



Performance and Accountability Report

Appalachian Regional Commission

Fiscal Year 2005

November 15, 2005



PERFORMANCE AND ACCOUNTABILITY REPORT

*Appalachian Regional Commission
Fiscal Year 2005*

November 15, 2005

Appalachian Regional Commission
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APPALACHIAN REGIONAL COMMISSION

November 15, 2005

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Anne B. Pope

States' Co-Chair

Governor Bob Taft

Alternate Federal Co-Chair

Richard J. Peltz

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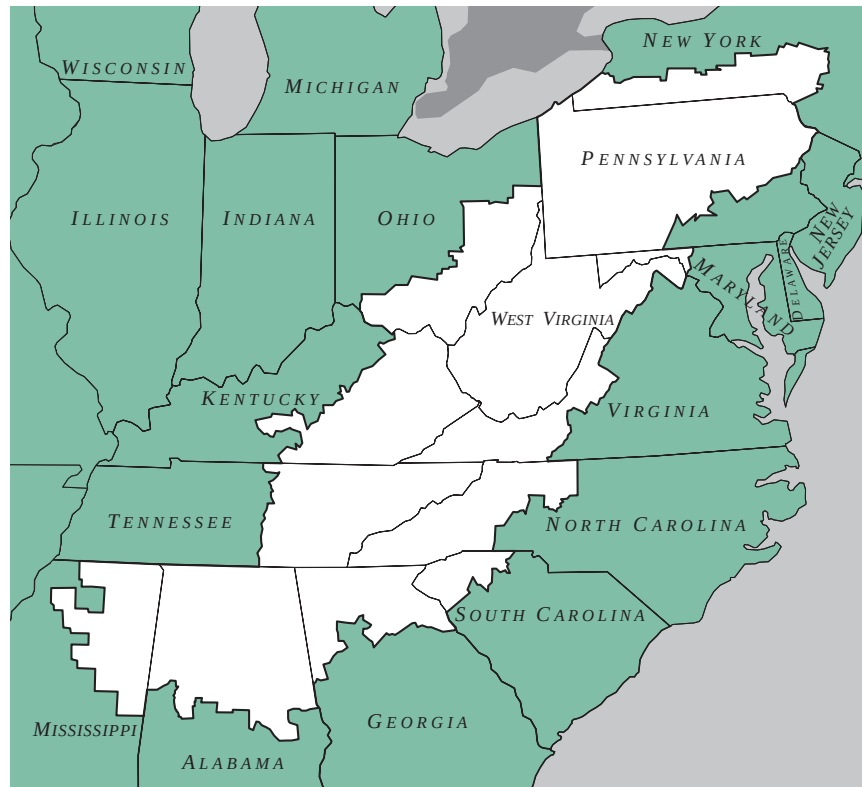
Cameron D. Whitman

Executive Director

Thomas M. Hunter

The Appalachian Region

The Appalachian Region includes all of West Virginia and parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia. The Region is home to nearly 23 million people and covers 410 counties and more than 200,000 square miles.



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PART I: MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis



Message from Federal Co-Chair Anne B. Pope and States' Co-Chair Bob Taft, Governor of Ohio

We are pleased to present the Appalachian Regional Commission's (ARC) Performance and Accountability Report for fiscal year (FY) 2005.

In its role as strategic partner and advocate for sustainable community and economic development in the Appalachian Region, ARC focused its efforts in FY 2005 toward achieving the four goals in its 2005–2010 strategic plan: increasing job opportunities and per capita income in Appalachia to reach parity with the nation; strengthening the capacity of the people of Appalachia to compete in the global economy; developing and improving Appalachia's infrastructure to make the Region economically competitive; and building the Appalachian Development Highway System to reduce Appalachia's isolation.

This report includes information on ARC's program actions and financial management during FY 2005. We are pleased to report that independent auditors have once again pronounced an unqualified opinion that the financial statements in this document fairly present the fiscal status of ARC.

ARC has made every effort to provide a complete and accurate report of its performance and stewardship of the public funds entrusted to it. This report is based on data that are as reliable and comprehensive as possible. We also assure Congress and the American people that the financial controls in place at the Commission reasonably meet the purposes of the Federal Managers' Financial Integrity Act of 1982.

We believe that the achievements we have reported here contribute significantly toward ARC's mission of helping the Region attain socioeconomic parity with the nation.

Sincerely,

A handwritten signature in black ink that reads "Anne B. Pope".

Anne B. Pope
Federal Co-Chair

A handwritten signature in black ink that reads "Bob Taft".

Bob Taft
2005 States' Co-Chair
Governor of Ohio



Federal Co-Chair
Anne B. Pope



States' Co-Chair
Bob Taft,
Governor of Ohio

November 15, 2005

Management Discussion and Analysis

PROGRAM HIGHLIGHTS IN FY 2005

Fiscal year 2005 was the first year ARC operated under its new strategic plan, *Moving Appalachia Forward: Appalachian Regional Commission Strategic Plan 2005–2010*. The Commission approved 469 nonhighway projects during the year, totaling \$66.3 million in funding, in the process of implementing the plan's four goals: increasing job opportunities and per capita income to reach parity with the nation; strengthening the capacity of the people of Appalachia to compete in the global economy; developing and improving Appalachia's infrastructure to make the Region economically competitive; and building the Appalachian Development Highway System.

The Commission continued efforts to strengthen public and private partnerships during the year, expanding its partnership with the Centers for Disease Control and Prevention, and beginning new partnerships with Microsoft Corporation, Parametric Technology Corporation, American Electric Power, the U.S. Department of Labor, and a consortium of community colleges in three Appalachian states.

ARC's FY 2005 grant funds attracted \$170 million in additional project funding, a ratio of almost 3 to 1, and \$560 million in leveraged private investment, a ratio of more than 8 to 1. The projects funded during the year will create or retain an estimated 19,346 jobs and train an estimated 27,652 students and workers in new job skills.

ARC program activities in FY 2005 included the following:

- In bolstering the Region's **physical infrastructure**, the Commission invested \$23.5 million in projects to bring new or upgraded water, sewer, and waste-disposal systems to Appalachian communities. This investment was matched by \$82.7 million in other, primarily local and state, sources of funding, and resulted in 21,255 households being served with new or improved water or sewer systems. In FY 2005, 19.3 miles of the Appalachian Development Highway System were opened to traffic. As of September FY 2005, 2,632.5 miles of the 3,090-mile system were open to traffic or under construction.
- ARC launched an **asset-based development initiative** to tap the full potential of the Region's natural, cultural, leadership, and structural resources. In a first-of-its-kind collaboration, ARC worked with the National Geographic Society to develop a geotourism map guide to Appalachia, boosting the tourism industry and the jobs that flow from it. In addition, ARC awarded \$318,000 through an asset-based development grant competition to eight innovative projects that will build on Appalachia's existing resources to create sustainable economic growth.
- ARC continued to invest in **telecommunications and technology**, funding \$7 million in projects to promote e-commerce, distance learning, technology training, telehealth services, and broadband Internet access. ARC-funded projects included an ongoing assessment of broadband availability in Appalachian Kentucky and the establishment of a wireless broadband system in Rome, Georgia. In addition, Microsoft Corporation provided ARC with \$1.4 million in software grants to support the Commission's efforts to expand the use of technology and telecommunications as tools for economic and community development in the Region.

Management Discussion and Analysis

Another \$24 million in software donations was received from Parametric Technology Corporation for projects promoting math and science skills and vocational drafting in high schools and colleges in the Appalachian portions of nine states: Alabama, Kentucky, Maryland, Mississippi, North Carolina, Ohio, Tennessee, Virginia, and West Virginia.

- In its ongoing efforts to improve rural **health care** in Appalachia, ARC in FY 2005 expanded its partnership with the Centers for Disease Control and Prevention on a diabetes education, prevention, and treatment program, which now serves more than 40 distressed counties in the Region; and on an action plan for implementation of a county-level cancer control program. In addition, ARC placed 36 health-care professionals in the Region through its J-1 Visa Waiver Program.
- To help overcome the gap in **college-going rates** between Appalachia and the rest of the nation, ARC expanded its highly successful Appalachian Higher Education (AHE) Network, which provides funding, training, and assistance to high schools for programs that encourage students to undertake post-secondary education. Since 1998, the network's programs have reached 10,858 high school seniors in the Region, of whom 7,382, or 68 percent, have enrolled in college. This is an increase of almost 20 percentage points over pre-intervention college-going rates at schools with AHE Network programs, or an additional 2,062 students enrolling in college. The AHE Network, which is funded by ARC and state and private partners, now has ten centers in nine states.
- When **Hurricane Katrina** struck the Gulf Coast in August, ARC drew on its funding flexibility and strategic position to provide gap funding for the areas of Appalachia affected in the hurricane's aftermath. The Commission made available \$1.4 million for relief efforts in rural communities in northeastern Mississippi that saw an influx of evacuees, and another \$400,000 for disaster-related assistance in Alabama to address the job-training and education needs of displaced individuals there.
- At a field meeting of the President's Interagency Coordinating Council on Appalachia in Zanesville, Ohio, in September, ARC Federal Co-Chair Anne Pope, who moderated the meeting, and States' Co-Chair Bob Taft announced a new partnership with the U.S. Department of Labor, American Electric Power, and a consortium of community colleges in Ohio, Kentucky, and West Virginia. The partnership will develop a **workforce training program** to provide technical skills needed in high-growth job sectors. The meeting took place against the backdrop of Appalachia's shifting economic base and unexpected demands on local resources with the need to provide job retraining to Hurricane Katrina evacuees.

Management Discussion and Analysis

APPALACHIAN REGIONAL COMMISSION STRUCTURE AND PROGRAMS

Congress established the Appalachian Regional Commission (ARC) to address the profound economic and social problems in the Appalachian Region that made it a “region apart” from the rest of the nation.

The Commission was charged to

- Provide a forum for consideration of problems of the Region and proposed solutions, and establish and use citizens’ and special advisory councils and public conferences;
- Provide grants that leverage federal, state, and private resources to build infrastructure for economic and human resource development;
- Generate a diversified regional economy, develop the Region’s industry, and build entrepreneurial communities;
- Serve as a focal point and coordinating unit for Appalachian programs;
- Coordinate regional economic development activities and the use of federal agency economic development resources;
- Make the Region’s industrial and commercial resources more competitive in national and world markets;
- Improve the skills of the Region’s workforce;
- Adapt and apply new technologies for the Region’s businesses, including eco-industrial development technologies;
- Improve the access of the Region’s businesses to the technical and financial resources necessary to the development of business; and
- Coordinate the economic development activities of, and the use of economic development resources by, federal agencies in the Region.

The challenges confronting Appalachia today are complex. In some areas of the Region, basic needs in infrastructure, the environment, workforce training, and health care still exist. But because the nation and the Region now compete in the global economy, the threshold for success is higher than it once was: high-technology jobs rather than manual labor, college education rather than basic literacy, and telecommunications arteries in addition to highways.

Management Discussion and Analysis

Federal agencies are typically national in focus and narrow in scope, but ARC was created to be regional in focus and broad in scope. No other government agency is charged with the unique role of addressing Appalachian problems and opportunities. No other agency is charged with being simultaneously an advocate for the Region, a knowledge builder, an investor, and a partner at the federal, state, and local levels. These roles represent elements that are essential to making federal investments work to alleviate severe regional disparities in the country: responsiveness to regional needs with a view to global competitiveness, emphasis on the most distressed areas, breadth of scope to address both human and physical capital needs, and flexibility in funding.

The Commission by law directs at least half of its grant funds to projects that benefit economically distressed counties and areas in the Region. In part, ARC gauges its long-term progress toward helping the Region achieve economic parity with the nation in terms of the gradual reduction in the number of such counties and areas over time. The maps on page 16 show the Region's 223 economically distressed counties in 1960 and the 82 counties designated as distressed in FY 2005. The change is dramatic.

ARC is a federal-state partnership, with a governing board composed of a federal co-chair and the governors of the 13 Appalachian states. Because of its partnership approach, ARC is able to identify and help fund innovative grassroots initiatives that might otherwise languish. In many cases, ARC functions as a predevelopment agency, providing modest initial funding that is unavailable from other sources. ARC funds attract capital from the private sector and from other public entities.

Through the years, ARC support has helped address the problem of historically low public and private investment in Appalachia. ARC has effectively used its funds to help communities qualify for, and make better use of, limited resources from other federal agencies. These federal funds, combined with state, local, and private money, provide a broad program of assistance to the Region. In addition, substantial private investment in business facilities and operations has accompanied ARC development projects.

Two independent studies have found that ARC's coordinated investment strategy has paid off for the Region in ways that have not been evident in parts of the country without a regional development approach. A 1995 study funded by the National Science Foundation compared changes in Appalachian counties with their socioeconomic "twin" counties outside the Region over 26 years, from 1965 to 1991. This analysis, controlled for factors such as urbanization and industrial diversification, found that the economies of the Appalachian counties grew significantly faster than their non-Appalachian counterparts. A more recent analysis by East Carolina University that compared Appalachian counties with matched non-Appalachian counties in the southeastern states had similar findings.

ARC was reauthorized through fiscal year (FY) 2006 with the enactment of the Appalachian Regional Development Act Amendments of 2002, Public Law 107-149. ARC's appropriation for FY 2005 nonhighway programs was \$65.5 million. Appendix A provides a history of appropriations to the Commission.

The Commission is a performance-driven organization, evaluating progress and results on an ongoing basis and relying on clearly defined priorities and strategies for achieving them.

Management Discussion and Analysis

Organization: The ARC Partnership Model

The Appalachian Regional Commission has 14 members: the governors of the 13 Appalachian states and a federal co-chair, who is appointed by the president and confirmed by the Senate. Each year one governor is elected by his or her peers to serve as the states' co-chair. The partnership nature of ARC is evident in its policymaking: the governors and the federal co-chair share responsibility for determining all policies and for the control of funds. On all Commission decisions, the federal co-chair has one vote, and the 13 governors share one vote. Accordingly, all program strategies, allocations, and other policy must be approved by both a majority of the governors and the federal co-chair. All projects are approved by a governor and by the federal co-chair. This consensus model ensures close collaboration between the federal and state partners in carrying out the mission of the agency. It also gives the Commission a nonfederal character that distinguishes it from typical federal executive agencies and departments.

An alternate federal co-chair, who is appointed by the president and confirmed by the Senate, has authority to act as the federal co-chair in his or her absence. State alternates appointed by the governors oversee state ARC business and serve as state-level points of contact for those seeking ARC assistance.

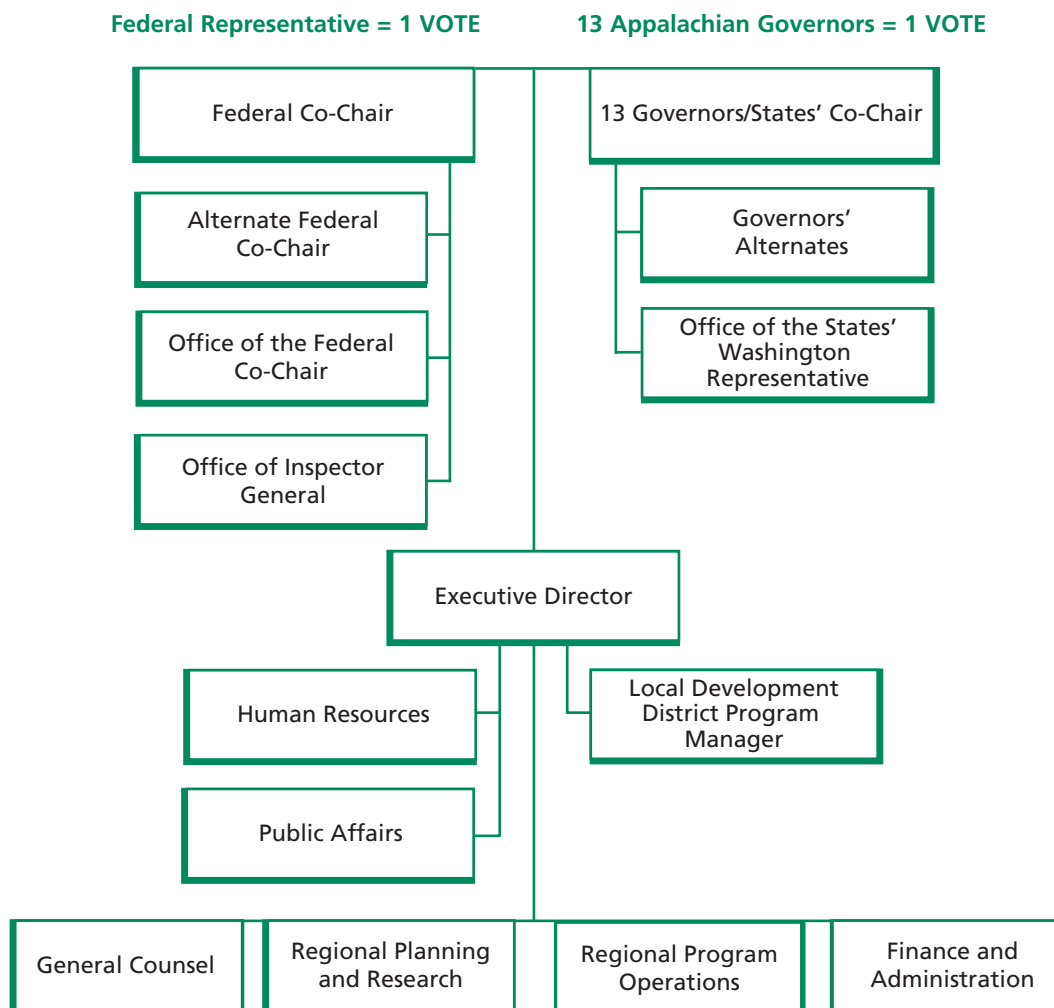
By law, there is an inspector general for the Commission, who reports to the federal co-chair.

In all, there are only 11 federal employees of the Commission, including the federal co-chair's staff and the staff of the Office of Inspector General.

The Commission members appoint an executive director to serve as the chief executive, administrative, and fiscal officer. The executive director and staff are not federal employees. The 48 nonfederal Commission staff are charged with serving both the federal and the state members impartially in carrying out ARC programs and activities, and they provide the legal support, technical program management, planning and research, and financial/administrative management necessary for ARC's programs.

Management Discussion and Analysis

ARC Organization Chart



Management Discussion and Analysis

Public and Private Partnerships

ARC promotes economic and community development through a framework of joint federal and state initiatives. ARC's limited resources are necessary, but obviously not sufficient, for Appalachia to reach parity with the rest of the nation. Therefore, ARC continues a long tradition of building alliances among private and public organizations to focus technical, financial, and policy resources on regional problems. The Appalachian program involves not only Appalachian governors' offices and state agencies, which control other substantial investment resources, but also 72 multi-county development districts in the Region, up to 20 federal agencies, and a host of private organizations and foundations. The Commission further helps create alliances through research, regional forums, advisory councils, and community meetings. One such alliance is ARC's partnership with the Centers for Disease Control and Prevention to implement programs in cancer control and diabetes education, prevention, and treatment.

In FY 2005, across all investment areas, each dollar of ARC funding was matched by \$2.57 in non-ARC project funding (public and private) and leveraged \$8.46 in private investment attracted as a result of the project.

ARC is often a predevelopment resource, especially in economically distressed areas, providing modest amounts of initial funding that are unavailable from other sources because the community cannot qualify for the support or raise adequate matching funds. Congress recognized, and subsequent experience has shown, that Appalachia for many reasons has been relatively less likely to use the grant resources of large federal agencies. ARC has helped other federal agencies better deploy their programs in the Region through joint funding. The Commission can also allow other federal agencies to use ARC funds under their statutory authorities when their own funds are insufficient for projects; in effect, ARC can provide sufficient match for federal grants on behalf of the poorest Appalachian communities.

ARC's 2002 reauthorization legislation directed the creation of the Interagency Coordinating Council on Appalachia to examine how the impact of federal programs and resources can be maximized in the Region and how greater coordination among federal agencies can yield better returns. The council, chaired by the ARC federal co-chair, has highlighted interagency collaboration and shared funding opportunities, with the aim of increasing attention to Appalachian problems among the federal agencies. ARC also emphasizes collaboration with the private sector whenever possible, as in recent initiatives with Microsoft Corporation, the National Geographic Society, the Claude Worthington Benedum Foundation, Parametric Technology Corporation, and American Electric Power, Southern Company, and other utilities.

A special provision of the Appalachian Regional Development Act authorizes ARC to operate in part as a supplemental grant program. This authority allows ARC funds to be used to increase the allowable participation under federal grant programs, enabling grantees to participate in programs for which they would otherwise be ineligible. In addition, it involves appropriate federal entities to ensure not only program coordination but also compliance with all applicable laws, such as environmental and labor requirements. Accordingly, about half of past ARC grants have been administered under agreements with federal agencies, mainly the Economic Development Administration, Rural Development, the U.S. Department of Housing and Urban Development, and the Federal Highway Administration. Other agreements have involved such agencies as the Army Corps of Engineers and the U.S. Departments of Energy, Labor, and Health and Human Services.

Management Discussion and Analysis

Commission Programs: Getting the Job Done

Congress gave the Commission very broad program discretion to address problems and opportunities in the Region. Accordingly, ARC has emphasized a wide-ranging set of priorities in its grant programs. Projects in recent years have focused on business development, telecommunications and technology infrastructure and use, educational attainment, access to health care, and tourism development. ARC has consistently maintained a focus on the construction of development highways and basic water and waste management facilities.

In FY 2005, ARC began implementing a new strategic plan that refocused Commission resources and activities and set new goals and strategies for tackling Appalachia's economic problems. Adopted by the ARC federal co-chair and the governors of the 13 Appalachian states in August 2004, *Moving Appalachia Forward: Appalachian Regional Commission Strategic Plan 2005–2010* envisions Appalachia reaching socioeconomic parity with the rest of the nation. The plan focuses on reducing isolation and increasing economic competitiveness, addressing the mandate set by Congress and its rationale for creating a federal-state partnership model cutting across traditional categorical federal programs.

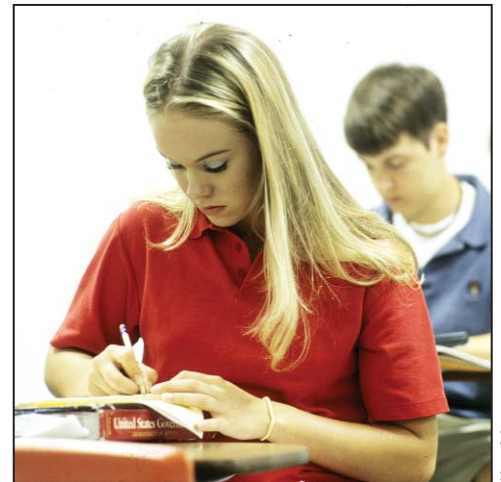
ARC's investments in FY 2005 were guided by the four goals set out in the strategic plan:

- Increase job opportunities and per capita income in Appalachia to reach parity with the nation.
- Strengthen the capacity of the people of Appalachia to compete in the global economy.
- Develop and improve Appalachia's infrastructure to make the Region economically competitive.
- Build the Appalachian Development Highway System to reduce Appalachia's isolation.

ARC targets a portion of area development funds for special regional projects and initiatives designed to support the attainment of individual goals. In FY 2005, ARC funded a new regional initiative on asset-based development, which seeks to help communities identify and leverage local assets to create jobs and build prosperity while preserving the character of their community, and continued funding for the Telecommunications and Technology Initiative, which seeks to stimulate economic growth and improve the standard of living in the Region through technology-related avenues.



Ken Murray



Ken Murray



Ken Murray

Management Discussion and Analysis

Area Development Program

Area development funds are largely allocated to the Appalachian states by formula to provide flexible assistance for individual community projects. In FY 2005, the Commission allocated by formula \$56.2 million, more than 86 percent of the total ARC appropriation, for use by the states in their area development activities. The states have wide discretion in the use of these funds, within the framework of the strategic plan. Priorities for area development funding are set forth in the Commission's strategic plan, and state and community leaders work together to package funding from public and private organizations to implement those priorities. All ARC nonhighway grants are approved by a governor and by the federal co-chair. See the table on page 26 for a summary of ARC grants approved in FY 2005, by project type. See Appendix B for ARC grants approved in FY 2005, by state and category.

Special Focus on Distressed Counties

The Commission targets special resources to the most economically distressed counties and areas in the Region, using a distinctive and very conservative measure of economic distress: per capita market income is not greater than two-thirds of the U.S. average, the three-year unemployment rate is 150 percent of the U.S. average or greater, and the poverty rate is at least 150 percent of the national average; or the poverty rate is at least twice the national average and one other criterion for distressed status is met. (See the map and list of distressed counties on pages 16 and 17.)

Using similar criteria, ARC also identifies distressed subcounty areas in transitional counties in accordance with the guidance in its legislation. There were 607 distressed subcounty areas in FY 2005, an increase from FY 2004. In FY 2005, 1.7 million Appalachians lived in distressed counties; another 2 million lived in distressed subcounty areas.

Distressed county indicators are also used to identify the relative economic status of the other counties in Appalachia:

- *Transitional counties* have economies operating below national norms but do not fully qualify as distressed;
- *Competitive counties* have economies approaching the national averages; and
- *Attainment counties* have per capita income, poverty, and unemployment rates equal to or better than the national averages.

In FY 2005, 82 counties of the 410 counties in the Region were classified as distressed, 300 as transitional, 20 as competitive, and 8 as attainment counties. ARC policy stipulates that competitive counties may receive limited assistance, while funding for attainment counties is virtually eliminated.

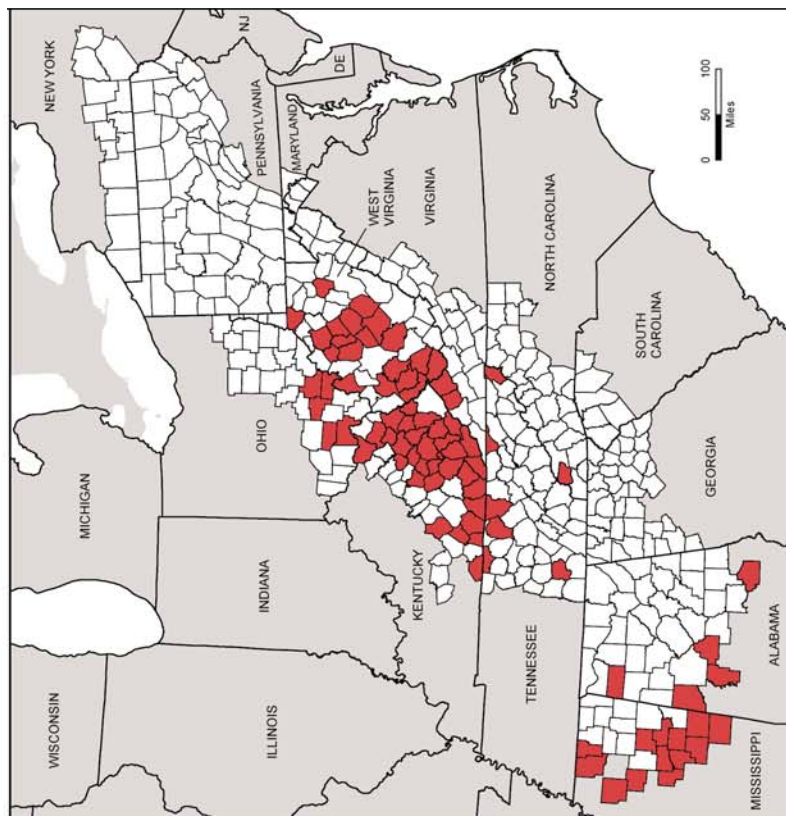
In August 2005, ARC adopted a new county economic status classification system that recognizes counties at risk of becoming distressed. Starting in FY 2006, five categories—distressed, at risk, transitional, competitive, and attainment—will be used to classify counties.

