for housing assistance.
- Transportation – the remaining planned miles of ADHS in Kentucky will directly impact designated distressed counties within the region and remain a high priority for completion. Expansion of regional industrial parks along ADHS corridors will continue toward creation of jobs within the distressed and at-risk counties. Further development of the Southern Kentucky Intermodal Center in Pulaski County will benefit marketing efforts for products coming from distressed counties within the region and make added steps toward sustainable economic development in these areas.
- Water and Sewer – Commission funds will be used to supplement other available resources to develop water and wastewater infrastructure that directly supports business, industrial and economic development within Kentucky’s distressed counties and areas. Support will also be targeted toward provision of residential infrastructure to alleviate environmental health concerns, encourage regional infrastructure service provision and ensure an acceptable quality of life for local residents in distressed areas of the region. These efforts are essential to distressed areas in preparation for economic progress within their counties.

Economic Development:

- Entrepreneurship and small business creation and expansion, including business incubator development, will continue to be a priority area for use of ARC funds in distressed counties and areas. Partnerships with educational institutions, area development districts and non-profit agencies will continue to accomplish provision of needed capital investments as well as technical assistance to entrepreneurs.
- Asset based development potential will be assessed and support provided for planning and implementation of proposed project development within distressed counties of Appalachian Kentucky, particularly in the areas of adventure tourism, cultural heritage tourism, and energy related initiatives that will enhance Appalachian Kentucky's economic growth.
- The Kentucky Department for Local Government, designated administrative agency for Kentucky's ARC program, will work in collaboration with the nine Appalachian Area Development Districts, the Kentucky Economic Development Cabinet, the Kentucky Tourism, Arts and Heritage Cabinet and appropriate non-profit development organizations to ensure that the needs of distressed counties and areas within the Appalachian region are addressed in development and implementation of economic development initiatives and efforts.

Civic Entrepreneurship:

- ARC funds will be utilized to support efforts to build local and regional organizational capacity needed to meet increasing demands relative to technology, environmental standards and changing revenue sources within the distressed counties of the region.
- ARC funds will be available through the Flex-E-Grant program that utilizes two structured programs to administer mini-grants and also distressed counties funds to support distressed counties/areas in planning for community development strategies targeted to building sustainable local economies. Also, funds will be available to support provision of training and consultant services to local governments and nonprofits engaged in economic efforts.
- The development of broad-based local and regional leadership structures as well as efforts to establish ongoing local and regional civic and leadership development programs will be encouraged and supported for distressed communities.
- Strategic planning initiatives for local/regional agencies to capitalize on economic development opportunities created by the ADHS in distressed counties will be encouraged.

Kentucky's At-Risk Counties Strategy

Kentucky has twelve counties designated as At-Risk counties for Fiscal Year 2015. At least half of these counties have been designated as distressed within the past ten years.

The changes in average unemployment rates usually caused the change from distressed to at-risk. In reality, the at-risk counties are very close to qualifying for distressed status and face the same obstacles to development and maintenance of sustainable economies. In fact, two 2015 at-risk counties were designated distressed for 2014.

The Commonwealth of Kentucky will utilize the distressed counties strategy in planning and implementation for ARC investment in the at-risk counties with the exception of the match rate, which will be at 30 percent.

IV. STATE POLICIES - PROGRAM MANAGEMENT AND ADMINISTRATION

A. Project Review and Selection Process

Kentucky utilizes the following system for evaluation and selection of projects for ARC funding assistance.

1. Pre-Application Solicitation Methods

Pre-applications are solicited via a mailing from the ARC Program Manager to the nine ARC area development district (ADD) executive directors. Pre-applications are directed to be mailed to ARC Program Manager. The boards of directors of the ADDs are composed of all county judges/executive, and selected mayors of these Appalachian regions. Staff from the ADDs communicates this solicitation to all local agencies including not-for-profit groups within the region. ARC Program Manager also maintains a list of individuals and agencies such as consultant groups, higher education contacts, etc. requesting notification of the ARC pre-application process.

Application Process Training Provision

Training sessions are conducted each year prior to pre-application receipt deadline to encourage applicant awareness and provide updated information to area development district staff that provides application preparation assistance to counties within their districts as well as consultants, non-profit organizations and college and university personnel. Program Operations staff from ARC – Washington provide the training in cooperation with Federal Basic Agency representatives and KY Program Management staff to potential ARC applicants and ADD staff members.

