

6. Economic Conditions in Project Areas

Long range goals of ARC investments include the encouragement of economic diversity, competitiveness, self-sufficiency, and entrepreneurial vitality in areas of need. Thus, this evaluation attempts to measure the extent to which the local project areas are fostering economic diversification, economic growth vitality, and entrepreneurial success.

Because it is so difficult to draw a straight line from specific projects to overall area vitality, these measures are included as baseline indicators of progress over the impact period, rather than as a direct reflection of project impacts or consequences. The various time periods for project start, dates, end dates and the necessary project maturation time frames (which in themselves vary between projects and classifications) also cloud any attempt to draw a causal relationship between projects and statistical area progress. In some cases, growth or diversification analyses clearly reflect high job creation resulting from an ARC investment (e.g., Huntsville Research Park, an earlier phase of which was included in an earlier evaluation round). In other cases, the vitality assessment may highlight the need for particular types of assistance (for example, to facilitate entrepreneurship, or work in a more focused way on retained firm growth). By and large, though, the analyses of conditions in project areas should be viewed as context for the projects themselves and a guide to current development needs—not as a direct reflection of sample projects themselves.

Note: It would be misleading to interpret evaluations of individual or aggregate projects areas as Regional metrics, or (regardless of classifications by state or otherwise) as reflective of anything but the project areas themselves.

The measures of economic conditions in projects areas were based on these metrics:

- **Economic Diversification:** The assessment developed an economic diversification index at three different points in time. The index measures the percentage of a given sector against the area economy as a whole, and then compares that percentage to the same national measurement. The index was developed at the sector level for three economic bellwethers: business counts, employment and reported sales.
- **Business Scale and Growth:** The evaluation measured the scale of business operations in each area by employment and class category at different points in time, and assessed whether the area mix was moving toward or away from US patterns which promote “normal” interaction and growth. In addition, firms which were operating at the start of the time series in 1998 were separately tracked in order to assess whether their growth patterns over the 1998-2004

analysis period matched, exceeded or fell behind national patterns for retained firms.

- **Startup Activity:** Entrepreneurial activity in each area was measured for three different time periods: 1998-2000; 2000-2002; and 2002-2004. In each case, identified startups (defined as firms reporting one year or less of operation) were compared to all firms in the area which reported the number of years they had been in business. The analysis included only area-based firms, not branch operations. The resulting startup rate was compared to national norms for each period.

So that the diverse measures included in the economic analysis can be easily digested, they are presented for each project impact area in an indexed format that compares the project area to the corresponding US average. In each case, the US average equals 1.00, and the relative measure for the project area is above or below 1.00 in the same proportion. For example, a project area index of 1.10 indicates that the project area is 10% above the US average; if 0.90, it is 10% below.

The index indicates different measures, and “high” is not always “good”. In some cases, the index is simply intuitive – an entrepreneurial vitality index above 1.00 indicates that the project area startup rate is above US averages, and can generally be taken as a positive reflection of area vitality. In most cases, however, index measures used in this section (and in the corresponding project area-specific thumbnail reports in the appendices) simply indicate a proportion of firms in a sector, a sales category or an employment category that is lower or higher than the US concentration in the corresponding category. The meaning of the index in these cases is purely subjective. For example, a concentration of 1.20 in manufacturing employment (20% above national concentrations) could be positive or negative, depending on the situation and development objectives of the individual project area. In other words, the most meaningful interpretations are at the local level. Broader points that can be drawn (entrepreneurial vitality for example) are developed in this section, but the reader is encouraged to review the appendices for more detail and interpretation in each project area.

Where sales data is developed, it reflects only the reports of firms based in the project area. Sales attributable to branch operations are reported through headquarters, so branch operations based outside the project area will usually report local employment, but not local sales. This mechanism limits the full view of economic activity in an area (especially areas, such as some ARC counties, which significantly rely on “foreign” branch operations). Partly for this reason, business count and employment indices (which include all business establishments) are included in the diversification analyses. These different perspectives can also be read jointly as an indicator of reliance on operations based outside the project area. For example, if manufacturing employment and

business count indices are significantly higher than 1.00, and the sales index is significantly below 1.00, it is a likely indication that branches are reporting high local employment levels but attributing sales elsewhere – in other words, that the area may be reliant on firms based outside the area.