Besides allocating funding to benefit distressed counties and areas, ARC has established other policies to reduce economic distress. ARC normally limits its maximum program funding contribution to 50 percent of project costs, but it can increase its funding share to as much as 80 percent in distressed counties. In addition, ARC in recent years has created a special opportunities fund that targets technical assistance, capacity building, health-care improvements, and educational attainment, including increasing college-going rates, to benefit distressed counties and areas.

Management Discussion and Analysis

Distressed Counties in the Appalachian Region

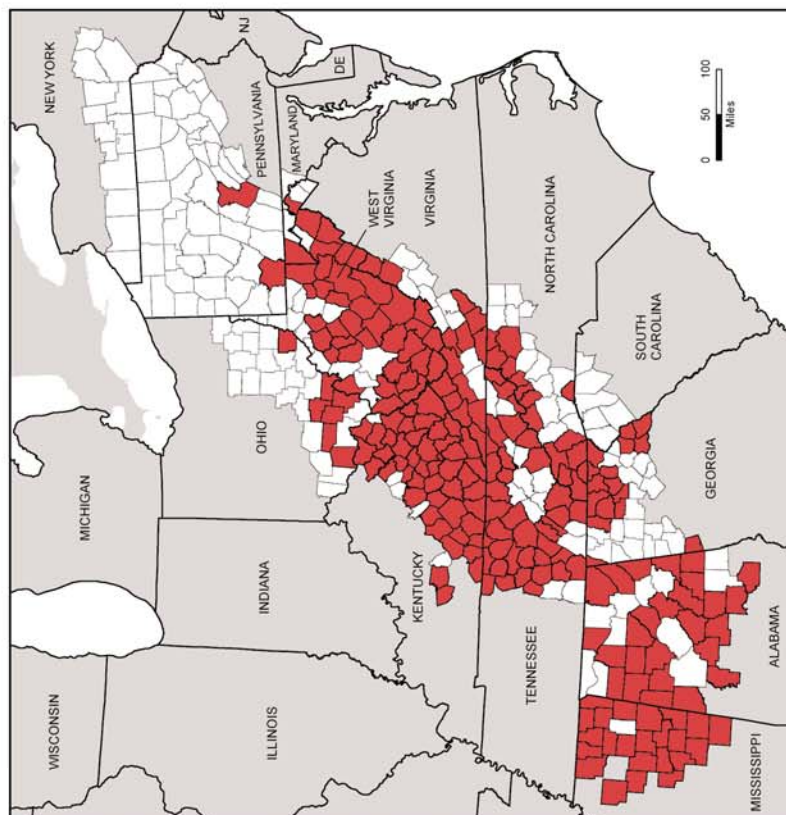
FY 2005
82 Distressed Counties



Definition of Distress in Fiscal Year 2005:
Distressed counties have a three-year average unemployment rate that is at least 1.5 times the U.S. average of 4.8 percent; a per capita market income that is two-thirds or less of the U.S. average of \$26,309; and a poverty rate that is at least 1.5 times the U.S. average of 12.4 percent; OR they have 2 times the U.S. poverty rate and qualify on the unemployment or income indicator.

Data Sources:
Unemployment: U.S. Department of Labor, Bureau of Labor Statistics, 2000-2002;
Income: U.S. Department of Commerce, Bureau of Economic Analysis, 2001;
Poverty: U.S. Department of Commerce, Census Bureau, 2000.

1960
223 Distressed Counties



Definition of Distress in 1960:
Distressed counties have an unemployment rate that is at least 1.5 times the U.S. average of 5.1 percent; a per capita market income that is two-thirds or less of the U.S. average of \$1,639; and a poverty rate that is at least 1.5 times the U.S. average of 22.1 percent; OR they have 2 times the U.S. poverty rate and qualify on the unemployment or income indicator.

Data Sources:
Unemployment: Census data from USDA, Economic Research Service (ERS), 1960;
Income: U.S. Department of Commerce, Bureau of the Census, 1960;
Poverty: Office of Economic Opportunity data from USDA, ERS, 1960.

Management Discussion and Analysis

ARC-Designated Distressed Counties—Fiscal Year 2005

Alabama	Kentucky	Mississippi	North Carolina	Ohio	Tennessee	Virginia	West Virginia
Bibb	Bell	Benton	Graham	Athens	Clay	Buchanan	Barbour
Franklin	Breathitt	Chickasaw		Meigs	Fentress	Dickenson	Boone
Hale	Carter	Choctaw		Pike	Grundy		Braxton
Macon	Casey	Clay		Scioto	Hancock		Calhoun
Pickens	Clay	Kemper		Vinton	Johnson		Clay
	Clinton	Marshall			Scott		Fayette
	Elliott	Montgomery					Gilmer
	Estill	Noxubee					Lincoln
	Floyd	Oktibbeha					Logan
	Harlan	Panola					Mason
	Jackson	Webster					McDowell
	Johnson	Winston					Mingo
	Knott	Yalobusha					Nicholas
	Knox						Ritchie
	Lawrence						Roane
	Lee						Webster
	Leslie						Wetzel
	Letcher						Wirt
	Lewis						Wyoming
	Magoffin						
	Martin						
	McCreary						
	Menifee						
	Monroe						
	Morgan						
	Owsley						
	Perry						
	Russell						
	Wayne						
	Whitley						
	Wolfe						

Management Discussion and Analysis

Highway Program: The Appalachian Development Highway System

Congress created the Appalachian Development Highway System (ADHS) expressly to provide growth opportunities for the residents of Appalachia—the same benefits afforded the rest of the nation through the construction of the interstate highway system, which largely bypassed Appalachia because of the high cost of building roads through the Region’s mountainous terrain. The ADHS, a 3,090-mile system of modern highway corridors that replaces a network of worn, winding two-lane roads, was designed to generate economic development in previously isolated areas, supplement the interstate system, and provide access to areas within the Region as well as to markets in the rest of the nation. (See map on page 19 and table on page 100.)

Authorizations for the ADHS in FY 2005 were provided through the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). SAFETEA-LU authorizes \$470 million per year through FY 2009 for the ADHS. Portions of some ADHS corridors have been identified as high priority and will receive additional funding. Although the funds are authorized from the Highway Trust Fund, ARC exercises policy control over the system and the allocation of funds to individual states. This ensures that the governors and the federal co-chair continue to determine where and how the money is used on ADHS highways. Appendices A and C provide information on ADHS authorizations and funding.

Local Development Districts Program

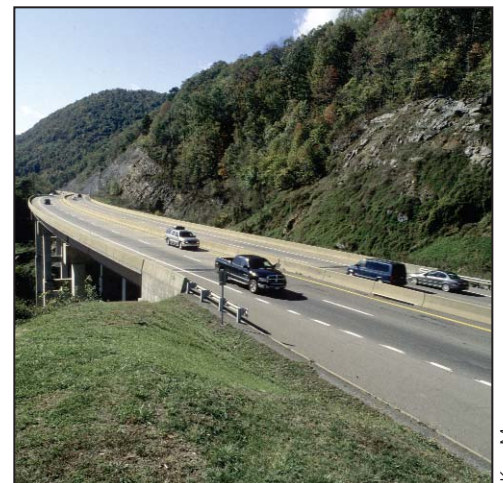
ARC’s statute underlines the importance of supporting local development districts (LDDs) in the Region. These multi-county planning and development organizations not only serve as the local presence of the ARC program across the Region, but are essential contributors to the program. Every county in the Region is served by an LDD.

Each LDD is governed by a board of directors composed of both local elected officials and nonelected individuals. Many of these state-chartered entities were originally created by state executive orders, but over half are now authorized in state legislation. Some also have 501(c)(3) nonprofit status, enabling them to access support from foundations and other nonpublic sources. The LDDs play four key roles in the development of the Region:

- Providing area-wide planning and program development, and coordination of federal and state funding sources;
- Assisting local governments in providing services, especially in poorer, more isolated communities;
- Promoting public-private partnerships and assisting in business development; and
- Helping communities assess, plan, and conduct a wide range of activities such as job training, business development, telecommunications planning and implementation, and municipal government support.



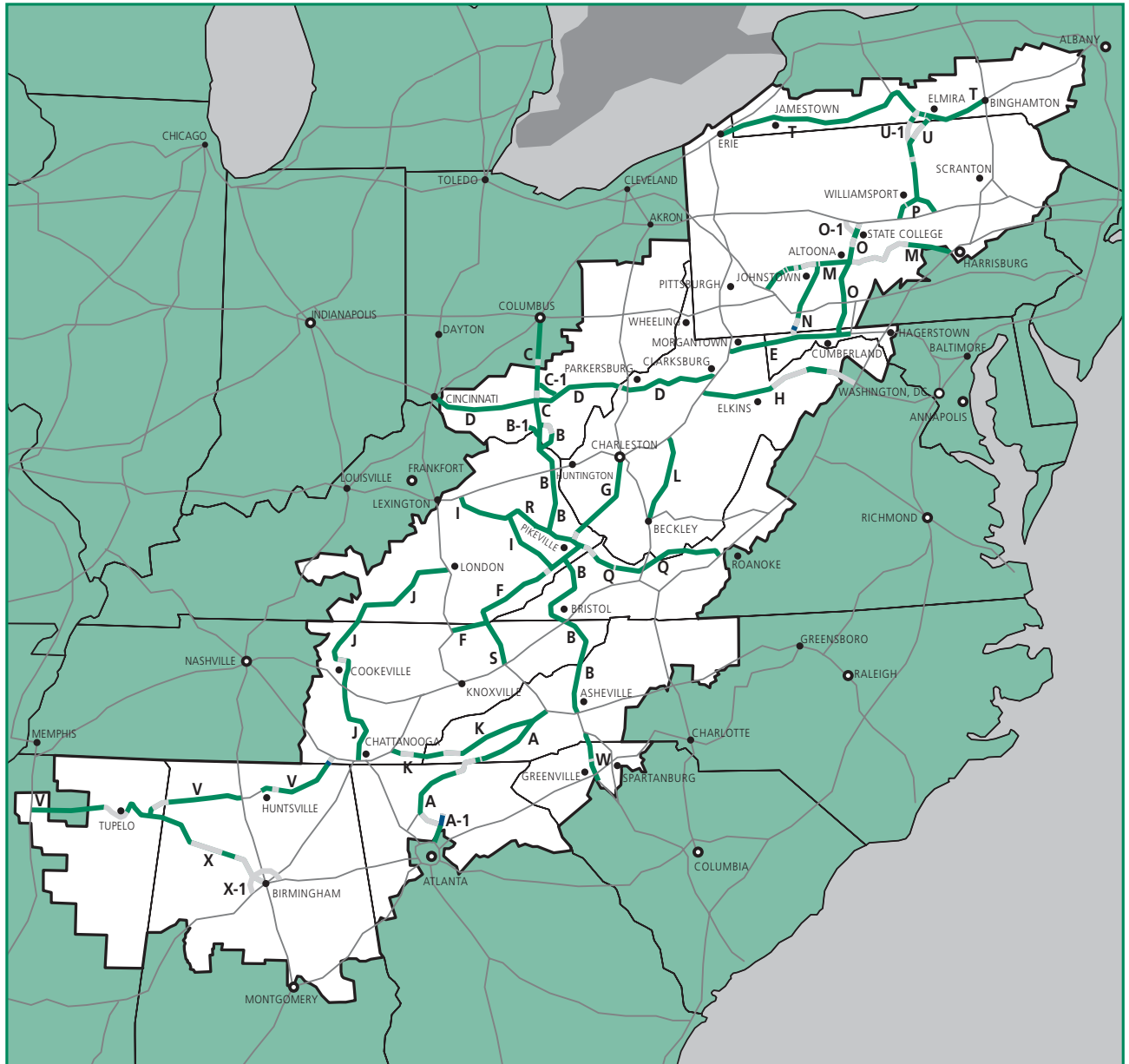
Ann Hawthorne



Ken Murray

Management Discussion and Analysis

Appalachian Development Highway System as of September 30, 2005



Management Discussion and Analysis

The Commission has also supported the training and technical assistance activities of the Development District Association of Appalachia (DDAA), an organization of the Region's LDDs. These activities improve member districts' organizational structure and operations, and their ability to effectively implement ARC's strategic plan and regional initiatives.

Appendix D provides a map and list of local development districts serving Appalachia.

Research and Technical Assistance Program

ARC funds research and evaluation studies that produce specific information on socioeconomic and demographic conditions in the Region, including baseline data and trend analysis, economic impact analysis, program evaluation, and regional economic and transportation modeling. ARC-funded research focuses on strategic analyses of key economic, demographic, and quality-of-life factors that affect Appalachia's current and future development prospects. The aim of this research is to help policymakers, administrators, and staff target program resources efficiently, and to provide high-quality research for the general public and research specialists.

ARC also funds program evaluations by outside researchers or consultants to assess whether Commission-funded projects have made a measurable difference in specific social or economic outcomes. The purpose of these evaluations is to determine the extent to which the projects have contributed to the attainment of economic development objectives identified in ARC's strategic plan. In addition, evaluations are used to verify project results and to assess the validity of specific performance measurements for monitoring and evaluating specific types of projects.

Reports and data products are distributed in print and posted on ARC's Web site.

Research started in FY 2005 includes:

- An evaluation of the outcomes from the Appalachian Regional Commission–Oak Ridge National Laboratory Math-Science-Technology Summer Institute;
- An analysis of the college-going and perseverance rates in Appalachia, with an emphasis on evidence, gaps, and best practices in programs;
- An examination of regional performance gaps in lending, bank services, and development finance;
- A program evaluation of the Appalachian Regional Commission's infrastructure and public works projects;
- Two initial design studies for assessment of the impact of completing the Appalachian Development Highway System.

Management Discussion and Analysis

- An analysis of long form decennial census data for trends in family income, inequality, earnings and skill levels, and consumption measures of quality of life; and
- A study of socioeconomic correlates of health disparities in the Appalachian Region.

Research completed or under way in 2005 includes:

- A study of Appalachian population redistribution and migration in the 1990s;
- A study of the changing patterns of poverty and spatial inequality in Appalachia;
- A study of the defining subregions in Appalachia, with a focus on better alternatives;
- An analysis of trends in economic distress in Appalachia and the United States between 1960 and 2000;
- An assessment of displacement in Appalachia and the non-Appalachian United States between 1993 and 2000, based on the findings of five displaced-worker surveys;
- A study of creating regional advantage in Appalachia, with an emphasis toward strategic response to global economic restructuring;
- An assessment of workforce displacement and adjustment policies in Appalachia's labor markets, based on five case studies;
- An assessment of the impact of trade liberalization on import-competing industries in the Appalachian Region;
- An analysis of gaps in capital funding for drinking water and wastewater infrastructure in Appalachia; and
- A time series and twin-county analysis of the economic effects and development impact of the Appalachian Development Highway System between 1969 and 2004.

Management Discussion and Analysis

Impediments to Progress

Despite recent progress, Appalachia still does not enjoy the same economic vitality and living conditions that the rest of the nation does. The Region continues to battle economic distress, concentrated areas of high poverty, unemployment, poor health, educational disparities, and population outmigration that are among the worst in the nation. Appalachia trails the rest of the nation by 18 percent in per capita income. One-fourth of the Region's 410 counties have poverty rates more than 150 percent of the national average. A majority of Appalachian counties have a higher unemployment rate than the national average, and 87 counties have an average three-year unemployment rate (2001–2003) of at least 150 percent of the national average.

The Region's isolation and its difficulty in adapting to changes over past decades and in retooling to be competitive are major factors contributing to the gap in living standards and economic achievement between the Region and the rest of the nation.

Civic Capacity

Civic capacity is vital for communities to be strategically ready to take advantage of economic opportunities. Weakness in civic capacity in Appalachia has inhibited the leadership, broad citizen involvement, local strategic planning, and collaboration that are necessary for a sense of empowerment and civic engagement.

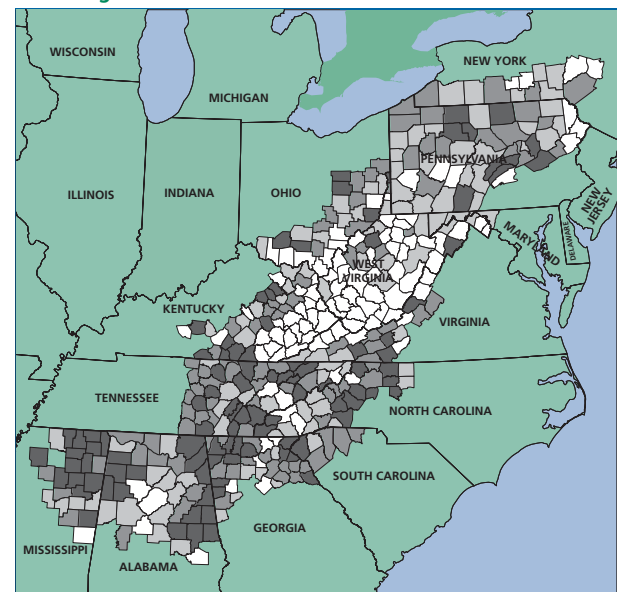
Economic and Demographic Shifts

Demographic shifts between 1990 and 2000 have led to a decline in the Region's share of the "prime-age" workforce, or those between the ages of 25 and 55, who are entering or reaching their peak earnings potential. The erosion of the high-earnings potential of the workforce in recent years has reversed the Region's upward trend in per capita income, and at the local level has led to declines in the tax base.

The Region has been battered by job losses and structural economic shifts because of global competition and because of its disproportionate reliance on extractive industries and manufacturing.

- The Region continues to face higher levels of competition from low-wage imports than the rest of the nation because of the concentration of manufacturing employment in certain industries. The map on the right ranks Appalachian counties by degree of exposure to low-wage import competition.
- Primary-metals sectors, such as steel, have lost over 20,000 jobs since 1994. Many of these losses have resulted from import penetration and plant relocations overseas.

Appalachian Exposure to Manufacturing Imports from Low-Wage Countries



Quartiles of Exposure

■ Counties in the 4th Quartile (High Exposure)

■ Counties in the 3rd Quartile

■ Counties in the 2nd Quartile

□ Counties in the 1st Quartile (Low Exposure)

Data Source: Bernard, A.B., Jensen, J.B., and Schott, P.K. 2005. Assessing the Impact of Trade Liberalization on Import-Competing Industries in the Appalachian Region.

Management Discussion and Analysis

- The Appalachian apparel industry lost 110,000 jobs between 1994 and 2004, and the textiles industry lost 83,000. Over that decade, one out of five jobs lost in the textile industry nationally occurred in Appalachia, and one out of three jobs lost in the apparel industry occurred in Appalachia. An estimated one-third of the apparel losses and one-half of the textiles losses were due to imports or plant relocations to other countries.
- Appalachian coal-mining employment has fallen from 101,500 workers in 1987 to 46,000 in 2003, largely because of productivity gains. The Energy Information Administration has projected that over the next decade, the number of mining jobs in Appalachia could fall to as low as 32,000.

Underinvestment

Research preceding the creation of ARC found that for many reasons, including dearth of leadership and lack of financial and technical resources, Appalachia had not been in a position to take advantage of many federal programs that could help mitigate long-standing problems, much less concentrate a range of investments on the greatest needs. In addition, many programs better addressed mitigation of growth in parts of the nation rather than basic stimulation of growth. This situation has improved over time, but the Region still receives federal economic development assistance disproportionately smaller than its population and its needs. Analyses of the Consolidated Federal Funds Report for 2002 by ARC and U.S. Census Bureau staff found that per capita total direct federal expenditures and obligations in Appalachia were \$783 less than the national average. In federal grants alone, the Region falls short of parity with the nation as a whole by \$5.4 billion each year.

Water and Wastewater Systems

Most Americans don't realize that access to basic water and wastewater systems remains a critical issue in many smaller, poorer communities in Appalachia. Twenty percent of Appalachian households are still not reached by community water systems, compared with 10 percent nationwide. Forty-seven percent of Appalachian households are not served by public sewer systems, compared with a national average of 24 percent. Appalachian counties require an investment of \$26 billion to \$40 billion for drinking water and wastewater system infrastructure needs, according to an ARC-funded study published in August 2005.

Small, rural Appalachian communities also face higher investment requirements to address pressing economic development needs while meeting environmental standards. Communities experiencing declining customer bases and low household incomes cannot rely on construction loans (and the resulting rate increases) to meet capital investment needs. The local ability to pay is particularly low in 123 Appalachian counties where the average household income is two-thirds or less of the national average, according to the 2000 Census. These communities need additional technical, managerial, and financial assistance to meet their future needs.

Management Discussion and Analysis

Telecommunications

The Appalachian Region continues to lag behind the rest of the nation in access to affordable broadband telecommunications. Without special advocacy, technical support, and financial assistance, rural Appalachia is unlikely to meet the president's national goal of universal broadband access by 2007.

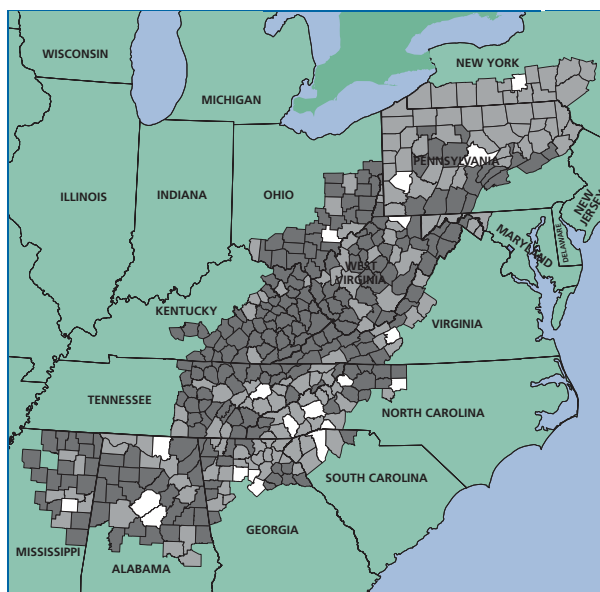
Education and Workforce Skills

Vigorous job growth will not occur in areas that lack a prepared workforce. Global competition is reinforcing the economic premium on workers in knowledge-based industries, leaving low-skilled or unskilled U.S. workers increasingly vulnerable. ARC seeks to increase the employment rate and productivity of Appalachia's workers, and to attract educated and skilled workers to the Region. This will attract desirable business to the Region. Doing so will require considerable improvement in educational achievement at all levels. For example, Appalachia's economy is expected to add over 340,000 jobs in high-growth occupations through 2012, most of which will require at least a bachelor's or associate's degree. The current education and technical skill level of the Region's workforce cannot meet this need. Appalachia's higher education attainment gap with the rest of the nation has widened in the last decade: in 1990 the difference between the Region and the nation's share of adults with college degrees was 6.0 percentage points; in 2000 the gap widened to 6.7 percentage points.

Health Care

Health problems continue to impede quality of life as well as economic prospects in some areas of the Region. More than two-thirds of the Region's counties are fully or partially designated by the U.S. Department of Health and Human Services as health professional shortage areas. Most Appalachian counties have had difficulty attracting or retaining basic services such as dentistry, outpatient alcohol treatment, outpatient drug treatment, and outpatient mental health services. In addition, Appalachia suffers from disproportionately high rates of chronic diseases such as cardiovascular disease, cancer, and diabetes.

Appalachian Counties with Low College Completion Rates

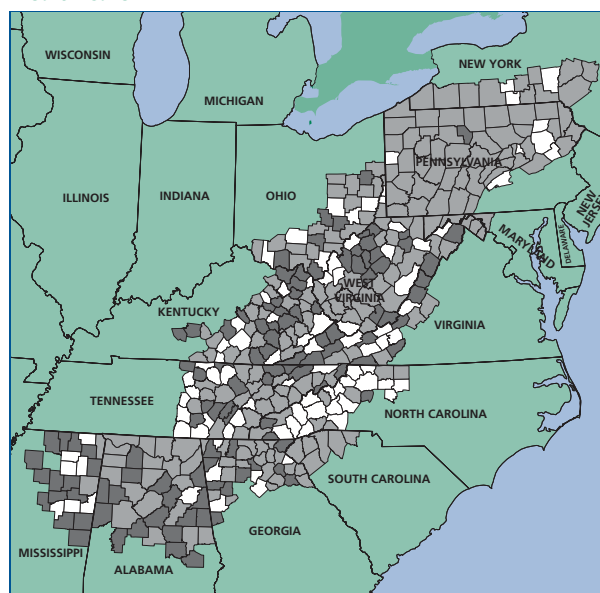


Percent of Adults Completing a Bachelor's Degree or Higher

- Counties Below 50 Percent of the U.S. Average
- Counties Between 50 and 99 Percent of the U.S. Average
- Counties At or Above the U.S. Average

Data Source: U.S. Department of Commerce, Census Bureau, Census 2000, Summary File 3.

Appalachian Counties Lacking Adequate Access to Health Care



Counties Designated as Health Professional Shortage Areas (HPSAs)

- Counties Fully Designated as a Health Professional Shortage Area (HPSA)
- Counties Partially Designated as a HPSA
- Counties Not Designated as a HPSA

Data Source: U.S. Department of Health and Human Services, Health Resources and Services Administration, Bureau of Health Professions, March 2003.

Projects Funded in Fiscal Year 2005 by Specific Type

	No. of Grants	ARC Funds	Total Funds
Jobs and Business Assistance			
Agriculture Development	3	129,825	260,600
Business Incubator	11	957,791	5,735,983
Business Loan Fund	1	400,000	800,000
Business Site Water/Sewer	27	6,738,500	35,091,898
Downtown Revitalization	5	1,045,000	3,668,124
Entrepreneurship	21	1,905,172	5,140,578
Industrial Park/Site Development	13	2,847,721	10,296,884
Technical Assistance/Leadership	29	3,403,350	7,883,571
Telecommunications Applications	5	219,500	440,654
Tourism Development	23	1,721,093	8,285,383
Trade/Market Expansion	2	45,000	140,700
Other	7	608,000	1,574,650
Jobs and Business Assistance Total	147	20,020,952	79,319,025
Infrastructure: Community Development			
Community Facility	4	1,302,160	3,126,320
Housing	5	650,000	15,887,760
Sewer System	16	4,350,774	16,351,250
Technical Assistance/Leadership	5	783,295	1,607,471
Telecommunications Infrastructure	9	1,683,440	3,734,202
Water and Sewer	3	825,000	2,165,000
Water System	32	11,061,389	51,433,860
Other	2	764,730	2,030,310
Infrastructure: Community Development Total	76	21,420,788	96,336,173
Training and Educational Improvements			
Adult Literacy	1	81,777	163,554
Career/Technical Education	15	2,278,749	4,636,251
Child Care/Preschool	3	878,170	1,902,013
Distance Learning	2	560,000	850,000
Dropout Prevention	20	1,526,232	2,652,539
Research/Technical Assistance	4	116,250	205,292
Teacher Training	2	296,095	6,633,895
Vocational Education/Workforce Training	26	3,265,700	9,695,077
Training and Educational Improvements Total	73	9,002,973	26,738,621
Health			
Community Facility	5	985,125	3,645,250
Dental Care	2	373,520	584,575
Health Education	3	259,000	523,875
Health Worker Development	4	743,419	1,236,929
Mental Health/Rehabilitation	1	50,000	100,000
Planning	2	65,000	90,000
Primary Care	2	440,000	700,000
Telemedicine	4	461,825	812,645
Other	2	130,610	291,219
Health Total	25	3,508,499	7,984,493
Leadership and Civic Capacity			
Planning/Technical Assistance	22	1,856,640	2,882,428
Telecommunications Applications	4	306,412	602,102
Tourism Development	1	35,000	35,000
Other	2	1,228,000	1,982,825
Leadership and Civic Capacity Total	29	3,426,052	5,502,355
Local Development District Planning and Administration			
Planning and Administration	72	6,008,897	12,916,944
Other	1	35,000	35,000
Local Development District Planning and Administration Total	73	6,043,897	12,951,944
Research and Technical Assistance			
Conferences	2	148,085	158,085
Research	11	834,763	854,763
Technical Assistance	15	1,755,980	3,313,490
Research and Technical Assistance Total	28	2,738,828	4,326,338
Grand Total	451	\$66,161,989	\$233,158,949

Note: Table does not include access road projects.