2. Project Pre-Application Screening Process

All pre-applications are screened initially by the ARC Program Manager and staff to determine if they are eligible for funding consideration. This screening process determines the following:

- a. Application completeness, accuracy and project feasibility
- b. Eligibility under the ARC Code and Guidelines

- c. Project consistency with ARC strategic goals and state strategies

3. Project Evaluation/Prioritization

Pre-applications determined to be complete, eligible and feasible are then evaluated and prioritized by an evaluation committee consisting of the following:

- State ARC Alternate, Committee Chair
- DLG Office of Federal Grants Executive Director
- ARC Program Manager

The following criteria are utilized in evaluation of ARC projects for prioritization:

- a. Degree of Need – Projects that address a severe and immediate problem, such as imminent health threat or loss of jobs, or that capitalize on job creation will be given higher priority than those that do not.
- b. Project Scope and Cost Effectiveness – The number of beneficiaries to be served by the project and the cost per person or household served will be considered in funding level determination.
- c. Degree of Distress – Projects that benefit communities in ARC designated distressed counties will be given priority consideration in the evaluation process.
- d. Degree of Non-ARC Funding Commitment – Projects are evaluated individually as to the degree of non-ARC funding commitments and those projects that contain commitments of other federal and/or state/local funds that reduce the ARC share below the maximum level will receive higher prioritization than those that do not.
- e. Project Readiness – The degree of readiness of a project for implementation if funded (i.e., other funding sources committed, firm cost figures, preliminary or detailed engineering completed, and administrative/organizational responsibilities defined) will be considered in project prioritization.

Prioritization recommendations will be completed for two levels. Priority I projects are those which rank highest in the prioritization process and appear to have non-ARC funding committed. Priority II projects are those which rank high enough in funding priority but which lack complete non-ARC funding commitments or complete project readiness. Priority II projects could be elevated to Priority I if other funds are committed and other Priority I projects fail to achieve approval.

Priority I applicants are asked to submit full applications for submission to ARC for approval. Kentucky's nine Area Development Districts (ADDs) within the Appalachian Region assist local communities and applicants with application preparation and project development throughout the application selection process.

B. State Matching Requirements and Assistance Limits

ARC participation costs will be limited to 50 percent of project costs, with the following exceptions:

1. For projects located in ARC designated distressed counties, the maximum grant will be 80 percent of project costs.
2. For projects located in ARC designated at-risk counties, the maximum grant will be 70 percent of project costs.
3. ARC assistance for multi-county projects in which at least half the counties are distressed may be increased to as much as 80 percent of project costs; if at least half the counties are in some combination of distressed and at-risk, ARC assistance can be the higher of 70% of project costs or the average percentage applicable to the various counties in the project.
4. ARC assistance for housing site development projects under Section 207 of the ARDA is limited to 10 percent of project costs.

In addition to meeting the requirements of the ARDA of 1965, all projects for which approval is requested under the Area Development Program must be supported by a demonstration that they will contribute to achievement of one or more of the Commission's strategic goals, except that the state may request, in accordance with Section 7.3 of the Code, approval of a project or projects without such supporting demonstration to take advantage of special development opportunities or to respond to emergency economic distress.

C. Project Monitoring and Progress Evaluation

All ARC projects will be monitored by staff on a semiannual basis to assess progress in meeting scheduled milestones and to identify and resolve any problems that may have occurred in project performance. On-site inspections may be done at midpoint and at project completion to ensure compliance with approved project scope. Interim monitoring will usually be done by telephone. These monitoring reports will be incorporated into a computerized project management system to generate semiannual project status reports on all ARC funded projects.

D. Project Cost Underrun Policy

When project cost under runs occur, ARC funds will generally be de-obligated and made available for other eligible projects. A request for proportional reduction will be given consideration in projects with under runs.

(Figure 1)

**KENTUCKY APPALACHIAN REGIONAL COMMISSION COUNTIES
FISCAL YEAR 2015
(Effective October 2014)**

Adair**	Leslie*
Bath*	Letcher*
Bell*	Lewis*
Boyd	Lincoln*
Breathitt*	McCreary*
Carter*	Madison
Casey*	Magoffin*
Clark	Martin*
Clay*	Menifee*
Clinton*	Metcalfe*
Cumberland*	Monroe*
Edmonson**	Montgomery**
Elliott*	Morgan*
Estill*	Nicholas
Fleming**	Owsley*
Floyd*	Perry*
Garrard**	Pike**
Green**	Powell*
Greenup	Pulaski**
Harlan*	Robertson**
Hart**	Rockcastle*
Jackson*	Rowan*
Johnson*	Russell**
Knott*	Wayne*
Knox*	Whitley*
Laurel **	Wolfe*
Lawrence*	
Lee*	

***ARC-Designated Economically Distressed Counties
(37 of 54)**

****ARC-Designated At-Risk Counties (12 of 54)
ARC Transitional Counties (5 of 54)**