The employment and sales class index also display area results which are relative to the spread of all US firms. While this spread will normally differ somewhat from the average, it's worth noting that the most important differences may occur at the top and bottom of the scales, which indicate if an area is overly reliant on very small or very large firms. Of particular interest are the “survivor” patterns, which indicate the seven-year growth levels of firms which were in operation at the start of the time series (1998) and maintained operation through the end (first quarter of 2005). Areas in which survivor firms actually increased their index concentration of very small firms may need to add focus on growth assistance to mature local companies, since their “survivors”, as a group, indicate less growth vitality than the national average.

A set of economic analyses was developed for project impact areas:

Growth, diversification and entrepreneurship analyses were developed using a variety of private sector credit reporting and other business databases for each project impact area, as defined by local interviewees, for the years 1998-2004.

Table 6.1 Economic Analysis Series							
		Times Series			Measurement	Major Indication	
Sector Concentrations							
	Business Count	1998	2002	2004	US = 1.00		diversity
	Employment	1998	2002	2004	US = 1.00		diversity
	Reported Sales	1998	2002	2004	US = 1.00		diversity
Size Category Spread							
	Sales Class	1998	2004	* Survivors	US = 1.00		vitality
	Employment Class	1998	2004	* Survivors	US = 1.00		vitality
Startup Activity		1998-2000	2000-2002	2002-2004	US = 1.00		vitality

* Businesses in operation in 1998 which maintained operations through 2004

Because projects in the database were initiated and completed over an eleven-year period (1993-2004), and because projects have widely divergent maturity

periods and impact missions, the real value of the economic and vitality analyses is the view they offer not of project impacts themselves but of the areas in which the projects were developed. For this reason, the aggregate analysis of economic and vitality measures is relatively brief, but the numbers developed for local areas may assist in the development of strengths and weakness at all local levels.

The categories of economic data analysis are summarized in Table 6.1. [I] Since almost all of the analyzed projects were in counties currently designated as distressed or transitional, vitality trends are likely lower than for the Region as a whole. On the other hand, economic development project applications naturally appeared to be received mainly from areas that perceived opportunity. Thus, areas with the lowest levels of vitality may also have been excluded from project investments and thus the analysis.

Unlike the economic vitality analysis in the previous evaluation, measures were developed to assess not just general growth, but to focus on strategic ARC objectives, including area economic diversity, the development of robust patterns of growth among area firms, and the incubation of a strong entrepreneurial culture.

Needless to say, these are difficult objectives to measure. This effort included the following analysis:

6.1 Diversification Analysis

Tables and discussion in this section reflect measurement in 91 differentiated project areas in order to avoid duplication of measures in areas that sponsored more than one project in the sample pool.

Table 6.2 Project Area Economic Concentrations Less Than 50% of US Average						
	Business Count		Employment		Reported Sales	
	1998	2004	1998	2004	1998	2004
Agriculture	21	16	30	22	19	10
Mining	34	28	39	42	57	40
Construction	5	2	10	8	5	6
Manufacturing	5	3	16	17	36	39
Transport-Commun.	1	1	22	17	59	58
Wholesale	5	2	30	20	20	16
Retail	0	0	0	1	2	3
Finance-Ins-Real Estate	2	1	54	39	60	66
Services	0	0	2	1	2	1

The diversification analysis measures business counts (firms and branches), employment and reported sales (of locally-based firms) in each project area for three different points in time: 1998, 2002 and 2004. Each snapshot was broken out for the nine SIC sectors and indexed against the proportion of the same sector in the US economy as a whole, where the US average equals 1.00.

Tables 6.2 and 6.3 show the number of project areas that fall into relative poles of the diversification index of each measure. The first row of the Business Count index in Table 6.2, for example, shows that 21 areas reported less than 50% of the US concentration of agricultural sector establishments in 1998; By the beginning of 2005, only 16 project areas showed that level of imbalance.

Conversely, Table 6.3 indicates that the number of project areas with more than 150% of the US concentration of agricultural establishments increased from 17 in 1998 to 23 by the end of 2004. Together, these suggest an increase in the concentration of agricultural establishments in a variety of project areas.

The analysis suggests a number of diversification-related trends in various sectors. Note that aggregated project area results are reviewed in Section 5.1 of this report.

Agriculture: The number of areas with a relatively heavy reliance on the agricultural sector (including agricultural services) is increasing. Of particular note, the number of area with very high sales concentrations has increased rapidly. The study did not develop an analysis of whether this reflects crop-related or value-added sector services with export/traded service potential, but this might be worth exploring.

