



COMMONWEALTH OF KENTUCKY
OFFICE OF THE GOVERNOR

Andy Beshear
GOVERNOR

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December 8, 2021

Mr. Brandon McBride
Executive Director
Appalachian Regional Commission
1666 Connecticut Avenue, NW
Washington, DC 20009-1068

Dear Mr. McBride:

I am pleased to submit the Commonwealth of Kentucky's Fiscal Year 2022 Annual Investment Strategy Statement in accordance with Section 5.4 of the Appalachian Regional Commission (ARC) Code. This statement outlines our strategies for implementation of Kentucky's ARC program for Fiscal Year 2022 and is consistent with our Appalachian Development Plan. We are confident the strategy statement is consistent with the ARC Strategic Plan – "Appalachia Envisioned: Fiscal Years 2022 - 2026".

Please contact Dennis Keene, my State Alternate, if we can provide further information or answer questions relative to this document. I look forward to continuing a strong partnership with the Commission and its member states toward successful achievement of shared goals for the entire Appalachian region.

Sincerely,

A handwritten signature in black ink, appearing to read "Andy B.", with a long horizontal flourish extending to the right.

Andy Beshear
Governor



COMMONWEALTH OF KENTUCKY

Appalachian Regional Commission
Annual Strategy Statement
Fiscal Year 2022

TEAM
KENTUCKY



Commonwealth of Kentucky

ARC Annual Strategy

Statement Fiscal Year 2022

INTRODUCTION

In accordance with Section 5.3 of the Appalachian Regional Commission (ARC) Code, this document serves as the Commonwealth of Kentucky's ARC Annual Strategy Statement for Fiscal Year 2022 (October 1, 2021 – September 30, 2022). The purpose of the strategy statement is to establish a process to set forth goals, objectives, priorities and policies for Kentucky's ARC counties. The 2022 strategy statement includes:

1. An overview of the primary economic challenges and opportunities in the region;
2. Targeted investment priorities for the program year;
3. Specific strategies for the state's distressed counties;
4. Review of the state's project solicitation, review and selection process; and
5. Describes the methods used to review proposals.

Governor Andy Beshear serves as Kentucky's ARC Commission member; Dennis Keene, Commissioner of the Department for Local Government serves as his alternate. The Kentucky Department for Local Government is responsible for the administration of the Kentucky ARC Program. The Appalachian region of Kentucky consists of 54 counties: Adair, Bath, Bell, Boyd, Breathitt, Carter, Casey, Clark, Clay, Clinton, Cumberland, Edmonson, Elliott, Estill, Fleming, Floyd, Garrard, Green, Greenup, Harlan, Hart, Jackson, Johnson, Knott, Knox, Laurel, Lawrence, Lee, Leslie, Letcher, Lewis, Lincoln, McCreary, Madison, Magoffin, Martin, Menifee, Metcalfe, Monroe, Montgomery, Morgan, Nicholas, Owsley, Perry, Pike, Powell, Pulaski, Robertson, Rockcastle, Rowan, Russell, Wayne, Whitley and Wolfe.

ECONOMIC CHALLENGES

The number of Kentucky counties rated as *distressed* has not markedly improved since the inception of ARC in 1965. Only three (3) of the 54 ARC counties in Kentucky are reported as *in transition*, while 12 of 54 counties are listed as *at risk*. The remaining 39 counties are designated as *distressed*. No Kentucky ARC county is designated as *competitive* or *attainment*. The overall economic vitality of the region remains a serious concern, as Kentucky's number of distressed counties has not changed despite improvement in the Commonwealth's overall economic condition before COVID-19.

COVID-19 - Because of COVID-19, Kentucky and every community around the globe face unprecedented challenges. With lost revenue, high unemployment and a new “normal” ARC funding is critical to thoughtfully invest in and rebuild our Appalachian communities while continuing to keep Kentuckians safe and healthy.

Workforce Participation & Unemployment - In 2018, Kentucky ranked 48nd in workforce participation and has consistently dropped nearly every year from 2000 to 2020. Many Kentuckians bills go up every month while wages remain stagnant. As unemployment and economic strain on our families rise during COVID-19, workforce training and assistance are now more critical than ever. In Kentucky, we must create economic opportunity and good-paying jobs for every Kentucky family.

Inadequate Infrastructure – Governor Beshear believes every Kentuckian should have access to clean drinking water. Though Kentucky leads the nation in the availability of public water supply, in part due to significant investment of Appalachian Regional Commission funds, many Kentuckians still lack this fundamental resource. And despite the success of rural water and wastewater infrastructure, construction, difficult terrain, citizens’ inability to pay rate increases and costly maintenance are still major issues. Assistance to water and wastewater utilities remains a priority to ensure reliable water and sewer access for every community.