Management Discussion and Analysis

Program Assessment Rating Tool

In 2004, the Office of Management and Budget (OMB) conducted its first review of the ARC program using the Program Assessment Rating Tool (PART) and issued a score of adequate. ARC received high scores for clarity of purpose, planning, and management. OMB noted ARC's progress in developing outcome-related measures, but acknowledged the difficulty of performance measurement since ARC co-funds projects with other agencies. ARC continues to revise its metrics and share performance data and research to clarify the links between federal investment and community change. Part II of this report includes updates to PART information.

Management Discussion and Analysis

FINANCIAL MANAGEMENT

Financial Management System

The Appalachian Regional Commission uses a commercial off-the-shelf core accounting system, GLOWS, that is intended for government financial management. The GLOWS system incorporates capabilities to manage obligations, disbursements, the general ledger, and financial reporting. ARC supplements this system with a historical project grant information system, ARC.net, that provides real-time funding, grant status, and performance measurement information, as well as grant-related financial data, in an intranet environment available to staff and key state officials. ARC.net applications are built using off-the-shelf software.

Federal Managers' Financial Integrity Act Information

ARC implemented a process for providing audited financial statements in fiscal year 2002, following the guidance of the Accountability of Tax Dollars Act of 2002. ARC, strictly speaking, is not a federal agency as defined in Titles 5 and 31 of the U.S. Code; it is a 501(c)(3) organization with a quasi-federal character. While the Accountability of Tax Dollars Act applies only to executive branch agencies, the Commission has elected to comply with OMB guidance because full disclosure of financial information is consistent with the governmental nature of ARC's mission and operations and its stewardship of public funds. ARC also follows OMB and Department of the Treasury financial reporting requirements, as appropriate.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) represents sound management practice for managing federal appropriations. FMFIA establishes specific requirements with regard to management controls. The agency must establish controls that reasonably ensure that: (1) obligations and costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures are properly accounted for and recorded. In addition, the agency annually must evaluate and report on the control and financial systems that protect the integrity of federal programs. The FMFIA encompasses program, operational, and administrative areas as well as accounting and financial management. In addition, OMB Circular A-123 directs agencies to "take systematic and proactive measures to (1) develop and implement appropriate, cost-effective management controls for results-oriented management; (2) assess the adequacy of management controls in federal programs and operations; (3) identify needed improvements; (4) take corresponding corrective action; and (5) report annually on management controls." Management controls are the organizational structures, policies, and procedures used to help program and financial managers achieve results and safeguard the integrity of their programs.

ARC maintains a written plan of internal-control development and testing. The agency's approach is to make management controls an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. Testing procedures are based on a team approach and are designed to provide feedback to management on a continuing basis throughout the cycle. ARC recognizes that an appropriate balance of controls must exist in programs and operations. Managers should benefit from controls, not be encumbered by them. Too many controls, especially in an organization

Management Discussion and Analysis

as small as the Commission, can result in inefficient and ineffective government. ARC strives to maintain an environment of accountability in which all employees help ensure that government resources are used efficiently and effectively to achieve intended program results with minimal potential for waste, fraud, and mismanagement.

The Commission conducts formal and informal meetings with division managers to identify vulnerable areas and potential control weaknesses. An internal management control committee is also in place to conduct reviews. In FY 2004, the committee conducted an extensive review and testing of internal controls and found them effective. The Office of Inspector General (OIG) conducts independent program reviews and audits. Weekly management team meetings provide an opportunity to address control issues. Finance staff conduct pre-payment examinations of approved payments, as well as oversight reviews of program account obligation and payment details. Finally, the annual financial audit of the agency provides independent assessments of the adequacy of internal controls. The internal control plan assigns responsibility within the organization for follow-up action on any deficiencies.

Fiscal year 2005 was the third year ARC was scheduled to produce an audited financial statement. The independent auditors issued an unqualified opinion on the fiscal year 2005 financial statement provided in this Performance and Accountability Report. This is the third consecutive year with an unqualified opinion.

Management Follow-Up to Inspector General Recommendations

At the start of the fiscal year, all but three of the audit reports issued by the OIG in previous years had been addressed by ARC management. During fiscal year 2005, the OIG issued 20 reports concerning internal controls, programs grants, and grantees, including a number of intermediary organizations with ARC grants for operating revolving loan funds. The total dollar value of grants and programs audited was \$9.6 million. At the end of the year, ARC had made management decisions with respect to all but four OIG reports dealing with \$171,000 in questioned costs and \$37,000 in costs that the inspector general considered might have been put to better use. The ARC OIG has continued to cooperate with investigative offices of two other federal agencies regarding two investigations, one of which is ongoing. The OIG is also monitoring two investigations by state law enforcement or ethics organizations that relate to ARC programs.

The OIG worked closely with ARC staff to prepare for the production of audited financial statements, and served as an important resource for workshops and meetings in the field to promote sound financial management on the part of ARC grantees. The semi-annual reports of the ARC inspector general, along with contact information, are available to the public on the Commission Web site.

Management Discussion and Analysis

SUMMARY OF FINANCIAL STATUS

Part III of this Performance and Accountability Report includes information about the financial status of the Appalachian Regional Commission. In the unqualified opinion of the independent auditors, M.D. Oppenheim and Company, P.C., the financial statements included in that section fairly represent the financial position of ARC in all material respects. The financial statements include details on ARC's assets, liabilities, and net position. They also include statements of operations and changes in net position, and a statement of cash flows. The financial statements taken together include all the aspects of ARC, including the Office of the Federal Co-Chair, area development programs, and administrative/operational activities performed by ARC.

Assets on September 30, 2005, totaled \$90.7 million, and liabilities totaled \$4.3 million. Sixty-eight percent of ARC's assets were in the United States Treasury. In addition, 33 percent, or \$30.9 million, represented Commission grant funds held by intermediary organizations in Appalachia for the operation of revolving loan funds promoting business development. The federal government retains a residual interest in the loan funds. Remaining assets are accounts receivable, cash, and advances to grantees.

Liabilities included \$1.2 million in accounts payable, \$2.1 million in accrued leave and pension liability, \$242,000 in accrued payroll, and \$76,000 in other accrued liabilities.

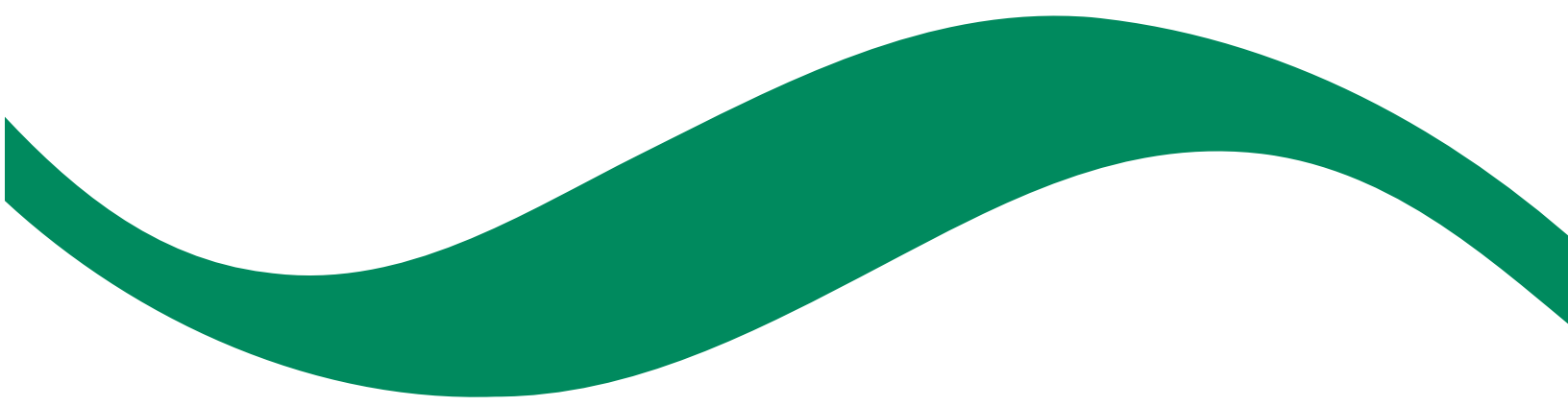
Total revenues for the year were \$44.0 million, and total expenses, including area development grants, were \$41.5 million. Revenues notably included \$3.2 million in state contributions for the operational expenses of the Commission, pursuant to ARC's legislation. The Commission must rely on congressionally appropriated funds to continue its operations, make grants, and meet its liabilities.

Notes are attached to the financial statements to describe and explain important disclosure information about line items in the statements and related financial policies and programs. Federal budgetary data are included as additional information, describing how the Commission's \$52.1 million of budgetary resources was applied. The total of budgetary resources reflects net transfers of \$26.2 million of grant funds to other agencies for obligation and administration.





PART II: FISCAL YEAR 2005 PERFORMANCE REPORT



Performance Report

INTRODUCTION

The Government Performance and Results Act of 1993 (GPRA) requires all federal agencies to submit a report to Congress on actual program results at the end of each fiscal year. This report documents the Appalachian Regional Commission's (ARC) progress toward fulfilling its mission and goals. The report

- Compares ARC performance goals to estimated results reported by the projects of the 13 Appalachian states;
- Summarizes the findings of several ARC-initiated program evaluations and validation endeavors; and
- Describes unmet performance goals and explains why those goals were not met, and, if goals are impractical or infeasible, identifies steps to be taken to address the problem.

To meet GPRA requirements, ARC has defined performance measures and goals for all major ARC operations. In FY 2005, ARC

- Collected and entered state estimates of results for FY 2005 into a database as part of daily operations and project management;
- Evaluated the planned and actual results of a sample of projects funded in FY 2003 through field visits and interviews with those managing the projects; and
- Conducted independent evaluations to ascertain the benefits of projects.

ARC uses performance data as a management tool to inform the management process. In addition, staff use ARC.net, ARC's management information system, to track critical project performance information. ARC staff review performance measurement data generated by programs throughout the fiscal year to analyze trends and validate data. ARC used this information to inform its recent strategic planning revisions and routinely shares such information with program partners through "best practices" conferences and on-site validation visits with grantees. ARC's Policy Development Committee has also used research, evaluations, validation visits, and staff monitoring to develop and revise guidelines for its revolving loan funds, tourism development, export trade, and telecommunications activities.

In FY 2005, ARC implemented a new strategic plan, *Moving Appalachia Forward: Appalachian Regional Commission Strategic Plan 2005–2010*. The four goals from that plan were used to evaluate performance in FY 2005.

Performance Report

FY 2005 Outcome/Output Goals and Intermediate Results	
ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
20,000 Jobs Created or Retained	19,346 Jobs Created or Retained
20,000 Students/Trainees with Improvements	27,652 Students/Trainees with Improvements
20,000 Households Served	21,255 Households Served
25 Miles of ADHS Opened to Traffic	19.3 Miles of ADHS Opened to Traffic

The following sections of this report present an overview of the Appalachian Regional Commission, a list of ARC goals and objectives, a description of the methodology employed to monitor program outcomes in compliance with the GPRA, the estimated outputs and outcomes for projects funded in FY 2005 and each of the three prior fiscal years, and the results of project validation samplings and project evaluations.

Performance Report

OVERVIEW OF ARC

ARC's vision is that Appalachia will achieve socioeconomic parity with the nation.

ARC's mission is to be a strategic partner and advocate for sustainable community and economic development in Appalachia.

Organizational Structure

The Appalachian Regional Commission is a regional economic development agency representing a unique partnership of federal, state, and local governments designed to address local needs in Appalachia. ARC was established by an act of Congress and operates under congressional authorizations. In March 2002, a five-year reauthorization (through FY 2006) was enacted.

The Commission is composed of the governors of the 13 Appalachian states and a federal co-chair, who is appointed by the president. Grassroots participation is provided through multi-county local development districts, with boards made up of elected officials and other local public and private leaders. Each year Congress appropriates funds for the Commission's programs, which ARC allocates among its member states. At the beginning of their terms in office, Appalachian governors submit development plans for the Appalachian counties in their states. The Commission votes to approve these plans. The governors also submit annual strategy statements developed from the plans, and must select projects for ARC approval and funding based on these statements.

Project Funding

ARC funds approximately 500 projects annually throughout the 13-state Appalachian Region. All of the projects must address one of the four goals in ARC's 2005–2010 strategic plan: increase job opportunities and per capita income in Appalachia to reach parity with the nation; strengthen the capacity of the people of Appalachia to compete in the global economy; develop and improve Appalachia's infrastructure to make the Region economically competitive; and build the Appalachian Development Highway System to reduce Appalachia's isolation. The Commission's strategic plan identifies the goal areas as the basic building blocks of sustainable economic development in the Region.

All projects are approved by a governor and by ARC's federal co-chair. ARC provides technical assistance to grantees in an effort to increase the likelihood that the project will be successful.

One of the key differences between ARC and typical federal executive agencies and departments is the flexibility given to the states in determining how their allocated funds will be spent. This flexibility exists within a framework: funds must be spent in counties designated as part of the Appalachian Region; projects must address one or more of the Commission's four goals; and a specified amount of the funds allocated to each state can be used only on projects that benefit counties and areas the Commission has designated as economically distressed.

Performance Report

GENERAL GOALS AND OBJECTIVES

In accordance with its 2005–2010 strategic plan, ARC organizes its funding policies and administration programs around four goals to carry out its mission. Strategic objectives under each goal embody core ARC policies.

Goal 1: Increase Job Opportunities and Per Capita Income in Appalachia to Reach Parity with the Nation.

Strategic Objectives

- 1.1: Foster Civic Entrepreneurship
- 1.2: Diversify the Economic Base
- 1.3: Enhance Entrepreneurial Activity in the Region
- 1.4: Develop and Market Strategic Assets for Local Economies
- 1.5: Increase the Domestic and Global Competitiveness of the Existing Economic Base
- 1.6: Foster the Development and Use of Innovative Technologies
- 1.7: Capitalize on the Economic Potential of the Appalachian Development Highway System

Key outcome measure: Number of jobs created or retained.

Goal 2: Strengthen the Capacity of the People of Appalachia to Compete in the Global Economy.

Strategic Objectives

- 2.1: Foster Civic Entrepreneurship
- 2.2: Enhance Workforce Skills through Training
- 2.3: Increase Access to Quality Child Care and Early Childhood Education
- 2.4: Increase Educational Attainment and Achievement
- 2.5: Provide Access to Health-Care Professionals
- 2.6: Promote Health through Wellness and Prevention

Key outcome measure: Number of citizens of the Region that have benefited from enhanced education and job-related skills.

Performance Report

Goal 3: Develop and Improve Appalachia's Infrastructure to Make the Region Economically Competitive.

Strategic Objectives

- 3.1: Foster Civic Entrepreneurship
- 3.2: Build and Enhance Basic Infrastructure
- 3.3: Increase the Accessibility and Use of Telecommunications Technology
- 3.4: Build and Enhance Environmental Assets
- 3.5: Promote the Development of an Intermodal Transportation Network

Key outcome measure: Number of households served with new or improved water and/or sewer infrastructure, and number of jobs created or retained.

Goal 4: Build the Appalachian Development Highway System to Reduce Appalachia's Isolation.

Strategic Objectives

- 4.1: Foster Civic Entrepreneurship
- 4.2: Promote On-Schedule Completion of the Appalachian Development Highway System (ADHS)
- 4.3: Coordinate Work on ADHS State-Line Crossings

Key output measure: Number of miles of the ADHS opened to traffic.

Performance Report

PERFORMANCE MEASUREMENT METHODOLOGY

Overview of ARC's Performance Measurement Program

ARC's performance measurement program was designed to accomplish two primary objectives: compliance with the GPRA in measuring the outputs and outcomes of ARC projects, and creation of a process that allowed for both feedback from grantees and analysis of funded projects, in an effort to improve programming.

ARC's performance measurement program has three components:

- Project data collection and analysis through use of a management information system;
- Site visits to validate actual outcomes of a sample of projects; and
- Independent project evaluations.

These three components work together to allow GPRA reporting and compliance and to help ARC glean “lessons learned” from previously funded grants. By structuring the program in this manner, ARC has made the GPRA a management tool and a valuable resource in determining program effectiveness.

This report presents performance goal results for each of ARC's general goal areas. It is important to note that two key outcome measures cut across general goal areas. To simplify the reporting of these measures, results from each general goal area are totaled and reported under the general goal that most closely aligns with the outcome measure. For example, one of ARC's outcome measures is jobs created or retained. ARC measures results for jobs created or retained by projects funded under general goals 1, 2, and 3. For clarity, this outcome measure is discussed, and results from all three general goal areas are reported, under general goal 1.

Project Data Collection and Analysis

Annual Performance Measures and Goals

Each fiscal year, ARC submits to OMB annual performance goals for projects to be funded in coming years, as required in the budget submission process. In determining these goals, ARC develops likely investment scenarios for the 13 Appalachian states, anticipating how each state will direct ARC funds in addressing the four goal areas. The scenarios are based on state development plans, strategy statements, historical trends, and communication with the states. ARC uses these scenarios to project outcome results; however, the states have flexibility in spending decisions, although all projects are reviewed and approved by the federal co-chair and must pursue one of ARC's four goals. The states' spending flexibility is a critical element of the ARC federal-state partnership but poses challenges in setting performance goals. Each state's priorities will shift from year to year, occasionally producing unanticipated results.

Performance Report

In prior years, ARC focused exclusively on assessing agency outcomes and outputs. As a result of OMB's review of the ARC program using the Program Assessment Rating Tool, ARC established measurements for targeting investment and for leveraging non-ARC project funding and private non-project investment resulting from the completion of ARC-funded projects. ARC now includes performance goals for the percentage of funds directed to distressed counties and for investment ratios. Both non-ARC funds used as a match in projects and non-project leveraged private investment have been recorded by ARC in the past; however, FY 2005 is the first year ratios of these funds to ARC funding have been established as annual goals.

To address GPRA reporting requirements, ARC reports outcome/output, leveraging/matching, and targeting results in four program categories that reflect priorities within the Commission's four goals. Although the projects funded by ARC each year generate many more measures than those reported for GPRA compliance, the measures reported relate uniquely to ARC's four goals and to its mission (See table on page 41).

Program Category One: Jobs and Income. These measures are presented in Goal 1.

Key Outcome Measures: Jobs created and jobs retained.

"Jobs Created" includes any direct hires that will be made as a result of the project's operation, not including highway or building construction jobs. Also included are private-sector jobs that will be created within three years after ARC-funded services or projects are complete. These jobs are usually related to additional investments in manufacturing plants and equipment, and retail and commercial real estate development. Part-time jobs are converted to full-time equivalents and rounded up to whole numbers.

"Jobs Retained" refers to the number of workers actually enrolled in specific training programs, or to the number of jobs at businesses that will be retained because of an investment that is needed to keep the business and jobs in the area or in continued operation.

These two measures are combined and reported together as "Jobs Created/Retained."

Leveraging Measure: The ratio of leveraged private investment (LPI) to ARC investment for all Goal 1 projects.

LPI represents private-sector, non-project, financial commitments that follow on as a result of the completion of an ARC-supported project or the delivery of services under an ARC-supported project. Leveraged private investment is a performance measurement because it is a desired outcome; and it represents the private investment supporting job creation. It is generally estimated for the three-year period following the completion of a project and is separate from any direct private contribution to ARC-supported project funding.

Targeting Measure: The percentage of nonhighway ARC funds used for projects that benefit distressed counties or areas.

In the "Jobs and Income" category, a goal is set for the percentage of Goal 1 grant funds targeted to projects that benefit distressed counties or areas.

Performance Report

Program Category Two: Competitiveness. These measures are presented in Goal 2.

Key Outcome Measures: Number of students with improvements and number of workers/trainees with improvements.

“Students with Improvements” is the number of students who, as a result of an ARC-funded project, receive a career credential or obtain a job in the field for which they were specifically trained, or are passed or certified as graduating to the next grade or level necessary to continue their education.

“Workers/Trainees with Improvements” is the total number of participants that obtain new employment or enhanced employment (e.g., receive higher pay or better positions) as a result of ARC-funded projects.

These two measures are combined and recorded together as “Students/Trainees with Improvements.”

Matching Measure: The ratio of non-ARC to ARC investment for projects in Goal 2.

This ratio sets a goal for non-ARC matching project funds. Ratios showing the amount of ARC funding to other project investment sources help illustrate the impact ARC’s relatively small, flexible grants can have in the Appalachian Region

Targeting Measure: The percentage of nonhighway ARC funds used for projects that benefit distressed counties or areas.

In the “Competitiveness” category, a goal is set for the percentage of Goal 2 grant funds targeted to projects that benefit distressed counties or areas.

Program Category Three: Infrastructure. These measures are presented in Goal 3.

Key Outcome Measure: Households served.

Infrastructure projects measured in this category include general water and/or sewer projects. “Households Served” encompasses the number of households with either new or improved service.

Matching Measure: The ratio of non-ARC to ARC investment for projects in Goal 3.

This ratio sets a goal for non-ARC matching project funds. Ratios showing the amount of ARC funding to other project investment sources help illustrate the impact ARC’s relatively small, flexible grants can have in the Appalachian Region.

Performance Report

Targeting Measure: The percentage of nonhighway ARC funds used for projects that benefit distressed counties or areas.

In the “Infrastructure” category, a goal is set for the percentage of Goal 3 grant funds targeted to projects that benefit distressed counties or areas.

Program Category Four: Highways. This measure is presented in Goal 4.

Key Output Measure: Number of miles of the Appalachian Development Highway System (ADHS) opened to traffic in FY 2005.

Progress on the ADHS is measured by the number of miles opened to traffic each year. ARC also prepares a separate annual report, *Status of the Appalachian Development Highway System*, which provides detailed information on the portions of highway moving through the various stages of work in each state, as well as an analysis of funding and remaining work.

Intermediate Results

Intermediate results presented in this report are derived from estimates in project applications, as reported by grantees. When projects are closed, actual results to date are recorded; however, some estimates are based on three-year projections. More accurate results are obtained when ARC staff validate a sample of projects two years after initial funding. The validity of final numbers is sampled during periodic project evaluations (see page 42).

Data Analysis

Critical data from projects submitted to ARC for funding are entered into the Commission’s management information system, ARC.net, which has been upgraded to serve as a management tool to facilitate improved monitoring of projects. At quarterly intervals throughout the fiscal year, ARC staff review performance measurement data generated by programs to better understand emerging trends, improve data integrity, and shape policy to improve the program. At the close of each fiscal year, ARC staff review results and prepare the data for submission to OMB and Congress.

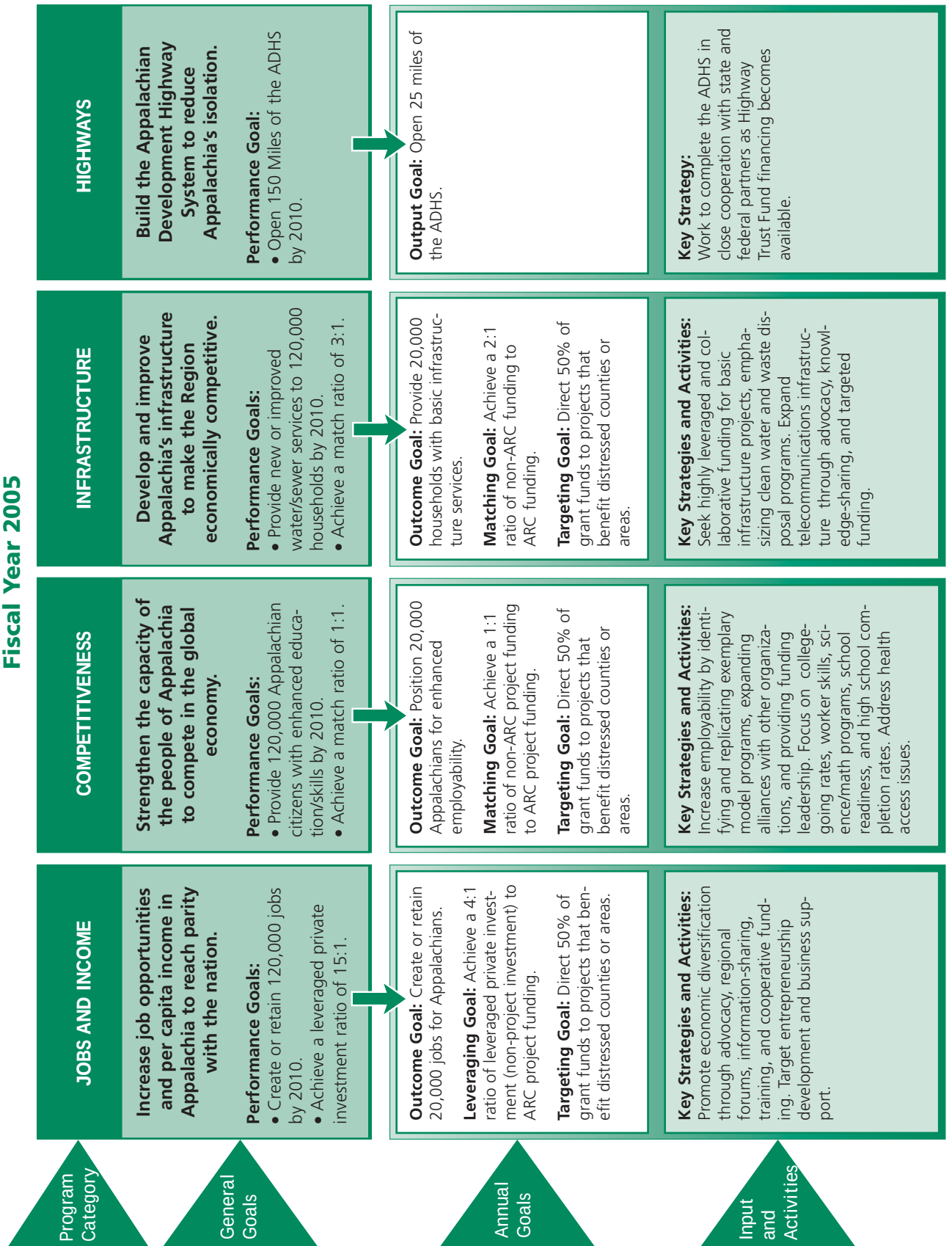
Development of Web-Based Resources

In response to the need to improve the performance measurement processes, ARC awarded a grant in September 2004 for the development of a Web-based tool for grant development, performance measurement, and business process improvements. The Commission’s purpose in undertaking this work is threefold:

1. Improve the quality of performance measurement and outcomes of ARC-supported projects and help meet the evolving performance and budget requirements of OMB;
2. Improve the efficiency of the Commission’s business processes; and
3. Enhance the agency’s capabilities to report to the federal government and the public.

Performance Report

ARC Performance Measurement Framework Fiscal Year 2005



Performance Report

The project was designed to establish a long-term capability that adds the following features:

- Web-based technical assistance tools for applicants, states, and local development districts;
- Stronger project design process, with direct links to ARC's goals and objectives;
- Performance measures and baselines that are established during the project design phase (to assist with measurement during and after project implementation); and
- Opportunities to identify efficiency improvements, report findings, and to make recommendations to improve the process.