Table 6.3 Project Area Economic Concentrations More Than 150% of US Average						
	Business Count		Employment		Reported Sales	
	1998	2004	1998	2004	1998	2004
Agriculture	17	23	18	20	35	48
Mining	34	30	34	30	22	20
Construction	8	9	7	7	46	46
Manufacturing	9	7	38	29	14	7
Transport-Commun.	15	14	6	9	5	5
Wholesale	0	0	3	5	9	17
Retail	5	5	6	6	39	16
Finance-Ins-Real Estate	0	0	1	1	2	4
Services	0	0	0	0	30	37

Note: Detailed results for all project areas are displayed in the appendices.

Mining: The number of areas with low business count and sales concentrations decreased, while low concentration employment areas increased slightly. High concentration areas remained relatively static relative to US averages. In short, it appears that mining-dependent areas largely remained so, while low concentration areas moved slightly toward US levels of activity, probably due to related services or cyclical activity.

Construction: Low concentration areas decreased slightly, although there was an increase of one low concentration sales area. The number of high concentration business count and employment areas also remained relatively stable. The most interesting aspect of the construction analysis was the finding that just over one-half of all project areas (46) reported construction sales concentrations more than 150% of the US average. This relatively heavy reliance on construction sales -- coupled with the much more normalized business count and employment indices -- could suggest three possible phenomena. First, there may be relatively high levels of construction activity in a large number of project areas, possibly stimulated in part by the projects themselves. Second, area-based firms may be engaging in relatively high levels of “exported” sales, that is, branching outside their base areas. And third, since employment (including branch employment) levels are closer to US concentrations, but sales levels are developed from area-base firms only, the strength of locally owned companies in this sector is strongly indicated. The reasons for this continued strength over time, and the particulars of sector industries, are beyond the current scope, but would be worth further investigation.

Manufacturing: In general, there are reductions at the extreme index poles in the manufacturing sector. Low business count concentration areas have decreased very slightly, and low employment areas (17) have remained stable. The number of areas with high concentrations of manufacturing business operations, employment and sales has all decreased, although 29 areas (32%) still indicate very high manufacturing employment dependency. This concern is compounded by the very high (and increasing) number of areas that indicate low manufacturing sales (43%). Since the (low) sales data emanates from locally based firms, and the (high) employment data includes branch operations, it is likely that widespread reliance on manufacturing operations controlled from outside each area persists. This mixed blessing makes the findings of the Entrepreneurial Vitality Index (below) all the more critical.

Transport-Communications: The diversification indices indicate significant weaknesses in the nationally dynamic transportation and communications industries. While 15 project areas report high concentrations of business operations and a smaller but increasing number (9) report high employment concentrations, only five indicate correspondingly high sales indices. This suggests few industry magnet areas, and fewer still with a core of locally based

firms. More disturbingly, while only one area reports an unusually low concentration of sector business operations, 64% of all project areas report sales concentrations that are less than 50% of the US average. This sector is clearly struggling and in need of attention, based on this regional sample.

Wholesale: Wholesale reports far fewer extreme trends than most other sectors. A relatively large number of project areas continues to report employment and sales indices less than 50% of the US average (20 and 16 respectively, of the 91 areas) but in both cases the number of low concentration areas decreased significantly between 1998 and 2004. Particularly high indices are concentrated in the sales index (17 areas or 19%, up from nine areas in 1998), indicating that locally based sales vitality is surpassing business count, employment and as a result, most likely, branch operations as well.

Retail: Likewise, the project areas show relatively little reliance at the extremes in the retail sector. Very few areas report business count, employment or sales indices at 50% or less of the US average. A slightly higher but still modest number of project areas indicate extraordinarily high business count and employment indices in the retail sector. A larger number of areas (16) indicate very high retail sales concentrations, but this is remarkably down from 39 areas reporting more than 150% of the US sales concentration in 1998. The reasons behind the drop — and whether it represents positive diversification or some less desirable dynamic — is unclear. It is possible that the shift reflects larger retail trends toward national chains, rather than local ownership, but this is only a guess. Further investigation is warranted.