Governor Beshear also believes the future is built on technology. Broadband access is crucial. Especially as we face COVID-19 and non-traditional instruction in our schools is on the rise. Reliable, accessible broadband is necessary to best educate our children. Beyond education, broadband is essential to recruit new businesses and investments in the region.

Health Outcomes – Governor Beshear believes health care is a basic human right and that every Kentucky family deserves to see a doctor and receive treatment when they are sick. With dismal health outcomes in our Appalachian counties, it is evident many are not receiving the health care they need. Currently, one in three Kentuckians struggles with obesity and Appalachian Kentuckians are more likely to develop COPD and diabetes than Kentuckians in non-Appalachian counties.

Additionally, the opioid epidemic has ravaged families in the region. While efforts have been made to curb addiction and offer assistance, Kentuckians need better access to health care, treatment and prevention resources when they are at their most vulnerable. Continued investment in our rural hospitals and health care infrastructure from ARC funds is critical to produce a ready workforce and provide every Kentucky family with the health care they desperately need and deserve.

ECONOMIC OPPORTUNITIES

Governor Beshear will continue to expand existing industries and encourage new industrial development endeavors. A prepared workforce and a focused investment strategy will help make this vision a reality.

Industry Expansions – Governor Beshear is committed to making Kentucky a hub of excellence for engineering and manufacturing in North America. With every decision he makes, he strives to build an economy that works for all by investing in industries where Kentucky can be an international leader in advanced manufacturing, the food and beverage industry and software and IT services. These are opportunities for our hard-working families and a major area for economic opportunity in Kentucky's ARC counties.

Kentucky's manufacturing industry is strong with roughly 4,500 facilities, more than 260,000 employees. Manufacturers in Kentucky account for 17.80% of the total output in the state, employing 13.29% of the workforce. Total output from manufacturing was \$38.33 billion in 2020. In addition, there were an average of 244,000 manufacturing employees in Kentucky in 2020, with an average annual compensation of \$74,775.05 in 2019. Kentucky is the number one producer per capita of cars, light trucks and SUVs and Kentucky's aerospace industry has increased exports 107% in the last five years, showing great promise for further expansion.

Governor Beshear plans to use ARC funds to continue to expand our strong manufacturing industry, while using our strategic advantages to develop new industry in eastern Kentucky.

Growing Tourism - In 2020, 67.8 million visitors spent nearly \$5.9 billion in Kentucky, or 2% of Kentucky's economy. Visitor spending directly supported 53,715 jobs in Kentucky. In addition, Kentucky tourism has significantly increased over the past 10 years, accounting for \$8.9 billion in economic impact in 2020. Kentucky is within one day's drive for over 70% of Americans, making it accessible as a tourist destination. Despite the impact of the COVID-19 pandemic, the tourism industry continues to see growth in economic opportunity as natural beauty, trails, wildlife, music and culinary attractions have been universally recognized as Kentucky's cultural mainstays.

Leadership & Entrepreneurship – Governor Beshear is taking a fresh look at Kentucky's ARC strategies, focusing on achieving the greatest economic, social and cultural outcomes. The need for workforce readiness, infrastructure, and better health care are critical, but there is also a renewed emphasis on leadership and entrepreneurship. Fostering new leaders and inspiring new entrepreneurs, while assisting those already established, will move our state forward.

TARGETED INVESTMENT PRIORITIES

In FY 2022, Governor Beshear will continue to use available ARC funding to assist eastern Kentucky's Appalachian region in meeting targeted goals for (1) Economic Development, (2) Workforce Ecosystems, (3) Appalachia's Infrastructure, (4) Regional Culture and Tourism, and (5) Leadership and Community Capacity. These goals and priorities will specifically address significant gaps in necessary resourcing, education and infrastructure for maximum effect.

Goal 1: Kentucky's Investment in Economic Development through entrepreneurial and business development strategies that include expansion of tourism, manufacturing and AgriTech in Kentucky's ARC region.

Goal 2: Kentucky's Investment in Workforce Ecosystems through education and technical training programs for workers in Appalachian Kentucky. Also, assisting the region in accessing quality health care and preventative programs that result in better health outcomes, as well as, supporting a healthy workforce.

Goal 3: Kentucky's Investment in Appalachia's Infrastructure through maintenance and expansion of Kentucky's ARC Region's water and wastewater systems and broadband and telecommunication systems.