Project Validation

Staff validation visits have been a critical part of validating actual program outcomes from the inception of ARC's GPRA compliance program. As a general rule, in each fiscal year ARC validates the outcomes of 40 to 60 projects funded two years earlier. The two-year lag allows time for most projects to be completed, resulting in a more accurate sampling of outcomes.

The validation visits performed by ARC staff yield far more than project outcomes. Grantees are asked a series of questions aimed at providing insight into why their projects were or were not successful in reaching their stated outcomes. The result is a feedback loop that allows ARC to better understand the consequences of its programming and make policy or procedural changes as the need arises.

In situations where a project failed to meet proposed goals, ARC staff consider mitigating circumstances and look for possible trends in an effort to assist other projects faced with similar challenges. Likewise, when a project has exceeded proposed goals, ARC staff attempt to determine why. Analyses from the field validation visits are compiled in an annual internal report.

Project Evaluations: Final Results

A critical component of ARC's GPRA compliance program is independent or external evaluation of ARC programs. Evaluations confirm both the outcomes and the overall effectiveness of projects. Evaluations focus on the extent to which the projects have achieved, or contributed to the attainment of, their objectives. Particular emphasis is placed on assessing the utility and validity of the output and outcome measures. The findings of these project evaluations are summarized and made available to state and local organizations engaged in carrying out projects under the four goals in ARC's strategic plan, and are typically published on ARC's Web site. Summaries of recent evaluations are included in this report under each goal area.

Performance Report

Goal 1: Increase Job Opportunities and Per Capita Income in Appalachia to Reach Parity with the Nation

In partnership with other agencies, ARC will help local and state leaders diversify local economies, support entrepreneurship, increase domestic and global markets, and foster new technologies in order to address job shifts throughout the Region. In addition, ARC will encourage local leaders to build on the opportunities presented by Appalachian highway corridors and to examine natural, cultural, structural, and leadership assets that can create job opportunities while preserving the character of the Region's communities.

FY 2005 Project Examples for Goal 1

1. Business Incubators
2. Entrepreneurship
3. Local Development District Planning and Administration
4. Technical Assistance
5. Tourism Development

Strategic Objective 1.1: Foster Civic Entrepreneurship. This objective supports selected strategies including broad-based leadership, collaboration, partnerships, regional initiatives, strategic planning, training, and consultation.

Strategic Objective 1.2: Diversify the Economic Base. This objective supports selected strategies including development of new businesses and products, modernization and strengthening of existing businesses and their workforce, and increasing awareness of available economic development tools.

Strategic Objective 1.3: Enhance Entrepreneurial Activity in the Region. This objective supports selected strategies including access to investment capital, entrepreneurship training, and technical assistance for businesses.

Strategic Objective 1.4: Develop and Market Strategic Assets for Local Economies. This objective supports selected strategies including identifying local and regional assets, creating strategies for local businesses to capitalize on these assets, and specifically maximizing economic benefits of heritage tourism and craft industries.

Strategic Objective 1.5: Increase the Domestic and Global Competitiveness of the Existing Economic Base. This objective supports selected strategies including research in global and domestic development, aiding small businesses in connecting to national and global markets, and promoting foreign investment in the Region.

Strategic Objective 1.6: Foster the Development and Use of Innovative Technologies. This objective supports selected strategies including expansion and creation of high-tech operations and research, increased support for public-sector science and technology programs, and commercialization of new technologies.

Strategic Objective 1.7: Capitalize on the Economic Potential of the Appalachian Development Highway System. This objective supports selected strategies including strategic planning and development initiatives along completed and future sections of the ADHS, and promoting cooperation between highway and economic development officials.

Performance Report

Per Capita Income

While ARC sets a performance goal for increasing job opportunities in Appalachia, addressing increases in per capita income resulting directly from specific projects is much more difficult. For this reason, ARC depends on tracking trends in per capita market income, as well as on census poverty measures and comparisons between the Appalachian Region and the nation.

Every year ARC assigns each of its 410 counties to one of four economic categories—distressed, transitional, competitive, and attainment—based on a comparison with national averages and critical thresholds for poverty and unemployment rates and per capita market income (per capita income less transfer payments).

- *Distressed counties* are the most economically depressed counties. These counties have a three-year average unemployment rate that is at least 1.5 times the national average; a per capita market income that is two-thirds or less of the national average; and a poverty rate that is at least 1.5 times the national average; OR they have 2 times the national poverty rate and qualify on the unemployment or income indicator.
- *Transitional counties* have economies operating below national norms.
- *Competitive counties* have economies approaching national norms.
- *Attainment counties* have economic indicators that are equal to or better than the national averages.

In FY 2005, 82 counties were designated distressed counties, 300 counties were designated transitional counties (89 of which can be characterized as “at-risk” of returning to distress), 20 were designated competitive counties, and 8 were designated attainment counties.

Performance Goals and Measures

Goal 1 is most closely aligned with the annual performance goals listed under the “jobs and income” program category.

Key Outcome Goal

The strategic plan describes the major outcome measure for the “jobs and income” program category as the number of jobs created or retained. Because Goal 1 is most closely aligned with the annual performance goals listed under the “jobs and income” program category, results for “jobs and income” projects from Goals 1, 2, and 3 are reported under this goal. “Jobs created or retained” is an outcome measure under all three goals. This measure is referred to as “Jobs Created/Retained.”

Performance Report

Annual performance goal for FY 2005: Create/retain 20,000 jobs for Appalachians.

Results for FY 2005: Met 97 percent of goal. The performance goal was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Outcome Goal: Create/Retain 20,000 Jobs for Appalachians	
ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 2002: 35,000 Jobs Created/Retained*	FY 2002: 28,799 Jobs Created/Retained*
FY 2003: 45,000 Jobs Created/Retained*	FY 2003: 30,783 Jobs Created/Retained*
FY 2004: 28,000 Jobs Created/Retained*	FY 2004: 26,142 Jobs Created/Retained*
FY 2005: 20,000 Jobs Created/Retained	FY 2005: 19,346 Jobs Created/Retained

**Prior to ARC's 2005–2010 strategic plan, ARC reported jobs created or retained under four different objectives in two goal areas. The numbers for fiscal years 2002, 2003, and 2004 on this table are totals of numbers reported in prior years under those four objectives.*

Leverage Goal

The leverage performance goal for Goal 1 projects is a ratio of leveraged private investment to ARC investment.

Annual performance goal for FY 2005: Achieve a 4:1 ratio of leveraged private investment to ARC investment.

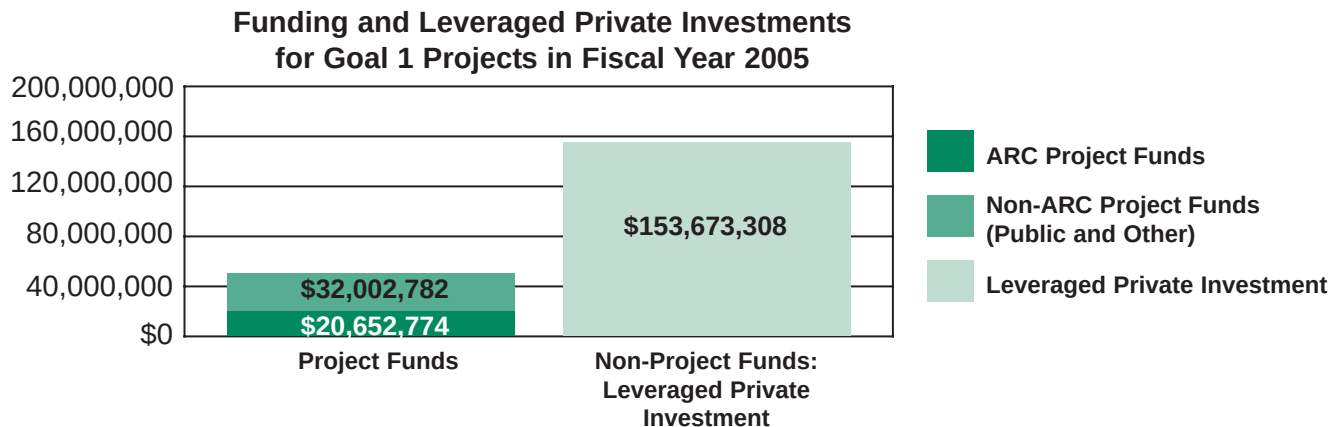
Results for FY 2005: Exceeded goal.

Leveraging Goal: Achieve a 4:1 Ratio of Leveraged Private Investment to ARC Investment	
ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 2005: Achieve a 4:1 ratio of leveraged private investment to ARC investment.	FY 2005: Achieved a 7:1 ratio.

Note: This was not a performance goal reported in the PAR prior to 2005, so there are no previous-year data for comparison.

Performance Report

In FY 2005, ARC's Goal 1 grant funds of \$20,652,774 attracted non-project leveraged private investment of \$153,673,308, and \$32,002,782 in matching project funds from public and other sources.



Targeting Goal

The targeting performance goal for Goal 1 projects is the percentage of funds targeted to distressed counties or areas.

Annual performance goal for FY 2005: Direct 50 percent of grant funds to Goal 1 projects that benefit distressed counties or areas.

Results for FY 2005: Met 90 percent of goal. ARC has set 50 percent targeting as an overall performance goal for all projects, and exceeded that in FY 2005, with 57 percent of all ARC nonhighway project funds directed to distressed counties or areas.

Sub-goals under jobs and income, competitiveness, and infrastructure were established to aid internal analysis and monitoring.

Targeting Goal: Direct 50 Percent of Grant Funds to Distressed Counties or Areas	
ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 2005: Direct 50% of grant funds to benefit distressed counties or areas.	FY 2005: Directed 45% of funds.*

Note: This was not a performance goal reported in the PAR prior to 2005, so there is no previous-year data for comparison.

** This percentage includes projects that primarily benefit distressed counties or areas, and projects where most beneficiaries of the project are in distressed counties or areas.*

Performance Report

Project Validation Sampling

In FY 2005, members of ARC's field validation team surveyed 21 FY 2003 projects with goals for jobs created/retained to compare estimated and actual results for various output and outcome measures.

Number of Projects Surveyed	Projected # of Jobs	Actual # of Jobs	Results Achieved
21	4,638	3,902	84%

The projects validated achieved 84 percent of projected results for jobs created/retained. Much of the discrepancy between the estimated and the actual results is due to the fact that estimates of jobs that will be created or retained by projects are based on what grantees believe will occur within three years of projects' completion. Two years after receiving funding, some projects are still open and some have recently been completed. Many grantees anticipate achieving projected job results within three years of project completion.

Project Evaluation: Final Results

Entrepreneurship

In FY 2001, the Appalachian Regional Commission issued the report *Evaluation of the Early Stages of the Appalachian Regional Commission's Entrepreneurship Initiative*, prepared by Regional Technology Strategies, Inc. The report evaluated 24 entrepreneurship projects that were complete or nearly complete during the 1997–2000 period. The sample was generally representative of the project mix and participation rates by state, as drawn from the 48 projects that were complete or nearly complete. Total ARC funding for these 24 projects was \$2,124,700, which leveraged another \$1,412,000 in funding from other sources. When the evaluation began, 133 projects had been funded.

The study found that three-quarters of the projects had helped firms develop new products or upgrade new technologies. In addition, half of the projects reported starting new businesses, for a total of 304 new firms—46 new firms with employees and 258 firms that were sole proprietorships. A total of 377 new jobs were created by the projects: 69 jobs in new firms, 50 in existing firms, and 258 through self-employment.

Despite the reports of success, it was recognized that this evaluation occurred too early to provide comprehensive results. ARC will conduct another evaluation when enough entrepreneurship projects are complete to gather more statistically significant results. The study also recommended that the program increase the amount of technical assistance provided to grantees, support the development of more internal evaluation and self-monitoring systems within the projects and businesses served, make fewer small grants, recognize the risk inherent in entrepreneurship, and seek to replicate the successful projects.

Performance Report

Capacity Building

In FY 2004, the Appalachian Regional Commission issued the report *Evaluation of the Appalachian Regional Commission's Community Capacity-Building Projects*, prepared by the Westat Corporation. The purpose of the evaluation was to assess factors associated with successful capacity-building projects and to recommend a range of performance measures that could be used to document the impact of successful initiatives. One hundred projects were examined in the study, all of which were funded by ARC between 1995 and 2003. Total ARC funding for the projects was roughly \$7 million. The report's evaluation includes both quantitative and qualitative findings on outcomes, based on multiple sources (i.e., documentary evidence, interviews, and case studies) and incorporated lessons learned about community capacity building, including studies conducted by various foundations, private nonprofits, academic researchers, and federal agencies. Findings of the study are summarized below.

Findings: Most (70 percent) of the 179 outcomes proposed by interviewed projects were successfully achieved. Of the remaining outcomes, 9 percent had not been achieved, 10 percent were still open, and 11 percent lacked information on attainment.

Recommendations: ARC application materials for community capacity-building projects should provide information and examples to help applicants execute and document their approach and outcomes more accurately; ARC should work more closely with applicants during this process. In addition, ARC should provide grantees with written materials on data collection and analysis practices.

Performance Report

Goal 2: Strengthen the Capacity of the People of Appalachia to Compete in the Global Economy

ARC will continue to support local efforts to make all of the Region's citizens productive participants in the global economy. The Commission's focus will be to address a range of educational issues, such as workforce skills, early childhood education, dropout prevention, and improved college attendance; and health issues, such as the recruitment and retention of health-care professionals in areas with documented shortages and the promotion of better health through wellness and prevention measures. In addition, ARC will develop partnerships with other organizations to address the high incidence of life-threatening diseases in the Region.

FY 2005 Project Examples for Goal 2

1. Community Facilities
2. Educational Attainment
3. Disaster Relief
4. Telecommunications Applications
5. Workforce Training

Strategic Objective 2.1: Foster Civic Entrepreneurship. This objective supports selected strategies that include collaboration between businesses and training institutions, youth civic education and participation, and community dialogue on local health issues.

Strategic Objective 2.2: Enhance Workforce Skills through Training. This objective supports selected strategies including new and innovative workforce training and vocational education, and modernization and expansion of existing programs.

Strategic Objective 2.3: Increase Access to Quality Child Care and Early Childhood Education. This objective supports selected strategies including access to, and expansion of, early childhood education programs, and access to quality child care.

Strategic Objective 2.4: Increase Educational Attainment and Achievement. This objective supports selected strategies including preparation for post-secondary-level training, expansion of the Appalachian Higher Education Network, and programs for dropout prevention and increasing the college-going rate.

Strategic Objective 2.5: Provide Access to Health-Care Professionals. This objective supports selected strategies including access to health-care programs, the J-1 Visa Waiver Program, health-care professional training programs, and primary-care systems.

Strategic Objective 2.6: Promote Health through Wellness and Prevention. This objective supports selected strategies including promotion of nutrition, physical activity, and early screening; and programs that promote healthy lifestyles, and help eliminate drug and/or alcohol abuse.

Performance Report

Performance Goals and Measures

Goal 2 is most closely aligned with the annual performance goals listed under the “competitiveness” program category.

Key Outcome Goal

The strategic plan describes the major outcome measure for the “competitive” program category as the number of citizens in the Region that have benefited from enhanced education or job-related skills. Because Goal 2 is most closely aligned with the annual performance goals listed under the “competitiveness” program category, results for “competitive-ness” projects from Goals 1, 2, and 3 are reported under this goal. “Competitiveness” is an outcome measure under all three goals. This outcome measure combines the measures “Students with Improvements” and “Workers/Trainees with Improvements” and is referred to as “Students/Trainees.”

Annual performance goal for FY 2005: Position 20,000 Appalachians for enhanced employability.

Note: ARC’s FY 2005 Performance Budget set a goal of 35,000 for this measure. In August 2004, ARC adopted a new strategic plan that revised this number to 20,000 annually for six years, beginning with FY 2005. Because this is the most recent document, 20,000 has been considered the goal for this measure.

Results for FY 2005: Exceeded goal.

Outcome Goal: Position 20,000 Appalachians for Enhanced Employability	
ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 2002: 17,500 Students/Trainees*	FY 2002: 30,399 Students/Trainees*
FY 2003: 17,500 Students/Trainees*	FY 2003: 53,258 Students/Trainees*
FY 2004: 12,000 Students/Trainees*	FY 2004: 21,190 Students/Trainees*
FY 2005: 20,000 Students/Trainees	FY 2005: 27,652 Students/Trainees

**Prior to ARC’s 2005–2010 strategic plan, ARC reported on trainees with improvements and students with improvements under two different objectives. The numbers for fiscal years 2002, 2003, and 2004 on this table are totals of numbers reported in prior years under those objectives.*

Performance Report

Matching Goal

The matching performance goal for Goal 2 projects is the ratio of non-ARC project matching funds to ARC investment.

Annual performance goal for FY 2005: Achieve a 1:1 ratio of non-ARC matching funds to ARC investment.

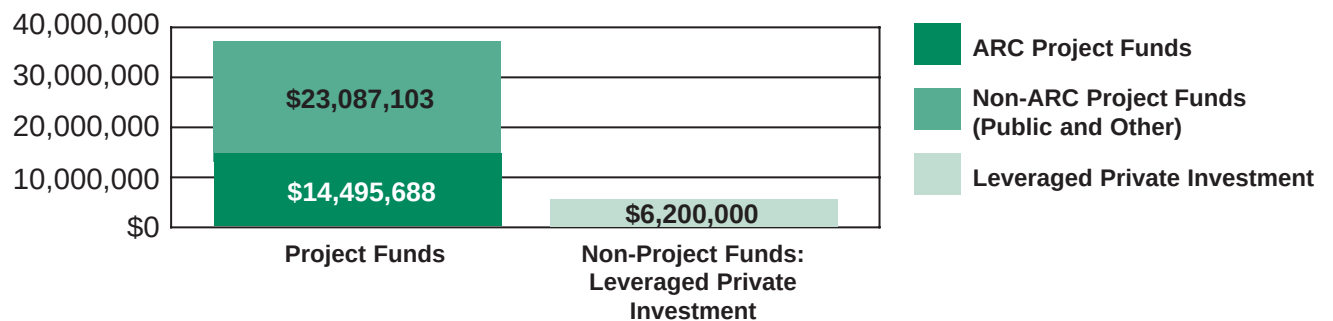
Results for FY 2005: Exceeded goal.

Matching Goal: Achieve a 1:1 Ratio of Non-ARC Matching Project Funds to ARC Investment	
ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 2005: Achieve a 1:1 ratio of non-ARC matching funds to ARC investment.	FY 2005: Achieved a 2:1 ratio.

Note: This was not a performance goal reported in the PAR prior to 2005, so there are no previous-year data for comparison.

In FY 2005, ARC Goal 2 grant funds of \$14,495,688 attracted \$23,087,103 in matching project funds from public and other sources and \$6,200,000 in non-project leveraged private investment.

Funding and Leveraged Private Investment for Goal 2 Projects in Fiscal Year 2005



Targeting Goal

The targeting performance goal for the competitiveness category of measures is the percentage of funds targeted to distressed counties or areas.

Annual performance goal for FY 2005: Direct 50 percent of Goal 2 grant funds to projects that benefit distressed counties or areas.

Results for FY 2005: Exceeded goal.

Performance Report

Targeting Goal: Direct 50 Percent of Grant Funds to Distressed Counties or Areas

ANNUAL PERFORMANCE GOAL

INTERMEDIATE ESTIMATES

FY 2005: Direct 50% of grant funds to projects that benefit distressed counties or areas.

FY 2005: Directed 60% of funds.*

Note: This was not a performance goal reported in the PAR report prior to 2005, so there is no previous-year data for comparison.

** Includes projects that primarily benefit distressed counties or areas and projects where most beneficiaries of the project are in distressed counties or areas.*

Project Validation Sampling

In FY 2005, members of ARC's field validation team surveyed eight FY 2003 projects funded under Goal 2 to compare estimated and actual results for various output and outcome measures.

Number of Projects Surveyed	Projected # of Students/Trainees with Improvements	Actual # of Students/Trainees with Improvements	Results Achieved
8	1,016	1,229	121%

As shown above, the projects achieved 121 percent of projected results for students/trainees with improvements.

Project Evaluation: Final Results

Vocational Education and Workforce Training

In FY 2002, the Appalachian Regional Commission issued the report *Evaluation of the Appalachian Regional Commission's Vocational Education and Workforce Training Projects*, prepared by the Westat Corporation. The study examined 92 projects started and completed during the 1995–2000 period. This sample constituted about one-third of the project universe during the period, after adjusting for continuation projects. A mail survey collected data on project implementation, monitoring, and impact. In addition, five case study site visits were conducted. A two-tier sample of projects was developed to assess the impact before and after full implementation of ARC's performance measurement program in FY 2000. Tier 1 selected 67 projects from the 1995–1999 period; Tier 2 selected 25 projects funded in 2000.

Types of Performance Measured

- Skills obtained; e.g., projects helped participants improve basic skills, academic skills, vocational skills, or employability habits.
- Individual employment gains; e.g., projects helped laid-off workers or underemployed obtain new work; helped those without full-time job experience gain initial full-time jobs; helped employed individuals increase skills, responsibilities, wages, and position.

Performance Report

Project Outcomes

- Forty-five percent of Tier 1 projects achieved all of their objectives; 27 percent achieved all but one objective.
- Only 9 percent (six projects) achieved fewer than half of their objectives.
- The vast majority of projects had quantifiable output measurements, but a higher proportion of Tier 2 projects had clear and quantifiable outputs.

Education

In fiscal year 2001, ARC issued the report *Evaluation of the Appalachian Regional Commission's Educational Projects*, by the Westat Corporation, which assessed the implementation and impact of 84 education projects funded by ARC during the 1990s. The study examined the type of activities projects used to enhance learning opportunities, the extent to which these activities were implemented, the accomplishments associated with these activities, and whether or not the projects were able to sustain themselves beyond the ARC grant period. Of particular interest was the extent to which projects achieved the outcomes set forth in their original proposals to ARC. In addition, site visits were conducted at eight projects that had successfully provided community residents with a new or enhanced educational service.

Types of Performance Measured

- Increased educational attainment; e.g., increased high school completion rates and college-going rates.
- Increased economic well-being; e.g., improved job skills; increased wages.
- Increased family/individual well-being; e.g., improved family stability.
- Reduced barriers; e.g., decreased student behavior problems; increased access to educational support.

Project Outcomes

Study findings indicate that most of the projects in the study reached those segments of Appalachia that are most economically disadvantaged or geographically isolated. Most projects were successful in achieving the outcomes they set forth in their original requests for ARC support:

- Almost three-quarters of projects reported that results met or exceeded original expectations;
- Just under half met expectations;
- Nearly one-third achieved more than planned; and
- Thirteen percent achieved less than planned.

Performance Report

Goal 3: Develop and Improve Appalachia's Infrastructure to Make the Region Economically Competitive

ARC will address the lack of adequate water and sewer systems and telecommunications systems and services in the Region, and will build partnerships to address the critical issue of intermodal connections to improve access to the global market.

Strategic Objective 3.1: Foster Civic Entrepreneurship. This objective supports selected strategies including building capacity to address infrastructure challenges, partnerships and regional efforts, local community infrastructure projects, and strategic planning for capitalizing on ADHS economic development opportunities.

Strategic Objective 3.2: Build and Enhance Basic Infrastructure. This objective supports selected strategies including strategic investments to leverage other funding for water and wastewater systems and expansion of safe, affordable housing stock.

Strategic Objective 3.3: Increase the Accessibility and Use of Telecommunications Technology. This objective supports selected strategies including strategic telecommunications infrastructure, information technology training, e-commerce, telemedicine, and combining telecommunications development with other public infrastructure development.

Strategic Objective 3.4: Build and Enhance Environmental Assets. This objective supports selected strategies including brownfield redevelopment in industrial areas and redevelopment of mine-impacted land, eco-industrial development, and planning and development policies promoting good stewardship of natural resources.

Strategic Objective 3.5: Promote the Development of an Intermodal Transportation Network. This objective supports selected strategies including intermodal economic development studies, inland port location analysis, regional forums, and organizational development to support intermodal connectivity.

FY 2005 Project Examples for Goal 3

1. Sewer System (New)
2. Sewer System (Upgrade)
3. Telecommunications
4. Water System (New)
5. Water System (Upgrade)

Performance Report

Performance Goals and Measures

This goal is most closely aligned with the annual performance goals listed under the “Infrastructure” category of key measures. All projects with this annual performance goal are in Goal 3.

Key Outcome Goal

The strategic plan describes the major outcome measure in the infrastructure category as the number of households served with new or improved water or sewer infrastructure. The key outcome for Goal 3 projects is “Households Served.”

Annual performance goal for FY 2005: Provide 20,000 households with basic infrastructure services.

Results for FY 2005: Exceeded goal. In addition to the numbers recorded below, ARC in FY 2005 funded water storage tank construction and improvement projects that will serve a total of 22,290 households.

Outcome Goal: Provide 20,000 Households with Basic Infrastructure Services	
ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 2002: 30,000 Households Served	FY 2002: 74,105 Households Served
FY 2003: 25,000 Households Served	FY 2003: 23,194 Households Served
FY 2004: 20,000 Households Served	FY 2004: 40,172 Households Served*
FY 2005: 20,000 Households Served	FY 2005: 21,255 Households Served*

**Intermediate estimates for FY 2004 and FY 2005 do not include households served by ARC-funded water storage tank construction and improvement projects.*

Matching Goal

The matching performance goal for Goal 3 projects is the ratio of non-ARC project matching funds to ARC investment.

Annual performance goal for FY 2005: Achieve a 2:1 ratio of non-ARC matching funds to ARC investment.

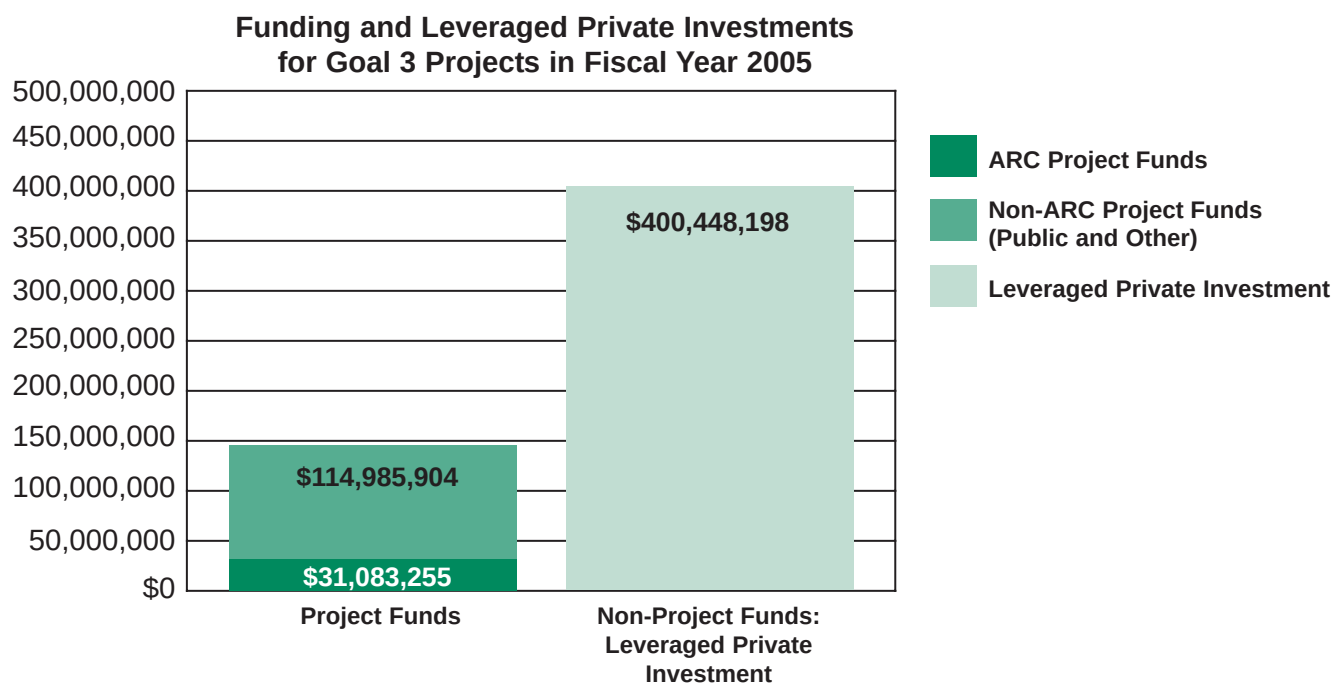
Results for FY 2005: Exceeded goal.