Finance-Insurance-Real Estate: Along with manufacturing and transport-communications, the FIRE sector indicates the most troubling diversification indices. The sector indicates very little activity at the higher concentration extreme in any of the three diversification measures. There is also only a single area that reports less than 50% of the US business count index (although 54 report less than 80% of the US concentration). Of greatest concern, though, are the 43% of project areas that report sector employment concentrations less than 50% of the US average, coupled with a whopping 73% of all project areas that report sales concentrations that lag by the same amount or more. At best, this suggests sector operations heavily reliant on outside interests. More likely, it demonstrates an extreme lag in sector vitality in a high proportion of regional counties. Notably, the number of project areas which fall into this low sales index category increased by 10% (six additional areas) since 1998. As is the case in the communications sector, future focus on development here could be critical to vitality and diversification efforts.

Services: While the service sector does not indicate much activity at the extremes of the diversification indices, there is very high number of project areas (37, an increase of 23% from 1998) which report locally-based sales concentrations of 150% or more above the US level. While this may be a positive

dynamic for local control, it could also suggest a lack of outside interest and investment from the more innovative segments of the sector.

Table 6.4 displays project area sales concentrations by state which are more than 20% above and below US levels. More concentrated areas are shown for agriculture, mining and manufacturing, Appalachia's most traditional industry sectors, and those in which the most concern over disproportionately heavy representation have been voiced in the past. (Note that the sales index does not reflect sales attributable to branches based outside the project area.) The table also displays project areas by state which report sales concentrations less than 80% of the US level, also in selected sectors of concern: again, manufacturing, in addition to the more emerging growth sectors of transport-communications and finance-insurance-real estate.

Table 6.4 Project Areas by State: Sales Concentrations of Area-Based Firms							
	Project Areas in Sample pool	2004 Sales					
		> 120% US Concentration			< 80% US Concentration		
		Agriculture	Mining	Manufacture	Manufacture	* Trans-Comm	** F.I.R.E.
AL	8	5	0	4	3	6	6
GA	8	6	0	1	5	7	6
KY	17	8	8	0	14	14	15
MD	4	3	1	0	3	4	3
MS	9	9	0	4	3	8	7
NC	9	6	0	4	3	8	8
NY	3	2	1	1	1	3	3
OH	6	6	3	1	2	6	6
PA	8	6	2	1	6	6	8
SC	2	2	0	0	0	1	2
TN	8	5	0	3	4	4	7
VA	3	1	3	0	1	3	2
WV	6	1	3	0	6	4	5
Total	91	60	21	19	51	74	78

* Transportation-Communications

** Finance-Insurance-Real Estate

Kentucky, Mississippi, Ohio and Virginia maintain large proportions of project areas significantly reliant on resource-based economies (agriculture and mining). The characterization of resource-based economies is not meant as a criticism of the strength of these sectors, but rather as a signal of potential dependence on them relative to these areas weaknesses in higher value-added growth sectors. Thus, the fact that eight of 17 Kentucky project are heavily reliant on mining and/or agriculture is most important when coupled with the data indicating that

fourteen of those same counties show weak sales concentrations in manufacturing and transport-communications, while 15 report sales deficiencies in FIRE. Unfortunately, that same correlation is apparent in other resource-reliant states, at least when looking at the 91-area project sample pool.

By the same token, virtually all states suffer from relative sales weakness in the emerging transport-communications and FIRE sectors. Alabama, Mississippi, North Carolina, New York, Ohio, South Carolina and Virginia report relatively minor levels of weak project area manufacturing sales. But in transport-communications, all states except South Carolina and Tennessee report more than 50% of their project area with lagging sales indices, and in FIRE Virginia reports the lowest lagging proportion of 67%. Based on the sample pool, the weakness in robust, area based transport-communications and FIRE sales are a problem in almost every state of the Region.

6.2 Sales and Employment Class Trends

The Sales Class and Employment Class analyses reflect the relative concentration of firms of various sizes in project areas relative to US norms. All areas are represented at virtually all scales of and employment and sales, but the mix and trends among classifications add detail to the picture of area vitality and dynamism.

For each project area, the number of total business operations (employment class analysis) and firms (sales class analysis) in each category was developed. The percentage of these operations relative to the total was then compared to US concentrations in order to show the relative importance of that class of firms to the areas economic life. Detailed results for all project areas are displayed in the appendices.

The smallest sales class analyzed was firms reporting under \$200,000 annual sales. The largest sales class analyzed was over \$100 million annual reported sales. Only data from locally based firms was utilized. Data from non-reporting firms was excluded from the sample.