Goal 4: Kentucky's Investment in Regional Cultural and Tourism Assets by focusing on infrastructure assets for Kentucky's mountain trail systems and value added tourism opportunities based upon Kentucky's natural assets, historical sites and heritage.

Goal 5: Kentucky's Investment in Leadership and Community Capacity by creating leadership development opportunities to spark entrepreneurship and cultivate dynamic young leaders to stay and invest in the region.

STRATEGIES FOR DISTRESSED COUNTIES

With 39 of 54 ARC counties designated as distressed, Kentucky has more distressed counties and communities than any other Appalachian state. These counties have persistent, long-term challenges that have resulted in extraordinary levels of economic and social distress. Governor Beshear's goal for Kentucky's ARC program funding is to invest in projects that will increase the quality of life for Kentucky families and lead to better, more stable economic outcomes.

Kentucky's strategy for reducing the number of distressed counties is as follows:

1. STRATEGIES FOR ECONOMIC OPPORTUNITY

Kentucky's unique advantages, like low cost of living, abundant natural resources and strategic location make it a prime candidate to be leaders in two industries: AgriTech and adventure tourism.

AgriTech

Governor Beshear plans to expand Kentucky's AgriTech industry, which will create a forward-thinking economy, good jobs and improve nutrition and health outcomes for Kentuckians, while saving natural resources. Kentucky's central geographic location provides a huge advantage in AgriTech: produce can reach 70% of Americans in a day's drive. That means fresher food and far less food waste as grocers benefit from the extended shelf life. Growing fruits and vegetables closer to where people eat them also helps prevent the frustrating supply issues that COVID-19 continues to reveal, caused by America's increasing reliance on agricultural imports.

Governor Beshear has made AgriTech a top priority in eastern Kentucky. Using ARC funds to expand AgriTech in the region, could make eastern Kentucky a leader in the industry, bringing economic opportunity for years to come.

Adventure Tourism

Recognizing Kentucky's strong tourism industry, Governor Beshear plans to use ARC funding to expand economic opportunities through adventure tourism, which is already succeeding, from zip lining and rock climbing in Red River Gorge, to hiking and riding experiences in Kentucky's Trail Towns. Focusing on expanding existing and fostering new adventure tourism ventures will increase an already profitable industry. This focus will provide greater opportunity and investment in our Appalachian communities.

Following through on this commitment, Governor Beshear approved a project in Knott County to expand the Mine Made Adventure Park and Campground. These ARC funds will be used to expand water and sewer access to the campgrounds, allowing for additional cabins, expanded restroom/shower facilities, construct a multi-purpose meeting building, add signage, install a playground area, and renovate the current office building to include a general store. With adventure tourism projects like this, ARC funds will continue to make tourism a leading industry in Kentucky.

2. WORKFORCE READINESS & EDUCATION

Governor Beshear will continue to use ARC funding to support initiatives in workforce readiness and education for ARC *distressed* counties. Kentucky has established programs in eastern Kentucky to retrain displaced coal miners for new careers in advanced manufacturing and tech related fields. The Governor will continue to support funding for programs that will assist these highly skilled workers to find permanent placement in growing industries. The ARC program staff in Kentucky will continue to promote these workshops with local stakeholders to ensure a ready and stable workforce.

Governor Beshear believes education is key to a productive and well trained workforce. Kentucky's Universities, Colleges, and Community and Technical College System that serve the Appalachian region are providing coursework and training in a variety of highly desirable fields. He will continue to invest ARC funding to support education throughout Appalachian Kentucky that will lead to strong economic outcomes. Kentucky's aerospace industry is a \$14 billion per year enterprise. NASA has donated a 12-meter satellite tracking antenna to Morehead State University (MSU) for use in research, supporting NASA space missions and student training. The antenna will be utilized extensively for tracking and commanding satellites and training students in space mission operations. Through ARC funding, MSU has procured new, state-of-the art equipment and electronics for the 12-meter antenna and the theater. This training facility will enhance the aerospace workforce pipeline - from pre-college (students inspired by Theater events to pursue STEM careers) to the B.S. in Space Systems Engineering (the first engineering program in Eastern Kentucky) to the M.S. in Space Systems Engineering and the aerospace workforce. With the emergence of existing and spin-off companies attracted to the region, more of these exceptional graduates will remain in the region and promote the Kentucky's evolution toward a high-tech economy.

3. LOCAL ECONOMIC & BUSINESS DEVELOPMENT

The Governor is committed to creating a vibrant and hospitable business environment throughout the ARC region. This includes assisting in the expansion of existing facilities in the region.