Performance Report

Matching Goal: Achieve a 2:1 Ratio of Non-ARC Matching Project Funds to ARC Investment	
ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 2005: Achieve a 2:1 ratio of non-ARC matching project funds to ARC investment.	FY 2005: Achieved a 4:1 ratio.

Note: This was not a performance goal reported in the PAR prior to 2005, so there is no previous-year data for comparison.

ARC FY 2005 Goal 3 grant funds of \$31,083,255 attracted \$114,985,904 in matching project funds from public and other sources, and \$400,448,198 in non-project leveraged private investment.



Targeting Goal

The targeting performance goal for Goal 3 projects is the percentage of funds targeted to distressed counties or areas.

Annual performance goal for FY 2005: Direct 50 percent of Goal 3 grant funds to projects that benefit distressed counties or areas.

Results for FY 2005: Exceeded goal.

Performance Report

Targeting Goal: Direct 50 Percent of Grant Funds to Distressed Counties or Areas

ANNUAL PERFORMANCE GOAL

FY 2005: Direct 50% of grant funds to projects that benefit distressed counties or areas.

INTERMEDIATE ESTIMATES

FY 2005: Directed 63% of funds.*

Note: This was not a performance goal reported in the PAR prior to 2005, so there is no previous-year data for comparison.

** Includes projects that primarily benefit distressed counties or areas and projects where most beneficiaries of the project are in distressed counties or areas.*

Project Validation Sampling

In FY 2005, members of ARC's field validation team surveyed five FY 2003 projects under Goal 3 to compare estimated and actual results for various output and outcome measures.

Number of Projects Surveyed	Projected # of Households	Actual # of Households	Results Achieved
5	843	815	97%

The projects achieved 97 percent of projected results for households served. The performance goal was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Project Evaluation: Final Results

Infrastructure and Public Works

A new evaluation, *A Program Evaluation of the Appalachian Regional Commission's Infrastructure and Public Works Projects*, is under way. This evaluation will examine approximately 100 projects that have been closed since 1998, including projects such as access roads, housing, industrial parks/sites, and water/sewer projects. In addition, the study will determine the extent to which these projects have achieved or contributed to the attainment of ARC's economic development objectives identified in its strategic plan. In particular, the Commission seeks to verify project outcomes and to assess the utility and validity of specific performance measurements for monitoring and evaluating these types of projects.

Performance Report

In June 2000, ARC issued the report *Evaluation of the Appalachian Regional Commission's Infrastructure and Public Works Program Projects*, prepared by the Brandow Company and Economic Development Research Group. Ninety-nine projects were examined in the study, all of which had been initiated and completed between 1990 and 1997. Total ARC funding for the projects was \$32.4 million. The projects included in the study are representative of the range of infrastructure projects typically funded by the Commission, including industrial parks and sites, water and sewer systems, access roads, and business incubators. The universe of these types of projects during this period was 1,376, of which 663 had been closed. The sample therefore represents 15 percent of closed projects. Findings of the study are summarized below.

- *Job creation:* An estimated 44,731 jobs were created by the projects evaluated in the study. This number includes jobs created directly and indirectly. It does not include retained jobs. Overall, the cost per job created, including jobs created indirectly, was \$2,412. If retained jobs are also counted, the average cost drops to \$1,761 per job.
- *Personal income:* The new jobs led to increased personal income for residents of the affected counties. For each dollar invested in these projects—a one-time public investment—there was approximately \$9 of annual recurring personal income.
- *Non-residential water and sewer projects:* The number of new jobs created was about 62 percent over projections, and the number of new businesses served was almost four times the projected total.
- *Industrial parks projects:* Projections for new businesses and existing households served were exceeded; projections for existing businesses were met; while the percentage of actual jobs retained was slightly lower than projected (91 percent).
- *Incubator projects:* Actual results for new businesses ran more than three times the projections. The number of retained businesses served was double the projection. The number of new jobs created was almost five times the projections; the number of retained jobs was 50 percent above the projection.
- *Industrial access road projects:* The number of new businesses served was greater than four times the projection, while the percentage of retained businesses served was below the projection (77 percent). However, the numbers of new and retained jobs came in above the projection.
- *Recommendations:* The study recommended more follow-up technical assistance to small rural communities, as well as better methods for assessing the quality of jobs created by ARC investments and the amount of private investment in each project.

Water and Sewer Infrastructure Gaps Study

In August 2005, ARC issued the report *Drinking Water and Wastewater in Appalachia, An Analysis of Capital Funding and Funding Gaps* by the University of North Carolina Environmental Finance Center. This report analyzes the conditions of water and wastewater services in the Appalachian Region and attempts to assess the financial requirements and strategies available to improve the quality of drinking water and wastewater services in the Region, particularly in the areas that face chronic economic distress and clear deficiencies in these services. The analyses are based on major data sources compiled by the Environmental Protection Agency (EPA), the U.S. Geological Survey, and the U.S. Census Bureau, as well as private credit-rating agencies. In addition, detailed case studies are developed to examine specific community-level services, issues, and practices.

Performance Report

The analysis shows that on average, community water systems in distressed counties have greater needs per person served (\$497) than systems in non-distressed counties (\$191–\$353). Based on an analysis of EPA needs surveys data, communities in Appalachia report approximately \$26 billion in water and wastewater infrastructure needs. However, there is ample evidence that communities will actually have to pay far more than this to ensure services that meet basic public health and environmental standards since the estimate does not include the additional funds needed to address operation and maintenance costs or the thousands of substandard and failing individual wells and onsite sanitation systems (septic systems to straight pipes). Including these other factors could raise the total capital needs to the range of \$35 billion to \$40 billion.

The study also demonstrates that needs identified by the EPA's *Clean Water Needs Survey* were significantly and positively related to the distribution of water and wastewater infrastructure funding in Appalachia. The relationship between funding distributions and National Pollutants Discharge Elimination System compliance violations was significant and positive. Likewise, the relationships between funding distributions and waterborne diseases were significant and positive. The relationship between septic system density and funding, although significant, was negative; on average, counties with higher densities of septic systems received less public funding than counties with lower densities of septic systems. This latter finding is likely attributable to a fundamental characteristic of infrastructure funding: it tends to flow to communities with existing large public systems.

Performance Report

Goal 4: Build the Appalachian Development Highway System to Reduce Appalachia's Isolation

Some of the Region's most persistent economic problems stem from geographic isolation brought about by mountainous terrain. The Appalachian Development Highway System (ADHS) was designed to connect Appalachia to the national interstate system and provide access to areas within the Region as well as to markets in the rest of the nation. The strong partnership of ARC, the U.S. Department of Transportation (U.S. DOT), and state departments of transportation will continue to oversee the planning and construction of the Appalachian Development Highway System. ARC will work to identify and overcome barriers to the timely completion of the ADHS.

Strategic Objective 4.1: Foster Civic Entrepreneurship. This objective supports selected strategies including local and multi-jurisdictional forums to reduce barriers to completion of the ADHS and collaboration among state departments of transportation, the U.S. DOT, and other state and federal agencies involved in economic development.

Strategic Objective 4.2: Promote On-Schedule Completion of the ADHS. This objective supports selected strategies including working with federal and state DOTs to identify and overcome barriers in the location-study and design phases, supporting efforts to obligate the maximum amount of the annual appropriation for ADHS construction, accelerating construction of final phases, and promoting development that preserves cultural and natural resources of the Region while enhancing economic opportunity.

Strategic Objective 4.3: Coordinate Work on ADHS State-Line Crossings. This objective supports selected strategies including coordination of technical information, funding disbursements, and construction scheduling between adjoining states to complete state-line crossings of ADHS corridors.

Performance Goal and Measures

This goal is most closely aligned with the annual performance goal listed under the "Highways" category of key measures.

Key Output Goal

Annual performance goal for FY 2005: Open 25 miles of the ADHS.

Result for FY 2005: Met 77 percent of goal. At the end of FY 2005, a total of 2,498 miles, or 81 percent, of the 3,090 miles authorized for the ADHS were open to traffic and 135 more were under construction. Another 189 miles were in the final design or right-of-way acquisition phase, and 268 miles were in the location study phase. (Note: These are preliminary figures based on initial reporting from the states.) While the administration and Congress are committed to completing the ADHS, this will be a difficult undertaking, as some of the most challenging portions of the ADHS are yet to be constructed. In addition, it is expected that the 135 miles under construction will be opened to traffic within the next three years, which will more than meet the long-term performance goals.

Performance Report

Output Goal: Open 25 Miles of the ADHS to Traffic

ANNUAL PERFORMANCE GOAL

INTERMEDIATE ESTIMATES

FY 2005: Open 25 miles of the ADHS.

FY 2005: Opened 19.3 miles of the ADHS.

Note: This was not a performance goal reported in the PAR report prior to 2005, so there is no previous year data for comparison.

Project Validation Sampling

The ADHS program is not funded through ARC's appropriation. Therefore, ARC validation visits are not performed on the ADHS. Instead, ARC staff prepare a status report each year on the development of the ADHS based on information from the Federal Highway Administration and state departments of transportation.

Project Evaluation: Final Results

Economic Impact of Completing the ADHS

In FY 2005, ARC commissioned two separate initial design studies for an impact assessment methodology that will be used in a two-year, large-scale study on the economic impact of completing the ADHS. The study would go beyond a 1998 report by Wilbur Smith Associates (discussed below) that examined the impact of the completed portions of 12 corridors of the ADHS, but did not explore the benefits of the completed network. In addition, the planned study would estimate the potential effects on business site location, the competitive advantage to local industries, pass-through road-side business, tourism, and residential site development. Finally, the study would provide quantitative estimates of social benefits arising from the improved access to health services, educational services and cultural amenities, and adjacent metropolitan areas.

ADHS Economic Impact

In 1998, ARC published a research report undertaken by Wilbur Smith Associates to conduct a comprehensive study of the economic benefits of the ADHS. Appalachian Development Highways Economic Impact Studies focused on the contributions of completed portions of 12 corridors within the system. The portions studied totaled 1,417.8 miles and traversed 165 counties. The objective of the study was to quantify regionally specific economic development impacts (as measured by jobs, wages, and value added) as well as impacts on travel efficiencies. The study found that the completed sections of the 12 corridors had created jobs (an estimated net increase of 16,000 jobs by 1995) and showed a solid return on investment (\$1.18 in travel-efficiency benefits and \$1.32 in economic benefits gained for each dollar invested in construction and maintenance). The study concluded that the ADHS can take credit for highway-related growth in Appalachia and demonstrated that the completed portions of the ADHS have been a good investment.

Performance Report

SUMMARY OF ACHIEVEMENTS

Performance Goals and Results for FY 2005 Projects

ANNUAL PERFORMANCE GOAL	FISCAL YEAR 2005 INTERMEDIATE ESTIMATES	RESULTS
Jobs and Income		
<i>Key Outcome Goal:</i> 20,000 jobs created or retained	19,346 Jobs created or retained	Met 97% of goal
<i>Leveraging Goal:</i> Achieve a 4:1 leveraged private investment to ARC investment ratio for projects in Goal 1	Achieved a 7:1 ratio	Exceeded goal
<i>Targeting Goal:</i> Direct 50% of grant funds to benefit distressed counties or areas for projects in Goal 1	Directed 45% of funds*	Met 90% of goal
Competitiveness		
<i>Key Outcome Goal:</i> 20,000 students/trainees with improvements	27,652 students/trainees with improvements	Exceeded goal
<i>Matching Goal:</i> Achieve a 1:1 non-ARC to ARC investment ratio for projects in Goal 2	Achieved a 2:1 ratio	Exceeded goal
<i>Targeting Goal:</i> Direct 50% of grant funds to benefit distressed counties or areas for projects in Goal 2	Directed 60% of funds*	Exceeded goal
Infrastructure		
<i>Key Outcome Goal:</i> 20,000 Households Served	21,255 households served	Exceeded goal
<i>Matching Goal:</i> Achieve a 2:1 non-ARC to ARC investment ratio for projects in Goal 3	Achieved a 4:1 ratio	Exceeded goal
<i>Targeting Goal:</i> Direct 50% of grant funds to benefit distressed counties or areas for projects in Goal 3	Directed 63% of funds*	Exceeded goal
Highways		
<i>Key Output Goal:</i> Open 25 miles of ADHS	Opened 19.3 miles of ADHS	Met 77% of goal

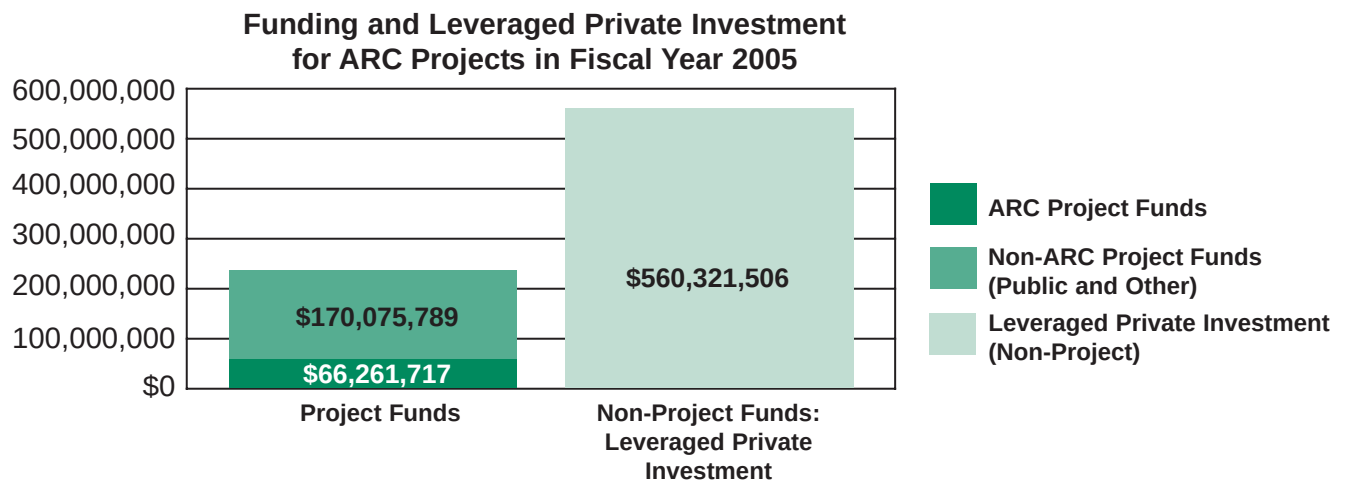
*Project funds are included if the project primarily or substantially benefits distressed counties or areas.

Performance Report

LEVERAGING, MATCHING, AND TARGETING SUMMARY for All ARC Nonhighway Projects Fiscal Year 2005

Leveraged private investment	\$560,321,506	8:1 ratio of leveraged private investment to ARC investment
Non-ARC matching project funds	\$170,075,789	3:1 ratio of non-ARC project investment to ARC project investment
ARC project funds targeted to distressed counties or areas	\$37,588,717*	57% of total ARC project funds directed to projects that benefit distressed counties or areas*

*Project funds are included if the project primarily or substantially benefits distressed counties or areas.



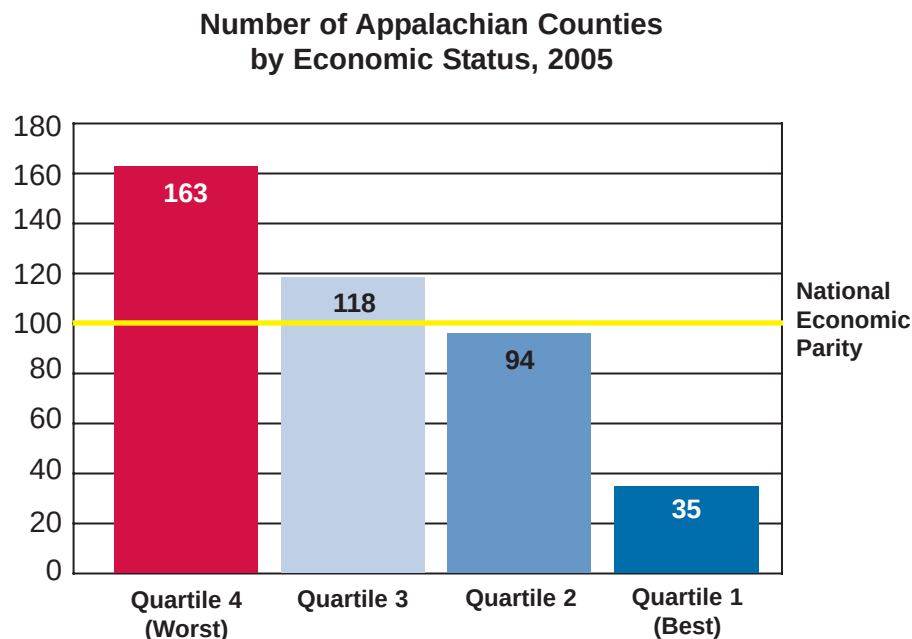
Performance Report

MEASURING PROGRESS TOWARD THE ARC VISION

ARC's overall vision for Appalachia is for the Region to achieve socioeconomic parity with the nation. One way to measure progress of the Region toward this vision is to look at the economic status of Appalachian counties in comparison with all counties nationwide.

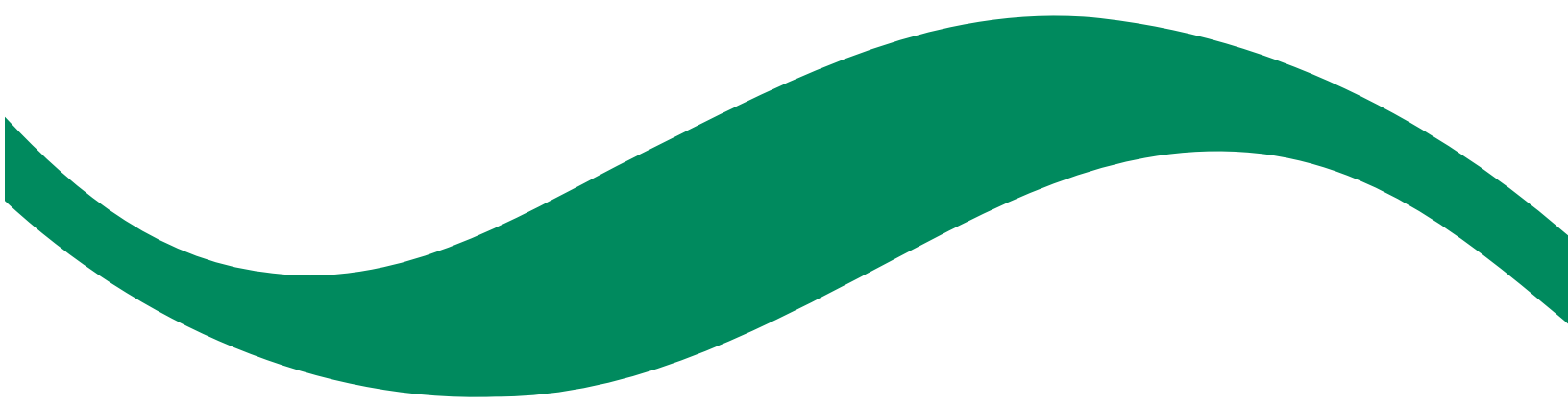
In order to provide a single unified measure of regional progress and economic change, ARC has developed an index to track improvement over time. Drawing on the three variables ARC uses annually to determine the economic status of the Region's 410 counties, staff have developed a national composite index of distress. The three variables (three-year annual unemployment, per-capita market income, and decennial poverty rates) are applied to each county in the nation and compared with national averages. The resulting values are summed, averaged, and ranked to create four quartiles with approximately equal number of counties in each group.

Using this index, ARC can compute annually the number of Appalachian counties in each quartile, as well as an overall regional index value. This can be directly compared with the national index value to measure progress. In addition, progress can be clearly measured by reductions in the number of Appalachian counties in the worst quartile. As the figure below shows, despite a large reduction in the number of distressed counties in Appalachia over the past several years, the Region continues to have a disproportionately high number of counties with underperforming economies and a smaller share of counties with strong economies, compared with the rest of the nation.





PART III: FISCAL YEAR 2005 FINANCIAL REPORT



Financial Report



Message from the Executive Director

The executive director of the Appalachian Regional Commission is appointed by the federal co-chair and the governors of the 13 member states to be the chief executive officer of the organization, a responsibility that includes financial management. ARC recognizes its responsibility to demonstrate to the American public that it exercises proper stewardship of the public resources entrusted to it. The financial statement in this Performance and Accountability Report fairly presents the financial position of ARC.

I am very pleased to report that M.D. Oppenheim and Company, the independent auditor of ARC's financial statement for 2005, has rendered an unqualified opinion about the adequacy of the statement. The independent audit was performed in cooperation with the Office of Inspector General (OIG). This is the third consecutive year with an unqualified opinion.

The Commission maintains clearly written financial management guidelines governing accounts, payments, procurement, administration, and travel policy. The guidelines are provided to all staff and are reviewed at least annually and are amended to reflect changes in policy or revised procedures resulting from tests of internal controls.

ARC has developed a plan of internal control review that takes a team approach to analyzing and testing internal controls. In addition, the agency IT security plan was revised on the basis of guidance from the National Institute of Standards and Technology, and security was tested both internally and externally to ensure that appropriate protections are in place for financial and other systems. Wherever possible, technology has been used to enhance program and financial accountability.

Even though the Commission is a very small organization by federal agency standards, it has an Office of Inspector General dedicated to monitoring and auditing ARC programs and grants. The OIG has been an important resource in helping ARC take proactive measures to ensure the integrity of its operations and financial management.

On behalf of the entire Commission, I pledge a continued commitment to promptly address all financial management issues that need further attention and to maintain the strengths the Commission has achieved.

A handwritten signature in black ink that reads "Thomas M. Hunter".

Thomas M. Hunter

November 15, 2005

Report of Independent Audit





Financial Report



Office of Inspector General

November 14, 2005

Memorandum for The Federal Co-Chair
 ARC Executive Director

Subject: OIG Report 06-01
 FY 2005 Financial Statement Audit
 and Accompanying Documents

The enclosed report presents the results of the audits of the Commission's financial statements for the fiscal years ended September 30, 2005 and 2004. The report should be read in conjunction with the Commission's financial statements and notes to fully understand the context of the information contained therein.

The Appalachian Regional Commission contracted with the independent certified public accounting firm of M.D. Oppenheim & Company, P.C. to audit the financial statements of the Commission as of and for the years ended September 30, 2005 and 2004. In its audit, M.D. Oppenheim & Company, P.C. found the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

The Accountability of Tax Dollars Act of 2002 requires ARC to prepare and submit audited financial statements and to consolidate the audited financial statements and other financial and performance reports into a combined Performance and Accountability Report in accordance with OMB Bulletin 01-09, Form and Content of Agency Financial Statements.

However, because the Commission is a regional development agency designed to function as a federal, state, and local partnership and is not a federal entity, the Commission concluded that the reporting formats established by the Financial Accounting Standards Board (FASB) would provide more meaningful information to users of ARC's financial statements than would be available if standards recommended by the Federal Accounting Standards Advisory Board (FASAB) were followed. Under either set of standards, the Commission determined that the financial condition and results of operations would not result in a significant difference in the recognition and measurement of ARC's accounting transactions and events. Therefore, the Commission's financial statements have been prepared in accordance with standards set by FASB.

The audit was conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. The results of the audit were discussed with Commission officials and the OIG throughout the audit. The auditors' reported that improvement was made during FY 2005 to address the prior year finding and recommendation on compliance, but closure is pending full implementation of the corrective action plan.

Financial Report

M.D. Oppenheim & Company, P.C., also identified two additional matters presenting opportunities for strengthening internal controls and operating efficiency. They are communicated in a separate letter dated October 28, 2005 for management's consideration and is attached under separate cover.

M.D. Oppenheim & Company, P.C is responsible for the attached auditors' report dated October 28, 2005 and the conclusions expressed in the report. We do not express opinions on the Appalachian Regional Commission's financial statements or internal controls.

In connection with the contract, we reviewed M.D. Oppenheim & Company's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted auditing standards, was not intended to enable us to express, and we do not express, opinions on the Appalachian Regional Commission's financial statements or internal control. M.D. Oppenheim & Company, P.C is responsible for the attached auditors' report dated October 28, 2005 and the conclusions expressed in the report. However, our review disclosed no instances where M.D. Oppenheim & Company, P.C did not comply, in all material respects, with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States.

As noted in the letter, the consideration of internal controls was for the limited purpose of auditing the financial statements. My office is currently performing a more comprehensive audit of the internal controls.

I appreciate the cooperation given by the Finance and Administration Division to my office and M.D. Oppenheim & Company, P.C., during the audit.



Clifford H. Jennings
Inspector General

Attachments

cc: Director, Finance and Administration Division

Appalachian Regional Commission

Financial Statements and
Independent Auditors' Report

September 30, 2005 and 2004

 **M.D. OPPENHEIM & COMPANY, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

APPALACHIAN REGIONAL COMMISSION

SEPTEMBER 30, 2005 and 2004

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Financial Report



To the Commission Members
Appalachian Regional Commission
Washington, DC

Independent Auditors' Report

We have audited the accompanying balance sheets of the Appalachian Regional Commission ("ARC") as of September 30, 2005 and 2004, and the related statements of operations and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of ARC's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Appalachian Regional Commission as of September 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 14 and 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2005 on our consideration of ARC's internal controls



Affiliated Offices Worldwide



Financial Report

The Commission Members
Appalachian Regional Commission
Washington, DC

over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of the audit.

M.D. Oppenheim & Company, P.C.

Silver Spring, Maryland
October 28, 2005

Financial Report

APPALACHIAN REGIONAL COMMISSION Balance Sheets September 30, 2005 and 2004

	2005	2004
ASSETS		
Current assets		
Fund balance with U.S. Treasury	\$ 61,537,066	\$ 59,904,165
Cash in commercial institutions	71,117	88,026
Total cash	61,608,183	59,992,191
Advances to grantees	-	864,383
Total current assets	61,608,183	60,856,574
Business development revolving loan funds	28,942,787	26,541,791
Equipment and software (net)	-	13,394
TOTAL ASSETS	\$ 90,550,970	\$ 87,411,759
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 1,177,477	\$ 1,949,420
Center for Disease Control and Prevention grants	750,000	-
Accrued pension liability	1,683,124	985,567
Accrued leave	386,370	353,589
Accrued payroll and taxes payable	241,706	211,355
Other accrued liabilities	75,754	92,469
Total current liabilities	4,314,431	3,592,400
Net position	86,236,539	83,819,359
TOTAL LIABILITIES AND NET POSITION	\$ 90,550,970	\$ 87,411,759

See accompanying notes and Independent Auditors' Report.