The smallest employment class utilized in the analysis was 1-4 full time equivalent employees. The largest class developed was 250-plus employees. Branch operations were included in the employment analysis. And again, data from non-reporting firms was excluded from the sample.

In general, the analysis of the poles of the Employment Class and Sales Class indices indicates significantly higher than average (US) representation among both the smallest and largest business operations.

The firms that we began tracking in 1998 and that were still in business in 2004 we refer to here as “mature” or “survivor” firms. The mature firms we reviewed in Appalachian areas grew less than the national rate of that peer group (using annual reported sales as a benchmark). We also found that, in an uncomfortable number of cases, the proportion of mature firms in Appalachian areas which fell into very small sales classes actually increased over time. Moreover, we saw (from the separate entrepreneurial activity analysis) that many Appalachian areas coupled the “mature firm growth” problems with sluggish entrepreneurial activity.

Among the smallest sales class firms, the number of project areas reporting high concentrations of the smallest firms, while still high at 27 areas, declined significantly between 1998 and the start of 2005. The number of areas reporting high levels of the smallest establishments by employment doubled, but the overall number of areas (four in 1998, eight at the end of 2004) was relatively low.

Table 6.5 Project Areas: Business Class Concentrations						
	Sales (Firms)			Employment (Establishments)		
	1998	2004 Survivors		1998	2004 Survivors	
Smallest Business Class						
> 110% US Average	42	27	43	4	8	26
> 120% US Average	8	1	19	0	0	4
Largest Business Class						
> 110% US Average	11	9	13	39	33	22
> 120% US Average	8	7	11	29	25	20

The number of areas reporting high concentrations of the largest firms by sales remained stable overall, with a decrease of only two project areas indicating more than either 110% or 120% of the US concentration. Many project areas reported higher concentrations of the large employment operations, but the number of areas qualifying in this category (more than 150% of the US concentration level) declined about 15% between 1998 and 2004.

In sum, the 1998 and 2004 snapshot analyses (that is, the then-current picture) of both employment and sales class trends create a picture of project areas more dependent on very small and large firms than the US average, but moving toward US norms over time in both sales and employment measures. The decline in the number of project areas with high concentrations of large firms by employment is

likely indicative of decline in branch operations, since the decline is not matched by the decline in high level sales firms.

However, the analysis of sales and employment class trends among survivor firms tells a different story. Here the analysis deals with the same project areas, but the “survivor” group includes only those firms (or, in the employment class analysis, establishments) which were operating in 1998 and maintained operations throughout the time series, until at least the beginning of 2005.

In general, survivor firms indicate lower levels of sales and employment growth than the “snapshot” firms, which include newer operations. In this case, the sample indicates increased numbers of project areas which report unusually small survivor firms (43 or 47%, compared to the snapshot of the same time, which shows only 30% of project areas with smallest sales category concentrations 110% over the US level). Even more disturbing, while the snapshot indicates only one project area with a smallest sales category index of more than 120% of the US average, 19 areas report that level among survivor firms. This means that higher proportions of mature firms in project areas have fallen behind relative to their peers at the national level. To the extent that it has not, the region would benefit from a retention analysis that enhances its assistance to mature area firms. The number of project areas reporting high concentrations of firms in the largest sales class (13) pales next to the number reporting high levels of retained firms in the smallest sales category (43). The trend is less pronounced, but consistent, where the index filter is raised to 120%.

In the employment class index, the number of project areas reporting high concentrations of survivor firms in the smallest employment class has increased 650% (from four to 26), while the project areas reporting high concentrations of larger firms has dropped dramatically (from 39 areas to 22). This suggests that the relatively sluggish performance of retained firms (when compared to their peers nationally) cuts across both locally based firms and branch operations.

Table 6.6 below looks at selected small sales class index measures by state and highlights particular areas of concern. Just as the broader analysis identified survivor (retained firm) sales growth as a potential problem, the state analysis identified concentrated areas where survivor sales appear to lag. Georgia, Mississippi, North Carolina, New York and Tennessee all include unusually high percentages of projects areas with smallest sales survivor indices more than 110% of the US concentration. Except for North Carolina, the same states report very high percentages of project areas with indices more than 120% of the national level. (By “high” in this sense, we mean well above the project sample area average, which was itself quite elevated, as discussed above.)