To forward this goal, Governor Beshear approved ARC program funding for Dajcor located in Perry County. This project includes the addition of an anodizing line to an existing 200,000 square-foot aluminum extrusion facility located in Chavies, Kentucky. The project will result in the immediate creation of 50 jobs and will result in an additional 265 new full time jobs by 2030. Dajcor is a very integral part of growing and diversifying Eastern Kentucky's manufacturing Industry.

4. INFRASTRUCTURE

Governor Beshear will continue to use program funding that supports projects and provisions for infrastructure. This includes a priority on water and wastewater utilities that are underperforming or not servicing areas of the population in *distressed* and *at-risk counties*. Water is vital to area residents while providing necessary support for ongoing business operations and expansion.

For example, Madison County is using ARC funds to extend water and sewer lines in the Madison County Airport. This project will provide the necessary infrastructure to support future transportation needs and the Eastern Kentucky University aviation program. The Madison County Airport is centrally located to serve Garrard, Lincoln, Madison, Clark, Estill, Jackson and Rockcastle Counties. These counties are underserved in aviation infrastructure which has become increasingly important for industrial recruitment and economic development. The aerospace industry is the number one export for Kentucky (approximately 37.7% of Kentucky's total exports) and although this airport is a major contributor, improvements in infrastructure will make it an even more valuable partner.

Due to economic and topographical barriers, eastern Kentucky continues to have limited broadband and telecommunications network access. Past efforts to expand fiber optic networks and broadband access have failed because of cost overruns and difficult construction. Kentucky recently invested \$250 million of its American Rescue Plan Act money into a progressive broadband deployment program. Governor Beshear hopes to pair ARC funding with these funds to better connect Kentucky's *distressed* counties.

5. HEALTH AND PUBLIC SAFETY

Studies show that Appalachian Kentucky has markedly worse health outcomes than non-Appalachian Kentucky. For instance, Appalachian Kentuckians are more likely to suffer from heart disease, COPD, cancer diabetes and dental caries than non-Appalachian Kentuckians. Eliminating the health outcome gap is essential to improve *distressed* counties and the lives of Kentuckians.

Kentucky's opioid epidemic is also a barrier in developing a healthy, ready workforce. The Governor will continue to seek program funding to assist area recovery and addiction counseling centers to address this growing public health crisis.

Governor Beshear is committed to assisting the region in accessing quality health care and preventative programs that result in better health outcomes, as well as, supporting a health workforce. During July 2021, Kentucky's Gateway Area Development District (GADD) partnered with the U.S. Department of Defense (DOD), Kentucky Department for Local Government, and Appalachian Regional Commission to implement an Innovate Readiness Training (IRT), where military service members received training while serving citizens on American soil. This ARC supported IRT served over 2,500 individuals in and around the Gateway region, completing over 12,000 procedures and providing over \$1,000,000 in medical care.

KENTUCKY ARC OPERATING POLICIES

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

Pre-Application, Training and Evaluation

Pre-applications may be solicited by the Kentucky Department for Local Government from county judge-executives, mayors, ADD directors, non-profits and other local agencies, including other elected officials serving in counties or cities. Local agency staff may communicate this solicitation to area programs and non-profits within the region.

Prior to the pre-application deadline, efforts will be made to raise applicant awareness and provide all necessary information to local agencies and staff. These efforts may include conference calls, trainings, workshops, webinars and other communications. This information will better prepare counties and cities in understanding the ARC application 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: (1) application completeness, accuracy and project feasibility, (2) eligibility under the ARC Code and Guidelines and (3) Project consistency with ARC strategic goals and state strategies.

Pre-applications determined to be complete, eligible and feasible are then evaluated and prioritized by an evaluation committee consisting of the following: (1) State ARC Alternate, Committee Chair, (2) DLG Office of State and Federal Grants Executive Director and (3) ARC Program Manager.

ARC Funding Project Prioritization

- 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.
- 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.
- Degree of Distress – Projects that benefit communities in ARC designated *distressed* counties will be given priority consideration in the evaluation process.
- 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.

- 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 that rank highest in the prioritization process and appear to have non-ARC funding committed. Priority II projects are those that rank high enough in funding priority, but 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 are not approved.

GENERAL FUNDING TIMELINE

- Pre-Application Packet published online in August of 2021.
- Pre-Applications due on October 29, 2021.
- Selected applicants will be invited to submit full applications.
- Governor's Distressed County Project Recommendations will be submitted to ARC by August 30, 2022.

Applications demonstrating correction of a significant threat to life, health or public infrastructure; or applications supporting the creation of jobs or the improvements of the economic condition may be accepted and submitted (after the submittal deadline) at the discretion of the Governor's Alternate in consultation with the federal co-chair