Financial Report

APPALACHIAN REGIONAL COMMISSION Statements of Operations and Changes in Net Position Years ended September 30, 2005 and 2004

	2005	2004
REVENUES		
Appropriations	\$ 65,472,000	\$ 65,610,600
Less: Grant transfers to other agencies	(26,160,682)	(20,206,551)
Appropriations (net)	39,311,318	45,404,049
Appalachian Development Highway System administrative revenue	1,064,200	691,194
State contributions	3,164,000	3,111,000
Other revenue	273,833	196,819
Total revenues	43,813,351	49,403,062
EXPENSES		
Area development grants	32,170,267	36,856,758
Office of the Federal Co-Chair and Inspector General	1,724,265	1,759,893
Commission management and administration	7,501,639	8,091,546
Total expenses	41,396,171	46,708,197
NET INCOME	2,417,180	2,694,865
Net position, beginning of period	83,819,359	81,124,494
NET POSITION, END OF PERIOD	\$ 86,236,539	\$ 83,819,359

See accompanying notes and Independent Auditors' Report.

Financial Report

APPALACHIAN REGIONAL COMMISSION Statements of Cash Flows Years ended September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Net income	\$ 2,417,180	\$ 2,694,865
Adjustments to reconcile income to net cash provided by operating activities:		
Depreciation	13,394	25,898
Changes in assets and liabilities:		
Accounts receivable	-	400,000
Business development revolving loan funds	(2,400,996)	(31,320)
Advances to grantees	864,383	177,883
Accounts payable	(771,943)	(563,616)
Center for Disease Control and Prevention grants	750,000	(523,053)
Accrued pension liability	697,557	411,145
Accrued leave	32,781	28,950
Accrued payroll and taxes payable	30,351	36,195
Other accrued liabilities	(16,715)	52,916
Net cash provided by operating activities	1,615,992	2,709,863
Net increase in cash	1,615,992	2,709,863
Cash at beginning of year	59,992,191	57,282,328
CASH AT END OF YEAR	\$ 61,608,183	\$ 59,992,191

Supplemental disclosures:

No amounts were paid for Interest and Taxes in 2005 or 2004.

See accompanying notes and Independent Auditors' Report.

APPALACHIAN REGIONAL COMMISSION Notes to Financial Statements Years ended September 30, 2005 and 2004

Note A – Organization and Mission

The Appalachian Regional Commission ("ARC") was established under the Appalachian Regional Development Act of 1965, as amended, the Appalachian Regional Development Reform Act of 1998 and the Appalachian Regional Development Act Amendments of 2002. ARC is a regional development agency designed to function as a Federal, state, and local partnership. ARC is not a Federal executive branch agency (as defined in Title 5 and 31 of the United States Code and by the Department of Justice).

Commission members are comprised of a Federal member (Federal Co-Chair), who is appointed by the President, and the governors of each of the thirteen states in the Appalachian Region. The state members elect a State Co-Chair from their members. There is an Executive Director and Program and Administrative Offices that implement the policies and procedures established by the Federal and State Co-Chairs. ARC personnel are comprised of both Federal and non-Federal employees.

ARC supports economic and social development in the Appalachian Region. The Appalachian Region is a 200,000 square mile region from the Appalachian Mountains in Southern New York to Northern Mississippi. The ARC programs affect approximately 410 counties located in thirteen states including all of West Virginia and parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia.

Note B – Summary of Significant Accounting Policies

- 1. Major Programs** – ARC is authorized to fund area and other development programs including education, workforce training, water and sewer construction, housing, leadership development, small business start-ups and expansions and development of health care resources. In executing its programs, local communities and Federal agencies provide administrative and technical services. ARC utilizes approximately 10 Federal departments and agencies to administer, disburse funds, and account for its infrastructure and other programs including the Department of Housing and Urban Development, Environmental Protection Agency, Rural Development Agency, and the Department of Health and Human Services. ARC is responsible for allocating funds to the projects and for the management and administration of all projects.
- 2. Basis of Accounting** – The accompanying financial statements have been prepared using the accrual method of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred. Appropriations are recognized as revenue when appropriated and available.

APPALACHIAN REGIONAL COMMISSION Notes to Financial Statements Years ended September 30, 2005 and 2004

Note B – Summary of Significant Accounting Policies (continued)

3. **Financing Sources** – ARC receives annual no-year Federal appropriations to provide grants to the entities within the Appalachian Region and to fund its operations. The state members also contribute funds to ARC operations. Funds are allocated to thirteen states and are available until expended. States can generally decide how their allocations will be used for ARC programs.
4. **Fund Balance with U.S. Treasury** – Cash receipts and disbursements for operations and the area development programs are processed by the U.S. Department of Treasury. Funds held by the Department of Treasury represent funds available for operations.
5. **Cash in Commercial Institutions** – ARC uses commercial bank accounts to accommodate collections and payments that cannot be processed by the U.S. Department of Treasury.
6. **Advances to Grantees** – Unexpended grant funds in the hands of grantees at the end of the fiscal year are reclassified as advances.
7. **Equipment and Software** – Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets of three to five years.
8. **Retirement Plans** – ARC Federal employees participate in Federal retirement plans. ARC non-Federal employees participate in the ARC Pension and 401(k) plan.
9. **Accrued Pension Liability** – ARC recognizes and records a liability for post-retirement benefits other than pension in accordance with the Statement of Financial Accounting Standards (SFAS) No. 106, *Employer's Accounting for Post-retirement Benefits Other Than Pensions*.
10. **Accrued Leave** – Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year the balance in the accrued annual leave account is adjusted to reflect current accrual at current pay rates.
11. **Use of Estimates** – The preparation of the accompanying financial statements requires management to make estimates and assumptions about certain estimates included in the financial statements. Actual results will invariably differ from those estimates.

APPALACHIAN REGIONAL COMMISSION Notes to Financial Statements Years ended September 30, 2005 and 2004

Note B – Summary of Significant Accounting Policies (continued)

12. **Income Tax Status** – ARC is exempt from Federal income tax under § 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation.

Note C – Business Development Revolving Loan Funds

ARC established business development revolving loan funds (RLF) grants to provide pools of funds to be made available to grantees to create and retain jobs. Various entities (grantees) within the thirteen states were provided with loan capitalization funds. These funds are loaned to borrowers who qualify with program objectives. The earnings (interest and fees) net of expenses (including bad debt) are available to the grantees to make additional loans.

Grantees return the funds to ARC when they terminate the RLF. Grantees that have income in excess of expenses (net income) return the excess funds to ARC, and ARC deposits the net income funds in the U.S. Treasury general fund. Grantees that have net losses return the funds to ARC net of the losses. Grant balances that are returned are added back to the state allocation.

The following summarizes the RLF balances at September 30:

		2005		2004
RLF Funds Obligated	\$	33,435,470	\$	31,838,321
RLF Funds Advanced		28,942,787		26,541,791
RLF Loans Outstanding		34,261,278		31,139,964

Note D – Equipment and Software

Equipment and software consists of the following at September 30:

		2005		2004
Equipment	\$	69,194	\$	69,194
Software		48,422		48,422
Subtotal		117,616		117,616
Less: Accumulated depreciation		(117,616)		(104,222)
Equipment and software (net)	\$	-	\$	13,394

Depreciation expense for the years ended September 30, 2005 and 2004 was \$13,394 and \$25,898, respectively.

Financial Report

APPALACHIAN REGIONAL COMMISSION Notes to Financial Statements Years ended September 30, 2005 and 2004

Note E – Grant Transfers to Other Federal Agencies

ARC transfers funds to basic agencies to oversee economic and social development projects in the Appalachian Region. ARC records the funds transferred as contra revenue at the time the transfer is made. ARC transferred or received funds as follows:

	2005	2004
Department of Transportation	\$ 688,000	\$ 450,000
US Army Corps of Engineers	(493,000)	-
Economic Development Administration	2,323,298	2,434,102
Environmental Protection Agency		60,000
Department of Agriculture	12,325,976	15,700,000
Department of Housing and Urban Development	11,316,408	1,414,290
Department of Health & Human Services		148,159
	\$ 26,160,682	\$ 20,206,551

Note F – Retirement and Other Post-Employment Benefit Plans

Federal

ARC participates in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) for Federal and certain non-Federal employees. The CSRS and FERS plans are administered by the U.S. Office of Personnel Management (OPM). ARC makes contributions at rates applicable to agencies of the Federal government. The contributions do not equal the full service cost of the pension expense, which is the actuarial present value of benefits attributed to services rendered by covered employees during the accounting period. The measurement of service costs requires the use of actuarial cost methods to determine the percentage of the employees' basic compensation sufficient to fund their projected pension benefit. These percentages (cost factors) are provided by OPM.

The excess of total pension expense over the amount contributed by ARC and ARC employees represents the amount which must be financed directly by OPM. ARC does not recognize in its financial statements these excess amounts as they are deemed to be immaterial.

Contributions to these plans for FY 2005 were \$44,099 and \$69,879 for CSRS and FERS, respectively, and contributions for FY 2004 were \$47,094 and \$63,580 for CSRS and FERS, respectively.

APPALACHIAN REGIONAL COMMISSION Notes to Financial Statements Years ended September 30, 2005 and 2004

Note F – Retirement and Other Post Employment Benefit Plans (continued)

Several employees also participate in the Federal Employees Health Benefit plan (FEHB) and the Federal Employees Group Life Insurance program (FEGLI), also administered by OPM. ARC pays the cost of current employees. Post-retirement benefits are paid by OPM. No amounts have been recognized in the financial statements for these imputed costs as they are not deemed material. Contributions to these plans for FY 2005 were \$56,862 and \$2,234 and for FY 2004 \$54,466 and \$2,187 for FEHB and FEGLI, respectively.

ARC does not report in its financial statements CSRS, FERS, FEHB or FEGLI assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees.

ARC also contributed \$25,894 and \$18,390 to the Federal Thrift Savings plan for all eligible employees for the years ended September 30, 2005 and 2004, respectively.

Non-Federal

ARC has a Defined Benefit Pension Plan which was open to all employees not participating in CSRS and FERS. The plan was closed in February 2000 to further entry. The Commission uses a July 1 measurement date for its plan. Plan information at September 30 consists of the following:

	<u>2005</u>	<u>2004</u>
Benefit obligation	\$ (11,415,578)	\$ (8,298,531)
Fair value of plan assets	3,313,848	2,719,287
Funded status	\$ (8,101,730)	\$ (5,579,244)
Accrued benefit cost recognized in the balance sheet	\$ 1,683,124	\$ 985,567

	<u>2005</u>	<u>2004</u>
Employer contribution	\$ 467,777	\$ 1,164,693
Participant contribution	25,815	22,700
Benefits paid	121,609	4,487
Net periodic benefit costs	1,165,334	1,575,838

The accumulated benefit obligation was \$9,070,903 and \$6,498,195 at September 30, 2005 and 2004, respectively.

Financial Report

APPALACHIAN REGIONAL COMMISSION Notes to Financial Statements Years ended September 30, 2005 and 2004

Note F – Retirement and Other Post-Employment Benefit Plans (continued)

Additional Information

Weighted-average of assumptions used to determine benefit obligations at September 30:

	<u>2005</u>	<u>2004</u>
Discount rate	4.75%	5.75%
Rate of compensation increase	4.51	4.08

Weighted-average of assumptions used to determine net periodic benefit cost for the years ended September 30:

	<u>2005</u>	<u>2004</u>
Discount rate	5.75%	5.25%
Expected return on plan assets	7.50	7.50
Rate of compensation increase	4.08	4.08

Historical returns of multiple asset classes were analyzed to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return, and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation plan.

Plan Assets

Pension plan weighted-average asset allocations at September 30, 2005 and 2004 are as follows:

<u>Asset Category</u>	<u>2005</u>	<u>2004</u>
Equity securities	30.00%	31.00%
Debt securities	65.00	64.00
Real estate	5.00	5.00
Total assets	<u>100.00%</u>	<u>100.00%</u>

The Commission's investment strategy is a long-term, risk-controlled approach using diversified investment options with a minimal exposure to volatile investment options like derivatives.

The Commission expects to contribute \$1,003,203 to the plan in FY2006.

APPALACHIAN REGIONAL COMMISSION Notes to Financial Statements Years ended September 30, 2005 and 2004

Note F – Retirement and Other Post-Employment Benefit Plans (continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Pension Benefits
2006	\$ 2,320,000
2007	1,870,000
2008	480,000
2009	37,000
2010	570,000
Years 2011 – 2015	6,020,000

ARC also maintains a 401(k) plan covering substantially all non-Federal employees. ARC contributed \$146,018 and \$150,637 for the years ended September 30, 2005 and 2004, respectively.

Note G – Lease

ARC's lease for its office space provides for increases in annual base rent based on consumer price index increases, and payment of a portion of the increases in building operating expenses and real estate taxes. The lease commenced on April 30, 1996 and extends through December 31, 2007. Future minimum lease payments required under this non-cancelable lease are as follows:

Year Ended September 30,	Amount
2006	\$ 570,000
2007	142,500
Total	\$ 712,500

Rent expense for the years ended September 30, 2005 and 2004 was \$667,188 and \$686,556, respectively.

Additional Information

APPALACHIAN REGIONAL COMMISSION Additional Information (Unaudited) Years ended September 30, 2005 and 2004

Appalachian Development Highway System (Appropriated Funds held by the U.S. Department of Transportation)

Congress authorized approximately \$9.7 billion for the construction of the Appalachian Development Highway System (ADHS) through fiscal year 2009. When it is complete, there will be a 3,090 mile regional system. The purpose of the ADHS is to generate economic development in previously isolated areas, supplement the national interstate system, connect Appalachia to the interstate system, and provide access to the Appalachian Region.

The U.S. Department of Transportation (DOT) funds the ADHS primarily through the Highway Trust Fund, from which Congress authorizes annual obligation ceilings for the program. Periodically, additional funds may be provided by direct appropriation to the DOT. ARC exercises policy and programmatic control over the ADHS, including the responsibility to set policy for allocating funds to the states, and DOT is accountable for the funds. The program includes flexibility for states to use some highway funds for access road development, and ARC exercises approval for such projects.

The following is a summary of the balances and activity related to the ADHS for FY 2005:

	Unexpended Authority as of 10/1/2004	FY 2005 Authorizations	FY 2005 Expenditures	Unexpended Authority as of 9/30/2005
DOT				
Appropriations	\$ 282,721,504	\$ 124,262,500	\$ (199,343,291)	\$ 207,640,713
Highway Trust Fund Obligation Ceiling	1,193,763,879	385,374,150	(206,895,544)	1,372,242,485
Total	\$ 1,476,485,383	\$ 509,636,650	\$ (406,238,835)	\$ 1,579,883,198

Status of budgetary resources as of September 30, 2005:

	Obligated Balance	Unobligated Balance	Total
DOT Appropriations	\$ 113,515,332	\$ 94,125,381	\$ 207,640,713
Highway Trust Fund Obligation Ceiling	531,679,912	840,562,573	1,372,242,485
	\$ 645,195,244	\$ 934,687,954	\$ 1,579,883,198

Financial Report

APPALACHIAN REGIONAL COMMISSION Additional Information (Unaudited) Years ended September 30, 2005 and 2004

Federal Budgetary Data

The following summarizes the budgetary data related to ARC's Federal appropriations for the year ended September 30:

BUDGETARY RESOURCES	2005	2004
Budget authority – appropriation	\$ 66,000,000	\$ 66,000,000
Net transfers	(26,160,682)	(20,206,551)
Unobligated balance brought forward October 1	8,565,932	6,153,777
Spending authority from offsetting collections	1,027,169	466,209
Recoveries of prior year obligations	3,189,101	2,241,564
Permanently not available	(528,000)	(389,400)
Total budgetary resources	<u>52,093,520</u>	<u>54,265,599</u>
STATUS OF BUDGETARY RESOURCES		
Obligations incurred	46,202,218	45,697,887
Unobligated balance	5,891,302	8,567,712
Total budgetary resources	<u>\$ 52,093,520</u>	<u>\$ 54,265,599</u>



To the Commission Members
Appalachian Regional Commission
Washington, DC

Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the Appalachian Regional Commission as of and for the year ended September 30, 2005, and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ARC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether ARC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying audit finding.



Affiliated Offices Worldwide



Financial Report

The Commission Members
Appalachian Regional Commission
Washington, DC

We noted other matters involving the internal control over financial reporting, which we have reported to the management of ARC in a separate letter dated October 28, 2005.

This report is intended solely for the information and use of the Inspector General, the Commission Members, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

M.D. Oppenheim & Company, P.C.

Silver Spring, Maryland
October 28, 2005

APPALACHIAN REGIONAL COMMISSION Follow-up on Prior Audit Finding

Grant Reporting

Condition: During the prior year audit of ARC's grant files, we noted a lack of timely submission of grant progress and final reports. Our FY 2004 testing found that out of the 40 grant files sampled, 24 of the files did not show evidence of timely submission of progress reports and 14 had not received the final reports within the ARC deadline for submission.

Recommendation: We recommended ARC develop policies and procedures to effectively monitor grantee compliance with grant reporting requirements and to promptly follow-up with any instances of non-compliance were noted.

Current Status: Our current year audit of ARC grant files noted improvement in the submission of progress reports. However, we found that in 7 out of 44 (16%) of the files where the grant period had expired, the final reports were not submitted timely which caused a delay in closing of the grants. Due to the continued late filing of final report submissions, this finding will remain open pending full implementation of the corrective action plan.

Inspector General Summary of Management Challenges





Financial Report



Office of Inspector General

November 14, 2005

MEMORANDUM FOR FEDERAL CO-CHAIR POPE

From: Clifford H. Jennings
Inspector General

Subject: Management and Performance Challenges Facing the
Appalachian Regional Commission

The Reports Consolidation Act of 2000 requires we provide you with our perspective on the most serious management and performance challenges facing the Commission for inclusion in the Commission's annual performance and accountability report. The challenges remain consistent with the challenges noted from past years.

Challenge—Financial Management/ Unobligated Balances

This ongoing challenge is one of working with federal agencies receiving ARC allocation accounts through interagency agreements that transfer ARC grant funds to be administered by others. The primary agencies are the U.S. Department of Transportation, the U.S. Department of Commerce, and the U.S. Department of Housing and Urban Development.

There are documented cases where funds have been transferred to the other agency and the grant money distributed to the grantee, the grant performed and closed. However, even after these events, these funds still are shown on federal reports as unobligated, giving a false impression as to funds available. A further complication arises as ARC funds are "no-year" funds while many of the other agencies are dealing with funds that expire at the end of each fiscal year. In most cases, the amounts involved are immaterial to the other agencies. However, given the size of ARC, these funds are quite material when taken as a whole and need to be recovered so the funds can be put to their intended use.

Finally, the Commission will need to work during the upcoming year to rectify issues that may be identified during the conduct of the current financial statement audit. While none of the issues identified previously were severe, they still require diligent follow-up and correction, as needed.

Financial Report

Challenge 2—Appalachian Development Highway System

My office issued a report on the Appalachian Development Highway System (ADHS) (04-08, June 15, 2004). The report recommends further oversight of the ADHS. ARC's, as well as the OIG's, challenge is to work with the various components involved in the ADHS to ensure that the recommended oversight is accomplished. During the time since the issuance of the report, there has been significant progress in the oversight of the ADHS. As the ADHS requires coordination with the U.S. Department of Transportation as well as with the various states, it is imperative ARC continue to take the leadership role in ensuring the desired oversight take place. This will enable ARC to be to assure Congress that the funds provided for the ADHS are being put to their best use.

Challenge 3—Grantee and Grant Oversight

While the Commission generally does a good job managing grants, it needs to continue to improve its oversight of ongoing grants to ensure all grantees meet grant requirements for reporting and documentation of results. In recent Semiannual reports to Congress, I have noted this as an area needing continued vigilance to ensure that grantees were not given additional funding until they fully comply with Commission reporting requirements.

Proper oversight will reduce the potential exposures to fraud and will assist grantees in learning the requirements of proper business practices. Further, vigilance over grant processes will reduce the incidence of inactive funds remaining allocated to expired grants. There is evidence of progress in this area since this time last year.

Challenge 4 - Compliance with multiplicity of federal reporting requirements

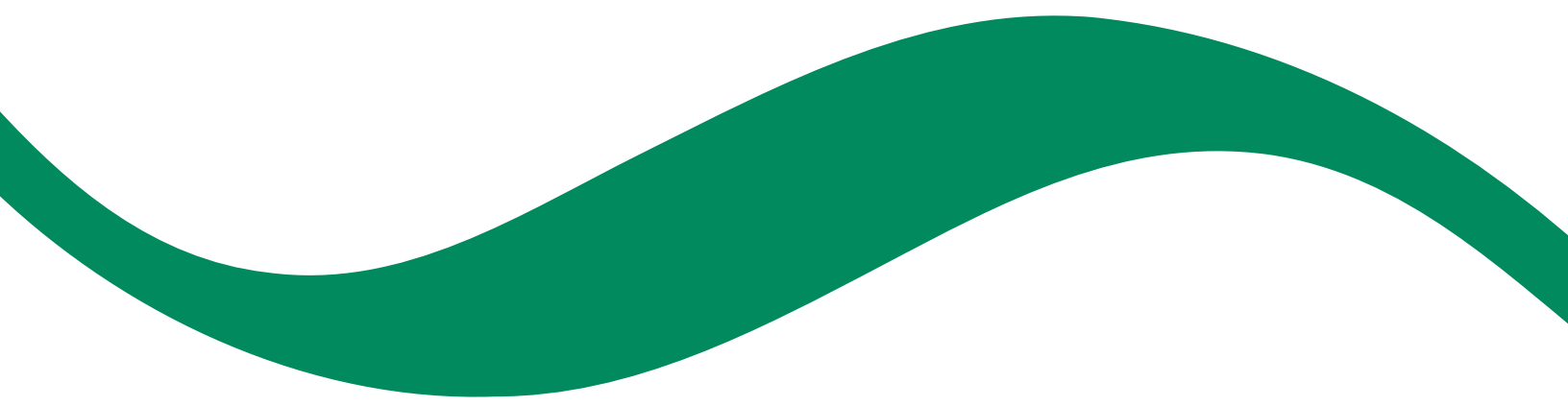
While the Commission is not technically a federal agency, it attempts to comply with federal reporting requirements. The challenge is to report meaningful information to those requesting the information while not expending excessive resources in doing so. Increasing external demands for detailed planning and compliance reporting at times appear to require more staff time than the time taken on the item itself.



Clifford H. Jennings
Inspector General



APPENDICES





APPENDIX A: Historical Funding Totals



TABLE 1

Appropriations for Appalachian Regional Development Programs

(in thousands of dollars)

Fiscal Year	Appalachian Development Highway System*	NONHIGHWAY			Total
		Area Development Programs	LDDs and Research/ Technical Assistance	Administration	
1965-66	\$ 200,000	\$ 103,450	\$ 2,500	\$ 1,290	\$ 307,240
1967	100,000	54,700	2,750	1,100	158,550
1968	70,000	55,100	1,600	746	127,446
1969	100,000	70,600	3,000	850	174,450
1970	175,000	101,958	5,500	932	283,390
1971	175,000	119,500	7,500	968	302,968
1972	175,000	115,000	7,000	1,113	298,113
1973	205,000	127,000	11,000	1,217	344,217
1974	155,000	107,500	7,500	1,492	271,492
1975	160,000	125,000	8,500	1,747	295,247
1976	162,200	117,500	8,500	1,870	290,070
Transition Quarter	37,500	8,000	4,500	495	50,495
1977	185,000	109,500	8,500	1,925	304,925
1978	211,300	105,000	7,400	2,083	325,783
1979	233,000	137,923	7,700	2,297	380,920
1980	229,000	120,000	7,500	3,105	359,605
1981	214,600	78,400†	6,300†	3,192	302,492†
1982	100,000	44,200	5,800	2,900	152,900
1983	115,133	45,000	5,000	2,900	168,033
1984	109,400	45,000	5,000	2,700	162,100
1985	100,000	44,000	5,000	2,300	151,300
1986	78,980‡	33,053‡	2,807‡	2,105‡	116,945‡
1987	74,961	24,808	3,031	2,200	105,000
1988	63,967	36,433	4,200	2,400	107,000
1989	69,169	34,731	4,200	2,600	110,700
1990	105,090‡	35,403‡	4,197	3,210‡	147,900‡
1991	126,374‡	36,163	4,177	3,284	169,998‡
1992	142,899	38,773	5,044	3,284	190,000
1993	129,255	53,361	4,000	3,384	190,000
1994	152,327	87,986	5,303	3,384	249,000
1995	179,766†	83,572†	5,300	3,343†	271,981†
1996	102,475	58,025	5,855	3,634†	169,989†
1997	99,669	52,147	4,853	3,331	160,000
1998	102,500	57,698	6,157	3,645	170,000
1999	391,390§	56,330	6,044	4,018†	457,782†
2000	386,071§	55,945†	6,196†	4,008†	452,220†
2001	389,617§	66,619†	6,240	4,371†	466,847†
2002	400,427§	60,591†	6,240	4,451†	471,709†
2003	446,645§	59,914†	6,259†	4,654†	517,472†
2004	484,830§	54,667†	6,237†	4,707†	550,441†
2005	385,374§	54,405†	6,190†	4,877†	450,846†
Total	\$ 7,523,919	\$ 2,874,955	\$ 230,580	\$ 108,112	\$ 10,737,566

* Highway funds are net after transfers to area development for access roads.

† After rescission.

‡ After sequestration.

§ Obligation ceiling; ADHS funds from the Highway Trust Fund apportioned by ARC formula to the Appalachian states.

TABLE 2

Appalachian Development Highway System Authorizations

(in millions of dollars)

Legislation	Period Covered	Amount of Authorization	
		Added	Cumulative
1965 Appalachian Regional Development Act (ARDA)	through 1971	\$ 840.0	\$ 840.0
1967 ARDA Amendments	through 1971	175.0	1,015.0
1969 ARDA Amendments	through 1973	150.0	1,165.0
1971 ARDA Amendments	through 1978	925.0	2,090.0
1975 ARDA Amendments	through 1981	840.0	2,930.0
1980 ARDA Amendments	through 1982	260.0	3,190.0
1982 Reconciliation Act	through 1982	-50.0	3,140.0
1983 ARDA Appropriation Act	through 1983	115.1	3,255.1
1984 ARDA Appropriation Act	through 1984	109.4	3,364.5
1985 ARDA Appropriation Act	through 1985	100.0	3,464.5
1986 ARDA Appropriation Act	through 1986	79.0	3,543.5
1987 ARDA Appropriation Act	through 1987	75.0	3,618.5
1988 ARDA Appropriation Act	through 1988	64.0	3,682.4
1989 ARDA Appropriation Act	through 1989	69.2	3,751.6
1990 ARDA Appropriation Act	through 1990	105.1	3,856.7
1991 ARDA Appropriation Act	through 1991	126.4	3,983.1
1992 ARDA Appropriation Act	through 1992	142.9	4,126.0
1993 ARDA Appropriation Act	through 1993	129.3	4,255.3
1994 ARDA Appropriation Act	through 1994	160.0	4,415.4
1995 ARDA Appropriation Act	through 1995	189.3	4,604.7
1996 ARDA Appropriation Act	through 1996	109.0	4,713.7
1997 ARDA Appropriation Act	through 1997	99.7	4,813.4
1998 ARDA Appropriation Act	through 1998	102.5	4,915.9
Transportation Equity Act for the 21st Century*	through 2003	2,250.0	7,165.9
Surface Transportation Extension Acts of 2004*	through 2004	512.5	7,678.4
Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users*	through 2009	2,350.0	10,028.4
Expired authorization (through 1982)			\$ -252.4
Cumulative authorization through 2005			\$ 9,776.0

Note: Totals may not add because of rounding.