Table 6.6 Project Areas by State: Sales Class Concentrations					
	Project Areas in Sample pool	Sales (All Firms) Smallest Class > US Conc.		Sales (Survivors) Smallest Class > US Conc.	
		> 110%	> 120%	> 110%	> 120%
		AL	8	2	0
GA	8	6	0	6	2
KY	17	6	1	5	3
MD	4	0	0	0	0
MS	9	2	0	8	3
NC	9	2	0	5	1
NY	3	0	0	2	1
OH	6	4	0	2	1
PA	8	0	0	4	2
SC	2	0	0	1	1
TN	8	4	0	5	3
VA	3	0	0	0	0
WV	6	1	0	2	1
Total	91	27	1	43	19

6.3 Entrepreneurial Activity

Entrepreneurial Activity is measured by a comparison of start-up rates across the United States with rates in each project area. The results of each local area were indexed against U.S. results where U.S. equals 100.

Startup activity calculations are focused on area-based entrepreneurship only; newly developed branch operations were not included in the calculations. Firms identified as startups (reporting one year or less of activity) are compared to all firms in the area that report an age or years of business activity (approximately 70% of all firms).

Startup activity was measured in three different time series:

- 1998-1999 covering the period Jan 1998 through December 1999
- 2001-2002 covering the period Jan 2001 through December 2002
- 2003-2004 covering the period Jan 2003 through December 2004

For each time series, firms falling into the startup definition (reporting one year or less of activity) were identified in each quarter. The identified quarterly startups were tracked until the end of the end of the time series in which they fell (of the three above). Those startups that maintained operations through the end of that time series were then compared to the number of all firms in each project area for which an age could be identified. The resulting startup activity rate was then

compared to the US national startup activity rate for the same period, creating the two decimal Entrepreneurial Activity Index for the area, which is reported for each project area in detail in the appendices.

Table 6.7 Project Area Entrepreneurial Activity				
	1998-1999	2001-2002	2003-2004	
US Startup Rate	13.3%	11.4%	10.8%	
All Project Areas	11.3%	9.1%	8.7%	
Project Area Index	0.85	0.80	0.81	
> 110% US Average	11	5	8	
> 100% US Average	16	7	10	
< 100% US Average	75	84	81	
< 80% US Average	35	72	60	
< 50% US Average	3	12	15	

The top portion of Table 6.7 displays raw startup rates and percentages for both the US and the aggregated 91 project areas involved in the study. The third row, "Project Area Index" uses the two decimal index to compare the startup activity rate in project areas to the US. In general, there is a lag in project areas of about 21%, dropping four points from the 1998-99 level.

In fact, even during the period of highest relative (and absolute) startup activity, the vast majority of projects areas lagged behind US entrepreneurial patterns. In 1998-99, only 16 areas reported startup rates at or above the US average, and that number dropped to 10 areas (only 11% of the total) by the end of 2004. Importantly, the average area levels were buoyed by five highly rated areas, including three in Georgia (Bartow, Barrow and Jackson counties) and one in Alabama (Madison and Jefferson counties).

Despite the average project activity rate of 0.81, almost two-thirds of all project areas report entrepreneurial activity rates that are less than 80% of the US average. This is an improvement from the 2001-2002 time series (72 project areas, or 79% of the sample scored below 80% of the US rate), but significantly worse than 1998-99, when only 35 of the project areas (38%) were at this level.

The number of project areas with the weakest entrepreneurial activity rates is also increasing. In 1998-99, only 3% of the project areas indicated startup activity less than 50% of the US average, but this group rose to twelve projects area in

the 2001-02 time series (13%) and to fifteen project areas (16% of the sample) in 2003-04.

The conclusion, carried over and reinforced from the prior evaluation, is that entrepreneurial activity is weak and requires additional, patient focus in order to stimulate ongoing activity and growth.

Obviously, the large increase in the number of project areas with deficient entrepreneurial activity rates translates into similar increases on a state-by-state basis. That increase in low-performing areas is particularly evident in Kentucky, Maryland, Mississippi, Ohio, Pennsylvania and West Virginia. All of those states reported very high increases (in the 2002-2004 time series) in the proportion of project areas with an Entrepreneurial Index less than 80% of the US level. All but Ohio also indicated high rates of increase in project areas with indices less than 50% of the US average. Every state project area reported less than 80% of the national startup activity level in Maryland, Mississippi, Pennsylvania and West Virginia. Over half of all project areas in Kentucky, Ohio and Pennsylvania reported less than 80% of national level activity in both 1998-99 and 2002-04 time series. Every project area in Pennsylvania reported below 80% in both analyses. Georgia and Tennessee showed slight decreases in the proportion of project areas reporting low entrepreneurial activity rates.