* ADHS funds from the Highway Trust Fund apportioned by ARC formula to the Appalachian states.

TABLE 3

Cumulative Funding by State through Fiscal Year 2005

(in millions of dollars)

State	ARC Nonhighway Funds	ARC Highway Funds	TEA-21/ SAFETEA-LU Highway Funds*
Alabama	\$ 266.8	\$ 337.5	\$ 321.3
Georgia	191.0	131.8	6.3
Kentucky	341.4	612.5	251.9
Maryland	113.7	155.6	18.9
Mississippi	173.8	155.7	22.3
New York	167.0	316.3	75.6
North Carolina	209.4	209.7	134.2
Ohio	218.3	166.2	136.5
Pennsylvania	412.3	639.1	702.4
South Carolina	185.9	22.4	10.9
Tennessee	264.2	435.1	144.1
Virginia	174.9	162.9	41.0
West Virginia	331.0	1,011.8	445.6
Commission Discretionary	191.0	n/a	n/a

* ADHS funds from the Highway Trust Fund apportioned by ARC formula to the Appalachian states.

APPENDIX B: **Nonhighway Program Funding**



APPALACHIAN REGIONAL COMMISSION

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	142	\$19,482.0	\$5,627.3	\$49,649.9	\$74,759.1
Child Development	3	878.2	0.0	1,023.8	1,902.0
Community Development	71	20,770.8	17,322.8	42,354.8	80,448.4
Education and Job Training	70	8,124.8	1,384.4	15,327.4	24,836.6
Environment and Natural Resources	5	539.0	2,674.4	1,346.5	4,559.9
Health	25	3,508.5	0.0	4,476.0	7,984.5
Housing	5	650.0	4,373.9	10,863.8	15,887.8
Local Development District					
Planning and Administration	73	6,043.9	104.0	6,804.0	12,951.9
Leadership and Civic Capacity	29	3,426.1	0.0	2,076.3	5,502.4
Research and Technical Assistance	28	2,738.8	40.0	1,547.5	4,326.3
Total	451	\$66,162.0	\$31,526.8	\$135,470.1	\$233,158.9

Table excludes access road projects. In FY 2005, the Commission approved \$97,728 of ARC funds for 3 access road grants. ARC also approved 15 other access road projects funded with non-ARC resources from the Highway Trust Fund.

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in millions of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	2,295	\$325.6	\$137.0	\$513.7	\$976.3
Child Development	2,058	205.0	129.9	113.4	448.4
Community Development	4,948	1,094.4	1,590.7	2,186.9	4,872.0
Education and Job Training	4,301	661.9	194.4	845.8	1,702.1
Environment and Natural Resources	405	105.7	6.2	34.4	146.3
Health	3,889	481.1	242.4	709.9	1,433.4
Housing	1,180	76.9	277.1	254.9	609.0
Local Development District					
Planning and Administration	3,074	178.2	41.6	147.2	366.9
Leadership and Civic Capacity	604	39.2	0.9	26.3	66.4
Research and Technical Assistance	1,233	85.5	1.3	57.0	143.7
Total	23,987	\$3,253.5	\$2,621.5	\$4,889.5	\$10,764.4

Table excludes access road and highway planning projects. ARC has approved 106 access road projects since 1999 using \$29.3 million from the Highway Trust Fund, as authorized under the ADHS program.

Note: Totals may not add because of rounding.

ALABAMA

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	13	\$1,681.0	\$230.0	\$2,512.7	\$4,423.7
Community Development	7	829.7	604.5	522.0	1,956.2
Education and Job Training	10	2,468.8	117.9	1,971.8	4,558.5
Health	5	578.9	0.0	433.8	1,012.7
Local Development District					
Planning and Administration	8	538.2	0.0	425.9	964.1
Leadership and Civic Capacity	2	293.9	0.0	218.2	512.1
Research and Technical Assistance	4	284.7	0.0	254.7	539.3
Total	49	\$6,675.2	\$952.4	\$6,338.9	\$13,966.6

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	112	\$14,052.5	\$11,085.2	\$25,980.4	\$51,118.1
Child Development	153	13,590.9	13,261.7	8,525.2	35,377.9
Community Development	449	88,116.8	113,314.8	172,787.6	374,219.2
Education and Job Training	299	73,449.6	22,350.3	76,198.0	171,997.9
Environment and Natural Resources	6	2,517.6	0.0	132.5	2,650.1
Health	396	48,992.9	21,071.9	50,205.3	120,270.0
Housing	16	1,419.8	350.0	127.0	1,896.9
Local Development District					
Planning and Administration	317	16,757.7	2,122.8	10,482.5	29,363.0
Leadership and Civic Capacity	33	1,980.3	6.3	1,124.9	3,111.5
Research and Technical Assistance	73	5,922.7	25.0	4,176.9	10,124.7
Total	1,854	\$266,800.9	\$183,588.0	\$349,740.4	\$800,129.3

Note: Totals may not add because of rounding.

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	9	\$1,838.5	\$0.0	\$4,024.8	\$5,863.3
Community Development	2	322.5	0.0	337.5	660.0
Education and Job Training	5	443.9	0.0	534.8	978.7
Environment and Natural Resources	1	50.0	0.0	100.0	150.0
Health	2	213.9	0.0	213.9	427.7
Local Development District					
Planning and Administration	6	406.0	0.0	406.0	812.0
Leadership and Civic Capacity	2	78.0	0.0	100.0	178.0
Research and Technical Assistance	1	115.3	0.0	115.3	230.6
Total	28	\$3,468.1	\$0.0	\$5,832.2	\$9,300.3

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	93	\$16,788.8	\$4,979.2	\$27,767.2	\$49,535.2
Child Development	305	20,890.5	16,591.6	9,470.6	46,952.7
Community Development	293	53,465.7	70,307.5	132,066.2	255,839.4
Education and Job Training	275	41,114.5	6,017.0	31,182.7	78,314.3
Environment and Natural Resources	3	875.5	0.0	124.0	999.5
Health	309	34,185.8	10,233.6	28,595.7	73,015.0
Housing	81	5,063.6	15,357.7	33,666.5	54,087.8
Local Development District					
Planning and Administration	257	12,744.6	3,833.3	10,995.0	27,573.0
Leadership and Civic Capacity	12	516.2	0.0	282.1	798.3
Research and Technical Assistance	41	5,396.7	0.0	4,273.2	9,669.8
Total	1,669	\$191,041.8	\$127,319.9	\$278,423.2	\$596,784.9

Note: Totals may not add because of rounding.

KENTUCKY

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	4	\$637.2	\$0.0	\$615.4	\$1,252.6
Community Development	14	6,054.7	8,526.6	14,739.6	29,320.9
Health	2	612.1	0.0	1,615.1	2,227.2
Housing	2	500.0	4,373.9	2,678.9	7,552.9
Local Development District					
Planning and Administration	9	405.3	0.0	405.3	810.5
Leadership and Civic Capacity	2	121.7	0.0	100.5	222.2
Research and Technical Assistance	1	25.0	40.0	35.0	100.0
Total	34	\$8,356.0	\$12,940.5	\$20,189.7	\$41,486.2

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	127	\$18,908.1	\$13,748.7	\$44,377.4	\$77,034.1
Child Development	32	9,730.7	13,201.2	3,044.9	25,976.8
Community Development	542	135,276.2	203,683.0	347,937.2	686,896.4
Education and Job Training	328	54,499.0	9,719.2	38,621.5	102,839.7
Environment and Natural Resources	29	2,952.4	1,148.5	1,106.4	5,207.3
Health	365	63,481.3	20,879.9	71,980.3	156,341.5
Housing	293	25,347.3	101,686.1	120,124.5	247,157.9
Local Development District					
Planning and Administration	406	21,497.0	223.4	14,575.0	36,295.4
Leadership and Civic Capacity	47	3,751.7	2.4	1,759.5	5,513.7
Research and Technical Assistance	61	5,976.6	40.0	4,802.0	10,818.6
Total	2,230	\$341,420.2	\$364,332.6	\$648,328.7	\$1,354,081.4

Note: Totals may not add because of rounding.

MARYLAND

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	5	\$1,385.0	\$0.0	\$3,236.6	\$4,621.6
Community Development	1	350.0	0.0	816.0	1,166.0
Education and Job Training	4	85.5	0.0	137.7	223.2
Environment and Natural Resources	2	450.0	2,674.4	1,180.5	4,304.9
Housing	2	0.0	0.0	7,989.6	7,989.6
Local Development District					
Planning and Administration	1	130.0	0.0	130.0	260.0
Research and Technical Assistance	1	192.5	0.0	202.5	395.0
Total	16	\$2,593.0	\$2,674.4	\$13,692.9	\$18,960.3

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	75	\$12,924.1	\$5,638.2	\$24,032.7	\$42,595.0
Child Development	12	5,131.7	3,259.6	2,287.9	10,679.2
Community Development	159	38,299.3	57,487.9	68,986.2	164,773.4
Education and Job Training	292	21,026.6	2,227.4	17,016.0	40,270.0
Environment and Natural Resources	14	3,499.7	2,674.4	2,378.2	8,552.3
Health	174	17,328.4	2,073.4	17,105.9	36,507.6
Housing	108	7,537.1	13,479.6	36,673.2	57,689.9
Local Development District					
Planning and Administration	52	4,070.1	725.7	3,525.9	8,321.7
Leadership and Civic Capacity	6	187.5	0.0	70.6	258.1
Research and Technical Assistance	38	3,666.3	98.0	3,433.8	7,198.1
Total	930	\$113,670.7	\$87,664.2	\$175,510.4	\$376,845.3

Note: Totals may not add because of rounding.

MISSISSIPPI

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	6	\$1,308.8	\$1,164.8	\$4,047.2	\$6,520.8
Community Development	5	779.3	0.0	1,287.2	2,066.5
Education and Job Training	3	304.5	0.0	337.1	641.6
Environment and Natural Resources	1	24.0	0.0	6.0	30.0
Health	3	208.6	0.0	283.6	492.2
Local Development District					
Planning and Administration	6	336.0	0.0	417.3	753.2
Leadership and Civic Capacity	2	1,451.0	0.0	806.5	2,257.5
Research and Technical Assistance	2	313.0	0.0	290.1	603.1
Total	28	\$4,725.2	\$1,164.8	\$7,474.9	\$13,365.0

Table excludes \$7,808 in ARC nonhighway funding for one access road funded in FY 2005.

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	93	\$16,165.9	\$6,735.8	\$38,352.6	\$61,254.3
Child Development	159	10,796.8	6,828.9	6,198.9	23,824.6
Community Development	415	64,535.7	52,665.6	107,774.9	224,976.1
Education and Job Training	249	41,949.6	9,521.0	22,201.4	73,672.0
Environment and Natural Resources	12	2,260.5	0.0	959.3	3,219.8
Health	175	19,025.7	5,422.5	13,434.3	37,882.5
Housing	45	1,634.9	6,659.9	745.8	9,040.6
Local Development District					
Planning and Administration	183	9,062.1	2,557.5	6,591.4	18,211.1
Leadership and Civic Capacity	27	3,934.3	0.0	2,604.4	6,538.7
Research and Technical Assistance	39	4,479.0	280.0	3,138.7	7,897.7
Total	1,397	\$173,844.6	\$90,671.2	\$202,001.6	\$466,517.3

Table excludes access road and highway planning projects.

Note: Totals may not add because of rounding.

NEW YORK

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	9	\$504.7	\$0.0	\$508.1	\$1,012.8
Child Development	1	149.8	0.0	262.1	411.9
Community Development	3	318.0	0.0	502.0	820.0
Education and Job Training	5	422.9	38.9	390.0	851.8
Health	1	130.0	0.0	130.0	260.0
Local Development District Planning and Administration	3	892.0	0.0	892.0	1,784.0
Leadership and Civic Capacity	1	59.3	0.0	59.4	118.7
Total	23	\$2,476.7	\$38.9	\$2,743.6	\$5,259.2

Table excludes \$41,920 in ARC nonhighway funding for one access road funded in FY 2005.

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	184	\$16,262.4	\$4,739.1	\$25,970.4	\$46,971.9
Child Development	296	16,839.0	3,120.8	11,989.6	31,949.4
Community Development	268	45,331.8	92,786.0	120,821.8	258,939.6
Education and Job Training	329	41,833.3	12,246.7	64,166.7	118,246.7
Environment and Natural Resources	13	2,193.3	0.0	149.0	2,342.3
Health	212	21,866.5	7,421.4	47,920.2	77,208.2
Housing	54	3,299.0	1,020.0	1,505.1	5,824.1
Local Development District Planning and Administration	143	11,852.1	722.1	8,855.1	21,429.3
Leadership and Civic Capacity	33	1,913.5	1.8	1,527.3	3,442.6
Research and Technical Assistance	33	5,628.3	0.0	4,397.4	10,025.7
Total	1,565	\$167,019.3	\$122,057.9	\$287,302.5	\$576,379.7

Table excludes access road and highway planning projects.

Note: Totals may not add because of rounding.

NORTH CAROLINA

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	10	\$1,688.4	\$260.2	\$4,642.2	\$6,590.7
Child Development	1	200.0	0.0	233.3	433.3
Community Development	2	608.6	0.0	518.4	1,127.0
Education and Job Training	1	200.0	0.0	300.0	500.0
Health	1	201.7	0.0	205.9	407.5
Local Development District Planning and Administration	6	443.0	0.0	488.9	931.9
Total	21	\$3,341.7	\$260.2	\$6,388.6	\$9,990.5

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	94	\$14,504.4	\$2,144.3	\$28,385.3	\$45,034.0
Child Development	44	27,193.6	20,309.2	19,089.2	66,592.1
Community Development	365	59,242.0	64,698.7	134,975.6	258,916.3
Education and Job Training	204	41,987.3	8,072.4	32,022.5	82,082.3
Environment and Natural Resources	13	2,301.4	96.0	353.4	2,750.7
Health	213	30,407.9	20,391.4	45,679.9	96,479.2
Housing	136	6,637.2	41,416.4	10,346.2	58,399.9
Local Development District Planning and Administration	251	14,681.5	2,341.7	14,652.9	31,676.2
Leadership and Civic Capacity	30	3,149.8	119.6	2,853.6	6,123.1
Research and Technical Assistance	51	9,258.0	125.0	7,620.1	17,003.1
Total	1,401	\$209,363.2	\$159,714.8	\$295,978.8	\$665,056.8

Note: Totals may not add because of rounding.

Nonhighway Projects Approved Fiscal Year 2005*(in thousands of dollars)*

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	6	\$913.0	\$343.9	\$5,380.4	\$6,637.3
Community Development	12	2,213.0	1,211.5	7,659.1	11,083.6
Education and Job Training	4	532.0	0.0	450.5	982.5
Health	3	366.2	0.0	221.7	587.9
Local Development District Planning and Administration	3	529.0	0.0	457.0	986.0
Leadership and Civic Capacity	3	252.1	0.0	159.4	411.5
Total	31	\$4,805.2	\$1,555.4	\$14,328.2	\$20,688.8

*Table excludes \$50,000 in ARC nonhighway funding for one access road funded in FY 2005.***Cumulative Nonhighway Projects Approved through Fiscal Year 2005***(in thousands of dollars)*

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	158	\$18,219.0	\$9,719.2	\$32,181.9	\$60,120.1
Child Development	264	22,539.0	7,233.1	13,393.3	43,165.3
Community Development	320	57,125.9	57,696.2	158,435.5	273,257.7
Education and Job Training	278	48,530.6	15,379.5	70,643.0	134,553.2
Environment and Natural Resources	25	4,000.7	55.3	1,527.1	5,583.1
Health	343	43,581.8	15,515.9	42,786.2	101,883.9
Housing	76	4,710.2	12,581.7	9,249.9	26,541.8
Local Development District Planning and Administration	157	12,925.3	1,613.5	11,982.9	26,521.7
Leadership and Civic Capacity	40	2,579.3	289.7	2,525.8	5,394.7
Research and Technical Assistance	49	4,066.8	27.0	3,365.3	7,459.1
Total	1,710	\$218,278.6	\$120,111.0	\$346,090.9	\$684,480.6

*Table excludes access road and highway planning projects.**Note: Totals may not add because of rounding.*

PENNSYLVANIA

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	21	\$4,061.5	\$3,436.0	\$12,158.9	\$19,656.4
Community Development	1	100.0	0.0	108.4	208.4
Education and Job Training	5	400.0	1,000.0	2,993.1	4,393.1
Environment and Natural Resources	1	15.0	0.0	60.0	75.0
Local Development District					
Planning and Administration	7	617.0	0.0	627.4	1,244.4
Leadership and Civic Capacity	3	177.1	0.0	166.4	343.6
Research and Technical Assistance	1	45.0	0.0	50.0	95.0
Total	39	\$5,415.6	\$4,436.0	\$16,164.2	\$26,015.8

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	436	\$97,004.3	\$42,886.7	\$134,539.9	\$274,430.9
Child Development	191	13,742.9	8,264.1	7,323.8	29,330.8
Community Development	368	81,821.9	368,610.5	240,372.5	690,805.0
Education and Job Training	323	64,739.6	46,710.1	249,095.1	360,544.8
Environment and Natural Resources	120	61,294.5	400.0	24,052.9	85,747.4
Health	368	52,194.6	59,716.4	206,466.1	318,377.1
Housing	155	7,886.9	44,232.2	5,219.0	57,338.1
Local Development District					
Planning and Administration	320	21,147.5	1,633.3	13,199.4	35,980.2
Leadership and Civic Capacity	54	3,053.6	237.4	3,049.5	6,340.5
Research and Technical Assistance	57	9,397.8	270.0	9,470.9	19,138.7
Total	2,392	\$412,283.6	\$572,960.8	\$892,789.1	\$1,878,033.5

Note: Totals may not add because of rounding.

SOUTH CAROLINA

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	5	\$1,516.8	\$0.0	\$6,507.7	\$8,024.5
Community Development	5	1,096.1	0.0	1,694.5	2,790.6
Education and Job Training	2	289.9	0.0	525.8	815.7
Local Development District					
Planning and Administration	1	165.0	0.0	165.0	330.0
Leadership and Civic Capacity	1	37.6	0.0	37.6	75.3
Total	14	\$3,105.4	\$0.0	\$8,930.6	\$12,036.0

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	67	\$15,831.0	\$2,264.0	\$28,223.7	\$46,318.7
Child Development	154	17,112.3	9,409.7	9,026.0	35,548.0
Community Development	229	50,019.4	32,601.2	85,749.4	168,370.0
Education and Job Training	449	53,012.1	8,348.9	44,890.1	106,251.2
Environment and Natural Resources	2	430.7	98.1	12.5	541.3
Health	359	41,123.4	17,186.6	53,789.1	112,099.1
Housing	5	291.6	0.0	0.0	291.6
Local Development District					
Planning and Administration	50	5,572.3	897.3	3,177.6	9,647.2
Leadership and Civic Capacity	17	1,050.2	0.0	812.6	1,862.7
Research and Technical Assistance	31	1,487.3	0.0	739.4	2,226.7
Total	1,363	\$185,930.4	\$70,805.9	\$226,420.3	\$483,156.6

Note: Totals may not add because of rounding.

TENNESSEE

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	1	\$500.0	\$0.0	\$680.0	\$1,180.0
Community Development	8	2,873.5	500.0	3,760.8	7,134.3
Education and Job Training	2	563.0	0.0	215.0	778.0
Health	3	852.1	0.0	1,072.1	1,924.3
Local Development District Planning and Administration	5	438.0	0.0	505.6	943.6
Research and Technical Assistance	1	220.0	0.0	220.0	440.0
Total	20	\$5,446.7	\$500.0	\$6,453.4	\$12,400.1

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	120	\$26,886.2	\$9,902.0	\$27,339.7	\$64,127.8
Child Development	142	13,191.3	17,651.0	11,130.3	41,972.6
Community Development	522	137,703.9	81,858.4	195,789.9	415,352.1
Education and Job Training	210	43,318.2	18,130.1	58,592.4	120,040.7
Environment and Natural Resources	18	2,887.0	194.5	181.2	3,262.7
Health	228	17,714.2	22,533.0	37,830.4	78,077.5
Housing	16	2,400.1	0.0	400.1	2,800.3
Local Development District Planning and Administration	211	13,597.9	1,080.6	8,932.2	23,610.7
Leadership and Civic Capacity	15	1,806.6	0.0	1,263.3	3,069.9
Research and Technical Assistance	45	4,657.2	0.0	4,621.2	9,278.4
Total	1,527	\$264,162.6	\$151,349.6	\$346,080.6	\$761,592.8

Note: Totals may not add because of rounding.

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	15	\$978.5	\$12.5	\$1,557.6	\$2,548.6
Community Development	5	1,590.0	3,037.8	3,409.6	8,037.5
Education and Job Training	3	200.2	0.0	184.7	384.8
Health	1	50.0	0.0	50.0	100.0
Housing	1	150.0	0.0	195.3	345.3
Local Development District					
Planning and Administration	6	419.0	0.0	455.1	874.1
Leadership and Civic Capacity	2	262.0	0.0	209.5	471.5
Total	33	\$3,649.7	\$3,050.3	\$6,061.8	\$12,761.8

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	94	\$10,761.5	\$7,193.4	\$31,364.9	\$49,319.8
Child Development	48	5,397.7	157.0	1,863.8	7,418.5
Community Development	250	69,779.8	75,217.3	159,037.2	304,034.3
Education and Job Training	230	42,470.7	8,882.5	26,169.9	77,523.1
Environment and Natural Resources	17	3,137.5	448.2	627.6	4,213.3
Health	131	20,376.4	7,089.8	19,816.8	47,283.0
Housing	59	6,682.7	20,893.9	23,210.2	50,786.9
Local Development District					
Planning and Administration	263	13,332.5	4,334.0	10,781.1	28,447.6
Leadership and Civic Capacity	20	1,721.4	100.0	1,143.3	2,964.7
Research and Technical Assistance	28	1,285.7	0.0	807.4	2,093.2
Total	1,140	\$174,945.8	\$124,316.2	\$274,822.4	\$574,084.4

Note: Totals may not add because of rounding.

WEST VIRGINIA

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	10	\$1,493.2	\$25.0	\$2,162.4	\$3,680.6
Child Development	1	528.4	0.0	528.4	1,056.8
Community Development	4	3,122.4	3,392.4	6,999.7	13,514.5
Education and Job Training	7	994.7	23.5	752.5	1,770.7
Local Development District Planning and Administration	11	690.4	104.0	1,428.7	2,223.2
Leadership and Civic Capacity	2	552.3	0.0	132.9	685.2
Research and Technical Assistance	1	350.0	0.0	350.0	700.0
Total	36	\$7,731.4	\$3,544.9	\$12,354.7	\$23,631.0

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	104	\$21,469.5	\$6,452.1	\$22,336.1	\$50,257.7
Child Development	147	17,143.5	9,051.5	9,098.7	35,293.7
Community Development	496	142,488.1	303,783.8	231,787.3	678,059.2
Education and Job Training	259	63,748.7	25,410.3	92,226.2	181,385.3
Environment and Natural Resources	18	2,639.5	360.0	864.1	3,863.6
Health	294	51,417.9	25,659.7	61,901.2	138,978.8
Housing	86	3,097.1	19,430.8	13,234.7	35,762.6
Local Development District Planning and Administration	435	19,861.0	19,465.8	29,380.4	68,707.3
Leadership and Civic Capacity	41	5,053.2	12.0	3,541.4	8,606.6
Research and Technical Assistance	33	4,117.1	0.0	3,725.0	7,842.1
Total	1,913	\$331,035.6	\$409,626.0	\$468,095.0	\$1,208,756.7

Note: Totals may not add because of rounding.

COMMISSION DISCRETIONARY

Nonhighway Projects Approved Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	28	\$975.4	\$155.0	\$1,615.9	\$2,746.3
Community Development	2	513.0	50.0	0.0	563.0
Education and Job Training	19	1,219.4	204.0	6,534.6	7,958.0
Health	4	295.0	0.0	250.0	545.0
Local Development District					
Planning and Administration	1	35.0	0.0	0.0	35.0
Leadership and Civic Capacity	9	141.0	0.0	85.8	226.8
Research and Technical Assistance	16	1,193.3	0.0	30.0	1,223.3
Total	79	\$4,372.1	\$409.0	\$8,516.3	\$13,297.4

Cumulative Nonhighway Projects Approved through Fiscal Year 2005

(in thousands of dollars)

	No. of Grants	ARC Funds	Other Federal Funds	State and Local Funds	Total Funds
Business Development	538	\$25,817.2	\$9,472.7	\$22,871.6	\$58,161.5
Child Development	111	11,747.6	1,592.5	958.0	14,298.2
Community Development	268	69,825.1	15,988.9	29,561.1	115,375.1
Education and Job Training	575	30,140.6	1,340.7	22,785.7	54,267.0
Environment and Natural Resources	115	14,714.9	748.1	1,897.0	17,359.9
Health	240	8,186.2	1,835.0	1,873.5	11,894.7
Housing	50	900.7	0.0	446.0	1,346.7
Local Development District					
Planning and Administration	29	1,083.2	0.0	46.8	1,130.0
Leadership and Civic Capacity	229	8,489.6	157.6	3,708.5	12,355.7
Research and Technical Assistance	654	20,125.7	427.3	2,410.8	22,963.8
Total	2,809	\$191,030.9	\$31,562.8	\$86,559.0	\$309,152.7

Note: Totals may not add because of rounding.

APPENDIX C:

Appalachian Development Highway System Status and Funding



Appalachian Development Highway System and Local Access Roads Obligations Fiscal Year 2005

State	TEA-21/SAFETEA-LU FUNDS*			ARC FUNDS			Total Funds
	ADHS†	Local Access Roads	Total State and Local Match‡	ADHS	Local Access Roads	Total State and Local Match‡	
Alabama	\$ 44,277,417	\$ 0	\$ 11,069,354	\$ 624,164	\$ 0	\$ 156,041	\$ 56,126,976
Georgia	-6,070,772§	610,400	-1,365,093§	77,470	0	19,368	-6,728,628§
Kentucky	-701,455§	0	-175,364§	257,260	0	64,315	-555,244§
Maryland	-2,083,447§	1,041,425	-260,506§	0	0	0	-1,302,528§
Mississippi	91,070	285,864	94,234	0	0	0	471,168
New York	25,167,933	0	6,291,983	0	0	0	31,459,916
North Carolina	561,637	0	140,409	0	0	0	702,046
Ohio	47,906,476	1,504,577	12,352,763	0	100,000	25,000	61,888,816
Pennsylvania	90,864,964	720,000	22,896,241	395,615	548	99,041	114,976,409
South Carolina	10,000	0	2,500	0	0	0	12,500
Tennessee	4,521,763	0	1,130,441	0	0	0	5,652,204
Virginia	6,918,222	0	1,729,556	2,809,002	78,592	721,899	12,257,270
West Virginia	109,260,208	0	27,315,052	37,601	0	9,400	136,622,261
Totals	\$ 320,724,016	\$ 4,162,266	\$ 81,221,571	\$ 4,201,112	\$ 179,140	\$ 1,095,063	\$ 411,583,168

Source: Federal Highway Administration's Fiscal Management Information System.

Note: Totals may not add because of rounding.

* Includes funds from TEA-21 Extension Acts and SAFETEA-LU.

† ADHS funds from the Highway Trust Fund apportioned by ARC formula to the Appalachian states.

‡ State and local funds assumed to be the required 20 percent match.

§ Represents a deobligation of federal funds.