Table 6.8 Project Areas by State: Entrepreneurial Activity					
	Project Areas in Sample pool	1998-1999		2002-2004	
		Less than US Concentration < 80%	< 50%	Less than US Concentration < 80%	< 50%
AL	8	1	0	4	1
GA	8	1	0	0	0
KY	17	8	0	14	2
MD	4	0	0	4	0
MS	9	1	0	9	3
NC	9	3	0	4	0
NY	3	1	0	1	0
OH	6	4	1	5	0
PA	8	8	2	8	6
SC	2	0	0	0	0
TN	8	4	0	3	1
VA	3	1	0	2	0
WV	6	3	0	6	2
Total	91	35	3	60	15

It appears likely that areas reporting both low entrepreneurship indices and disproportionately high concentrations of low sales firms among the more mature business population (survivors) should be the focus of some particular concern.

(We are not concluding broad problems here, but suggesting a risk potential that warrants further review.) A filter was applied to indicate project areas reporting both a survivor sales class index of the lowest sales-level firms that is at least 10% above US norms and startup activity indices below the project area average of 0.81 (19% below US levels). Twenty-seven project areas (30% of the total) fit both of these criteria, which together suggest difficulty in new vitality and mature firm growth. Interestingly, only nine are classified as distressed by the ARC while two are at-risk and thirteen are listed as transitional. Three others are in mixed designation areas, of which two include at least one distressed county.

Table 6.9 Survivor Growth and Startup Concern Areas				
State	County	Survivor Low Sales Index >1.10	US 02-04 Startup Index <0.81	Distress Classification
AL	DeKalb	1.17	0.62	Transitional
GA	Union	1.23	0.80	Transitional
KY	Estill	1.40	0.73	Distressed
KY	Letcher	1.23	0.64	Distressed
KY	Breathitt	1.27	0.77	Distressed
KY	*	1.16	0.66	Multi w/ 1+ Distressed
KY	Bath, Rowan	1.11	0.66	Multi w/ No Distressed
MS	Tishomingo	1.20	0.77	At-Risk
MS	Monroe	1.23	0.56	At-Risk
MS	Webster	1.29	0.63	Distressed
MS	Noxubee	1.17	0.34	Distressed
MS	Winston	1.16	0.61	Distressed
MS	Kemper	1.44	0.23	Distressed
MS	**	1.14	0.63	Multi w/ 1+ Distressed
MS	Prentiss	1.10	0.39	Transitional
NC	Surry	1.16	0.54	Transitional
NC	Alleghany	1.21	0.64	Transitional
NC	Alexander	1.17	0.76	Transitional
NY	Schuyler	1.24	0.67	Transitional
OH	Athens	1.14	0.71	Distressed
PA	Greene	1.21	0.51	Transitional
PA	Sullivan	1.15	0.36	Transitional
PA	Schuylkill	1.12	0.43	Transitional
PA	Bedford	1.25	0.43	Transitional
TN	Marion	1.18	0.48	Transitional
WV	Mingo	1.11	0.53	Distressed
WV	Hardy	1.22	0.37	Transitional

* Bath, Breathitt, Carter, Clark, Clay, Elliott, Estill, Fleming, Floyd, Harlan, Jackson, Knott, Letcher, Lewis, Perry, Powell, Rowan

** Chickasaw, Choctaw, Clay, Lowndes, Monroe, Noxubee, Oktibbeha, Webster, Winston

Looking at Table 6.9 (previous page), it is clear that these areas of concern fall into certain state clusters, especially in Kentucky (5 of 17 project areas), North Carolina (3 of 9 project areas), Pennsylvania (4 of 8 project areas) and especially Mississippi (8 of 9 project areas). Other states, including Maryland, South Carolina and Virginia have no project areas that fit both these criteria of concern. It is unknown whether these (and other sub-regional) patterns apply to the general ARC county population.

Notes

[1] Raw data analyzed for this report is sourced from an array of the nation's private business databases, reporting agencies and government statistical sources. None of these raw data sources creates the final metrics reflected in the report. Census and other government data is used incidentally to inform and test projections for non-reporting firms.