Appalachian Development Highway System and Local Access Roads Cumulative Obligations Through Fiscal Year 2005

State	TEA-21/SAFETEA-LU FUNDS*				ARC FUNDS			
	ADHS †	Local Access Roads	Total State and Local Match ‡		ADHS	Local Access Roads	Total State and Local Match	Total Funds
Alabama	\$ 321,270,074	\$ 0	\$ 80,317,519	\$	\$ 337,462,447	\$ 28,683,900	\$ 122,324,678	\$ 890,058,617
Georgia	6,316,761	610,400	1,731,790		131,843,683	12,377,000	66,730,606	219,610,240
Kentucky	251,878,523	0	62,969,631		612,492,961	6,510,628	307,216,642	1,241,068,385
Maryland	18,919,577	3,696,938	5,654,129		155,566,486	5,765,288	176,400,016	366,002,434
Mississippi	22,346,937	3,115,286	6,365,556		155,748,309	39,654,215	79,661,991	306,892,294
New York	75,649,025	0	18,912,256		316,271,129	9,138,138	242,725,931	662,696,478
North Carolina	134,226,938	0	33,556,735		209,658,380	9,934,493	111,738,561	499,115,107
Ohio	136,530,765	4,580,807	35,277,893		166,155,601	12,408,978	99,029,991	453,984,035
Pennsylvania	702,413,077	3,006,515	176,354,898		639,099,396	34,396,871	314,216,858	1,869,487,616
South Carolina	10,874,302	0	2,718,576		22,439,561	17,251,630	14,870,552	68,154,621
Tennessee	144,099,785	225,000	36,081,196		435,145,041	21,825,000	194,840,494	832,216,516
Virginia	40,995,224	2,000,000	10,748,806		162,891,371	8,424,491	116,976,193	342,036,085
West Virginia	445,579,178	0	111,394,795		1,011,822,266	21,217,347	502,719,500	2,092,733,086
Totals	\$ 2,311,100,166	\$ 17,234,946	\$ 582,083,778	\$	\$ 4,356,596,631	\$ 227,587,979	\$ 2,349,452,012	\$ 9,844,055,512

Source: Federal Highway Administration's Fiscal Management Information System.

Note: Totals may not add because of rounding.

* Includes funds from TEA-21 Extension Acts and SAFETEA-LU.

† ADHS funds from the Highway Trust Fund apportioned by ARC formula to the Appalachian states.

‡ State and local funds assumed to be the required 20 percent match.

Status of Completion of the Appalachian Development Highway System (Miles)

as of September 30, 2005

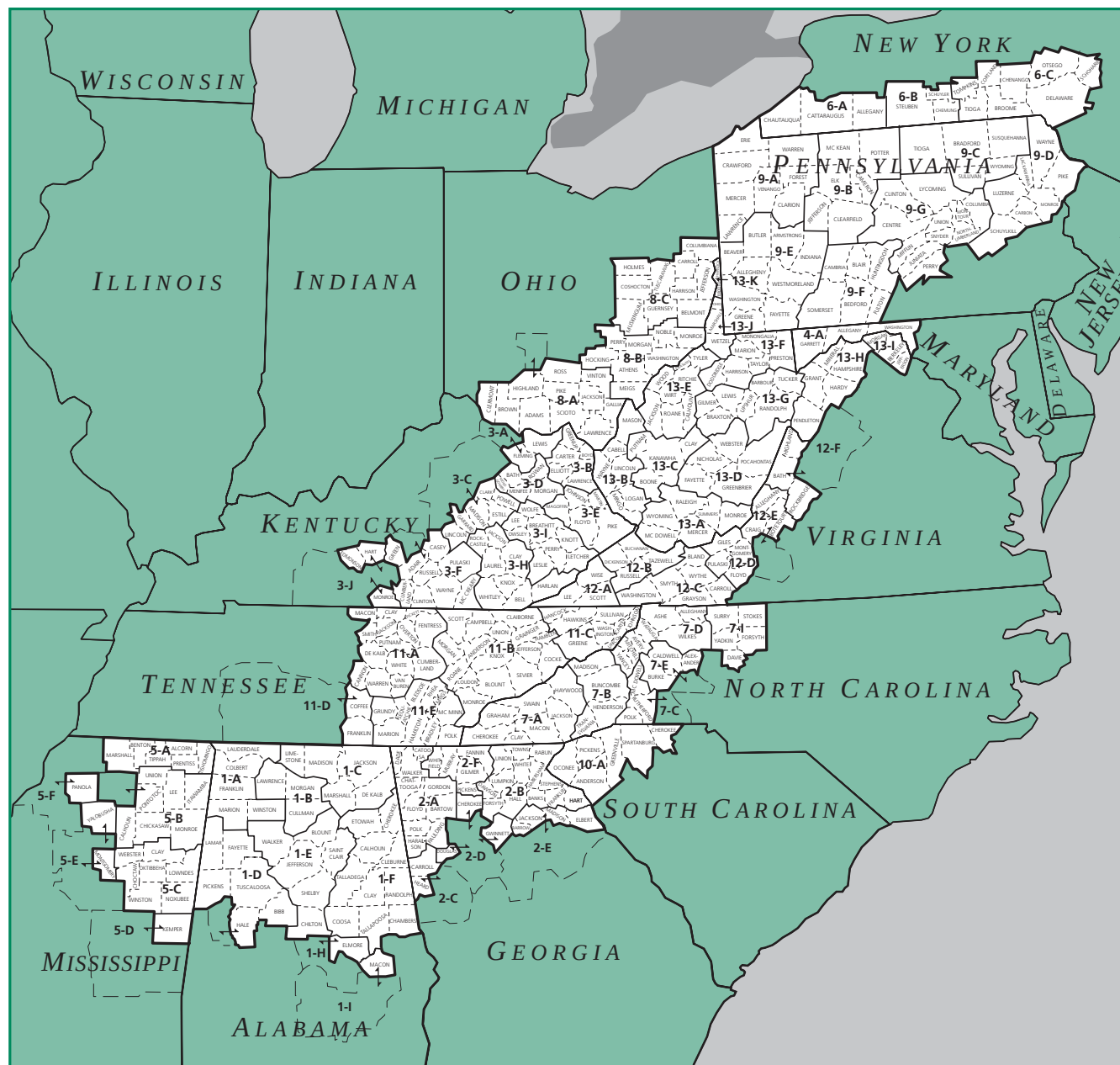
	Miles Open to Traffic		Miles Not Open to Traffic			Total Miles Eligible for ADHS Funding*
	Complete	Remaining Stage Construction	Construction Under Way	Design Stage	Location Stage	
Alabama	126.4	46.7	52.7	6.4	63.5	295.7
Georgia	100.9	0.0	0.0	11.1	20.5	132.5
Kentucky	388.0	0.0	14.1	24.2	0.0	426.3
Maryland	77.0	3.7	0.0	0.0	2.5	83.2
Mississippi	90.3	0.0	6.7	20.5	0.0	117.5
New York	207.9	7.4	1.8	4.9	0.0	222.0
North Carolina	172.7	4.2	2.7	16.4	8.3	204.3
Ohio	168.3	9.4	0.5	0.0	23.3	201.5
Pennsylvania	275.7	7.6	44.8	13.7	111.3	453.1
South Carolina	18.6	0.0	0.0	4.3	0.0	22.9
Tennessee	212.6	90.7	0.0	2.2	23.8	329.3
Virginia	160.8	0.0	0.0	16.4	15.0	192.2
West Virginia	327.7	0.9	11.7	69.3	0.0	409.6
System Totals	2,326.9	170.6	135.0	189.4	268.2	3,090.1

* Congress authorized 3,090 miles for corridors approved as part of the ADHS and eligible for construction under the ADHS program. Final mileage on the corridors completed under the program will be within the authorized mileage.

APPENDIX D: Local Development Districts in the Appalachian Region



Local Development Districts in the Appalachian Region



This map includes districts on the border of the region containing both Appalachian and non-Appalachian counties. The non-Appalachian counties are indicated by broken boundary lines.

Local Development Districts in the Appalachian Region

ALABAMA

1A/ Northwest Alabama Council of Local Governments

PO Box 2603
Muscle Shoals, Alabama 35662
256-389-0500
email: kjones@nwscc.cc.al.us
Web site: <http://nacolg.com>
Counties: Colbert, Franklin, Lauderdale, Marion, Winston

1B/ North Central Alabama Regional Council of Governments

PO Box C
Decatur, Alabama 35602
256-355-4515
email: rmatthews@adss.state.al.us
Web site: <http://www.narcog.org>
Counties: Cullman, Lawrence, Morgan

1C/ Top of Alabama Regional Council of Governments

5075 Research Drive NW
Huntsville, Alabama 35805
256-830-0818
email: tarco@adss.state.al.us
Web site: <http://www.alarc.org/tarco>
Counties: De Kalb, Jackson, Limestone, Madison, Marshall

1D/ West Alabama Regional Commission

4200 Highway 69 North, Suite 1
Northport, Alabama 35473-3505
205-333-2990
email: warc@adss.state.al.us
Web site: <http://www.warc.info/>
Counties: Bibb, Fayette, Hale, Lamar, Pickens, Tuscaloosa, (Greene)

1E/ Regional Planning Commission of Greater Birmingham

1731 First Avenue North, Suite 200
Birmingham, Alabama 35203
205-251-8139
email: lwatts@rpcgb.org
Web site: <http://www.rpcgb.org>
Counties: Blount, Chilton, Jefferson, St. Clair, Shelby, Walker

1F/ East Alabama Regional Planning and Development Commission

PO Box 2186
Anniston, Alabama 36202
256-237-6741
email: earpdc@adss.state.al.us
Web site: <http://www.earpdc.org>
Counties: Calhoun, Chambers, Cherokee, Clay, Cleburne, Coosa, Etowah, Randolph, Talladega, Tallapoosa

1H/ Central Alabama Regional Planning and Development Commission

125 Washington Avenue, Third Floor
Montgomery, Alabama 36104
334-262-4300
email: abrahamson@carpdc.com
Web site: <http://www.carpdc.com>
Counties: Elmore, (Autauga, Montgomery)

1I/ South Central Alabama Development Commission

5900 Carmichael Place
Montgomery, Alabama 36117
334-244-6903
email: thoward@adss.state.al.us
Web site: <http://www.scadc.state.al.us>
Counties: Macon, (Bullock, Butler, Crenshaw, Lowndes, Pike)

GEORGIA

2A/ Coosa Valley Regional Development Center

PO Box 1793
Rome, Georgia 30162-1793
706-295-6485
email: cvrdc@cvrdc.org
Web site: <http://www.cvrdc.org>
Counties: Bartow, Catoosa, Chattooga, Dade, Floyd, Gordon, Haralson, Paulding, Polk, Walker

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

Local Development Districts in the Appalachian Region

2B/ Georgia Mountains Regional Development Center

PO Box 1720
Gainesville, Georgia 30503
770-538-2626
email: fjones@gmrhc.org
Web site: <http://www.gmrhc.org>
Counties: Banks, Dawson, Forsyth, Franklin, Habersham, Hall, Hart, Lumpkin, Rabun, Stephens, Towns, Union, White

2C/ Chattahoochee-Flint Regional Development Center

PO Box 1600
Franklin, Georgia 30217
706-675-6721
email: cfrdc@cfrdc.org
Web site: <http://www.cfrdc.org>
Counties: Carroll, Heard, (Coweta, Meriwether, Troup)

2D/ Atlanta Regional Commission

40 Courtland Street NE
Atlanta, Georgia 30303
404-463-3100
email: infocenter@atlantaregional.com
Web site: <http://www.atlantaregional.com>
Counties: Cherokee, Douglas, Gwinnett, (Clayton, Cobb, De Kalb, Fayette, Fulton, Henry, Rockdale)

2E/ Northeast Georgia Regional Development Center

305 Research Drive
Athens, Georgia 30605-2795
706-369-5650
email: jimdove@negrhc.org
Web site: <http://www.negrhc.org>
Counties: Barrow, Elbert, Jackson, Madison, (Clarke, Greene, Jasper, Morgan, Newton, Oconee, Oglethorpe, Walton)

2F/ North Georgia Regional Development Center

503 West Waugh Street
Dalton, Georgia 30720
706-272-2300
email: ngrhc@ngrhc.org
Web site: <http://www.ngrhc.org>
Counties: Fannin, Gilmer, Murray, Pickens, Whitfield

KENTUCKY

3A/ Buffalo Trace Area Development District

PO Box 460
Maysville, Kentucky 41056
606-564-6894
email: dpadgett@btadd.com
Web site: <http://www.btadd.com>
Counties: Fleming, Lewis, (Bracken, Mason, Robertson)

3B/ FIVCO Area Development District

3000 Louisa Street
Catlettsburg, Kentucky 41129
606-739-5191
email: mary@fivco.org
Web site: <http://www.fivco.org>
Counties: Boyd, Carter, Elliott, Greenup, Lawrence

3C/ Bluegrass Area Development District

699 Perimeter Drive
Lexington, Kentucky 40517
859-269-8021
email: bgadd@bgadd.org
Web site: <http://www.bgadd.org>
Counties: Clark, Estill, Garrard, Lincoln, Madison, Powell, (Anderson, Bourbon, Boyle, Fayette, Franklin, Harrison, Jessamine, Mercer, Nicholas, Scott, Woodford)

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

Local Development Districts in the Appalachian Region

3D/ Gateway Area Development District

19 E. Main Street
PO Box 1070
Owingsville, Kentucky 40360
606-674-6355
email: GailK.Wright@ky.gov
Web site: <http://www.kycadd.org/gadd>
Counties: Bath, Menifee, Montgomery,
Morgan, Rowan

3E/ Big Sandy Area Development District

110 Resource Court
Prestonsburg, Kentucky 41653
606-886-2374
email: terry.trimble@bigsandy.org
Web site: <http://www.bigsandy.org>
Counties: Floyd, Johnson, Magoffin, Martin,
Pike

3F/ Lake Cumberland Area Development District, Inc.

PO Box 1570
Russell Springs, Kentucky 42642
270-866-4200
email: donnad@lcadd.org
Web site: <http://www.lcadd.org>
Counties: Adair, Casey, Clinton, Cumberland,
Green, McCreary, Pulaski, Russell, Wayne,
(Taylor)

3H/ Cumberland Valley Area Development District

PO Box 1740
London, Kentucky 40743-1740
606-864-7391
email: jolener@cvadd.org
Web site: <http://www.cvadd.org>
Counties: Bell, Clay, Harlan, Jackson, Knox,
Laurel, Rockcastle, Whitley

3I/ Kentucky River Area Development District

917 Perry Park Road
Hazard, Kentucky 41701-9545
606-436-3158
email: paul@kradd.org
Web site: <http://www.kradd.org>
Counties: Breathitt, Knott, Lee, Leslie,
Letcher, Owsley, Perry, Wolfe

3J/ Barren River Area Development District

PO Box 90005
Bowling Green, Kentucky 42102-9005
270-781-2381
email: jolynn.vincent@bradd.org
Web site: <http://www.bradd.org>
Counties: Edmonson, Hart, Monroe, (Allen,
Barren, Butler, Logan, Metcalfe, Simpson,
Warren)

MARYLAND

4A/ Tri-County Council for Western Maryland, Inc.

113 Baltimore Street, Suite 300
Cumberland, Maryland 21502
301-777-2158
email: lmazer@tccwmd.org
Web site: <http://www.tccwmd.org>
Counties: Allegany, Garrett, Washington

MISSISSIPPI

5A/ Northeast Mississippi Planning and Development District

PO Box 600
Booneville, Mississippi 38829
662-728-6248
email: sgardner@nempdd.com
Web site: <http://www.nempdd.com>
Counties: Alcorn, Benton, Marshall, Prentiss,
Tippah, Tishomingo

5B/ Three Rivers Planning and Development District

PO Box 690
Pontotoc, Mississippi 38863
662-489-2415
email: 3rivers@trpdd.com
Web site: <http://www.trpdd.com>
Counties: Calhoun, Chickasaw, Itawamba,
Lee, Monroe, Pontotoc, Union, (Lafayette)

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

Local Development Districts in the Appalachian Region

5C/ Golden Triangle Planning and Development District

PO Box 828
Starkville, Mississippi 39760-0828
662-324-7860
email: rjohnson@gtpdd.com
Web site: <http://www.gtpdd.com>
Counties: Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster, Winston

5D/ East Central Planning and Development District

PO Box 499
Newton, Mississippi 39345
601-683-2007
email: mail@ecpdd.org
Counties: Kemper, (Clarke, Jasper, Lauderdale, Leake, Neshoba, Newton, Scott, Smith)

5E/ North Central Planning and Development District

711 South Applegate
Winona, Mississippi 38967
662-283-2675
email: ncpdd1@bellsouth.net
Counties: Montgomery, Yalobusha, (Attala, Carroll, Grenada, Holmes, Leflore)

5F/ North Delta Planning and Development District

PO Box 1488
Batesville, Mississippi 38606-1488
662-561-4100
email: jcurcio@ndpdd.com
Web site: <http://www.ndpdd.com>
Counties: Panola, (Coahoma, DeSoto, Quitman, Tallahatchie, Tate, Tunica)

NEW YORK

6A/ Southern Tier West Regional Planning and Development Board

Center for Regional Excellence
4039 Route 219, Suite 200
Salamanca, New York 14779
716-945-5301
email: drychnowski@southerntierwest.org
Web site: <http://www.southerntierwest.org>
Counties: Allegany, Cattaraugus, Chautauqua

6B/ Southern Tier Central Regional Planning and Development Board

145 Village Square
Painted Post, New York 14870
607-962-5092
email: weber@stny.rr.com
Web site: <http://www.stcplanning.org/>
Counties: Chemung, Schuyler, Steuben

6C/ Southern Tier East Regional Planning Development Board

375 State Street
Binghamton, New York 13901-2385
607-724-1327
email: ste@steny.org
Web site: <http://www.steny.org/>
Counties: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Tioga, Tompkins

NORTH CAROLINA

7A/ Southwestern North Carolina Planning and Economic Development Commission

PO Drawer 850
Bryson City, North Carolina 28713
828-488-9211
email: debra@regiona.org
Web site: <http://www.regiona.org>
Counties: Cherokee, Clay, Graham, Haywood, Jackson, Macon, Swain

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

Local Development Districts in the Appalachian Region

7B/ Land-of-Sky Regional Council

25 Heritage Drive
Asheville, North Carolina 28806-1914
828-251-6622
email: info@landofsky.org
Web site: <http://www.landofsky.org>
Counties: Buncombe, Henderson, Madison, Transylvania

7C/ Isothermal Planning and Development Commission

PO Box 841
Rutherfordton, North Carolina 28139
828-287-2281
email: phughes@regionc.org
Web site: <http://www.regionc.org>
Counties: McDowell, Polk, Rutherford, (Cleveland)

7D/ High Country Council of Governments

PO Box 1820
Boone, North Carolina 28607
828-265-5434
email: regiondcog@regiond.org
Web site: <http://www.regiond.org>
Counties: Alleghany, Ashe, Avery, Mitchell, Watauga, Wilkes, Yancey

7E/ Western Piedmont Council of Governments

PO. Box 9026
Hickory, North Carolina 28603
828-322-9191
email: doug.taylor@wpcog.org
Web site: <http://www.wpcog.org>
Counties: Alexander, Burke, Caldwell, (Catawba)

7I/ Northwest Piedmont Council of Governments

400 West Fourth Street, Suite 400
Winston-Salem, North Carolina 27101
336-761-2111
email: regioni@nwpcog.org
Web site: <http://www.nwpcog.org>
Counties: Davie, Forsyth, Stokes, Surry, Yadkin

OHIO

8A/ Ohio Valley Regional Development Commission

9329 SR 220 East, Suite A
Waverly, Ohio 45690-9012
740-947-2853
email: email@ovrdc.org
Web site: <http://www.ovrdc.org>
Counties: Adams, Brown, Clermont, Gallia, Highland, Jackson, Lawrence, Pike, Ross, Scioto, Vinton, (Fayette)

8B/ Buckeye Hills-Hocking Valley Regional Development District

PO Box 520
Reno, Ohio 45773
740-374-9436
email: info@buckeyehills.org
Web site: <http://www.buckeyehills.org>
Counties: Athens, Hocking, Meigs, Monroe, Morgan, Noble, Perry, Washington

8C/ Ohio Mid-Eastern Governments Association

PO Box 130
Cambridge, Ohio 43725-0130
740-439-4471
email: director@omega-ldd.org
Web site: <http://www.omega-ldd.org>
Counties: Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Tuscarawas

PENNSYLVANIA

9A/ Northwest Pennsylvania Regional Planning and Development Commission

PO Box 1127
Oil City, Pennsylvania 16301
814-677-4800
email: nwinfo@nwcommission.org
Web site: <http://www.nwcommission.org>
Counties: Clarion, Crawford, Erie, Forest, Lawrence, Mercer, Venango, Warren

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

Local Development Districts in the Appalachian Region

9B/ North Central Pennsylvania Regional Planning and Development Commission

651 Montmorenci Road
Ridgway, Pennsylvania 15853
814-773-3162
email: ncprpdc@ncentral.com
Web site: <http://web2.ncentral.com/ncprpdc/>
Counties: Cameron, Clearfield, Elk, Jefferson,
McKean, Potter

9C/ Northern Tier Regional Planning and Development Commission

312 Main Street
Towanda, Pennsylvania 18848
570-265-9103
email: info@northerntier.org
Web site: <http://northerntier.org>
Counties: Bradford, Sullivan, Susquehanna,
Tioga, Wyoming

9D/ Northeastern Pennsylvania Alliance

1151 Oak Street
Pittston, Pennsylvania 18640-3795
570-655-5581
email: info@nepa-alliance.org
Web site: <http://www.nepa-alliance.org>
Counties: Carbon, Lackawanna, Luzerne,
Monroe, Pike, Schuylkill, Wayne

9E/ Southwestern Pennsylvania Commission

425 Sixth Avenue, Suite 2500
Pittsburgh, Pennsylvania 15219-1819
412-391-5590
email: comments@spcregion.org
Web site: <http://www.spcregion.org>
Counties: Allegheny, Armstrong, Beaver,
Butler, Fayette, Greene, Indiana, Washington,
Westmoreland

9F/ Southern Alleghenies Planning and Development Commission

541 58th Street
Altoona, Pennsylvania 16602-1193
814-949-6520
email: sapdc@sapdc.org
Web site: <http://www.sapdc.org>
Counties: Bedford, Blair, Cambria, Fulton,
Huntingdon, Somerset

9G/ SEDA-Council of Governments

201 Furnace Road
Lewisburg, Pennsylvania 17837
570-524-4491
email: admin@seda-cog.org
Web site: <http://www.seda-cog.org>
Counties: Centre, Clinton, Columbia, Juniata,
Lycoming, Mifflin, Montour, Northumberland,
Perry, Snyder, Union

SOUTH CAROLINA

10A/ South Carolina Appalachian Council of Governments

PO Box 6668
Greenville, South Carolina 29606
864-242-9733
email: info@scacog.org
Web site: <http://www.scacog.org>
Counties: Anderson, Cherokee, Greenville,
Oconee, Pickens, Spartanburg

TENNESSEE

11A/ Upper Cumberland Development District

1225 South Willow Avenue
Cookeville, Tennessee 38506-4194
931-432-4111
email: waskins@ucdd.org
Web site: <http://www.ucdd.org>
Counties: Cannon, Clay, Cumberland, De
Kalb, Fentress, Jackson, Macon, Overton,
Pickett, Putnam, Smith, Van Buren, Warren,
White

11B/ East Tennessee Development District

PO Box 249
Alcoa, Tennessee 37701-0249
865-273-6003
email: tbobrowski@etdd.org
Web site: <http://www.kornet.org/etdd>
Counties: Anderson, Blount, Campbell,
Claiborne, Cocke, Grainger, Hamblen,
Jefferson, Knox, Loudon, Monroe, Morgan,
Roane, Scott, Sevier, Union

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

Local Development Districts in the Appalachian Region

11C/ First Tennessee Development District

207 N. Boone Street, Suite 800
Johnson City, Tennessee 37604-5699
423-928-0224
email: sreid@ftdd.org
Web site: <http://ftdd.org/>
Counties: Carter, Greene, Hancock, Hawkins, Johnson, Sullivan, Unicoi, Washington

11D/ South Central Tennessee Development District

PO Box 1346
Columbia, Tennessee 38402-1346
931-381-2040
email: pespenschied@sctdd.org
Web site: <http://www.sctdd.org>
Counties: Coffee, Franklin, (Bedford, Giles, Hickman, Lawrence, Lewis, Lincoln, Marshall, Maury, Moore, Perry, Wayne)

11E/ Southeast Tennessee Development District

PO Box 4757
Chattanooga, Tennessee 37405
423-266-5781
email: hcbooth@sedev.org
Web site: <http://www.sedev.org/setdd>
Counties: Bledsoe, Bradley, Grundy, Hamilton, Marion, McMinn, Meigs, Polk, Rhea, Sequatchie

VIRGINIA

12A/ LENOWISCO Planning District Commission

PO Box 366
Duffield, Virginia 24244
276-431-2206
email: lenowisco@lenowisco.org
Web site: <http://www.lenowisco.org>
Counties: Lee, Scott, Wise; and city of Norton

12B/ Cumberland Plateau Planning District Commission

PO Box 548
Lebanon, Virginia 24266
276-889-1778
email: kathyleonard@bvunet.net
Web site: <http://cppdc.org>
Counties: Buchanan, Dickenson, Russell, Tazewell

12C/ Mount Rogers Planning District Commission

1021 Terrace Drive
Marion, Virginia 24354
276-783-5103
email: staff@mrpdc.org
Web site: <http://www.mrpdc.org>
Counties: Bland, Carroll, Grayson, Smyth, Washington, Wythe; and cities of Bristol and Galax

12D/ New River Valley Planning District Commission

6580 Valley Center Drive, Box 21
Radford, Virginia 24141
540-639-9313
email: nrvpdc@nrvc.org
Web site: <http://www.nrvpdc.org/>
Counties: Floyd, Giles, Montgomery, Pulaski; and city of Radford

12E/ Roanoke Valley-Alleghany Regional Commission

PO Box 2569
Roanoke, Virginia 24010
540-343-4417
email: rvarc@rvarc.org
Web site: <http://www.rvarc.org>
Counties: Alleghany, Botetourt, Craig; and city of Covington, (Franklin, Roanoke; and cities of Roanoke and Salem)

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

Local Development Districts in the Appalachian Region

12F/ Central Shenandoah Planning District Commission

112 MacTanly Place
Staunton, Virginia 24401
540-885-5174
email: bill@cspdc.org
Web site: <http://www.cspdc.org>
Counties: Bath, Highland, Rockbridge; and cities of Buena Vista and Lexington, (Augusta, Rockingham; and cities of Harrisonburg, Staunton, and Waynesboro)

WEST VIRGINIA

13A/ Region 1—Planning and Development Council

PO Box 1442
Princeton, West Virginia 24740
304-431-7225
email: regionone@regiononepdc.org
Web site: <http://www.regiononepdc.org>
Counties: McDowell, Mercer, Monroe, Raleigh, Summers, Wyoming

13B/ Region 2—Planning and Development Council

PO Box 939
Huntington, West Virginia 25712
304-529-3357
email: mcraig@citynet.net
Web site: <http://www.region2pdc.org>
Counties: Cabell, Lincoln, Logan, Mason, Mingo, Wayne

13C/ Region 3—B-C-K-P Regional Intergovernmental Council

315 D Street
South Charleston, West Virginia 25303
304-744-4258
email: jdrockwell@wvregion3.org
Web site: <http://www.wvregion3.org>
Counties: Boone, Clay, Kanawha, Putnam

13D/ Region 4—Planning and Development Council

425 Main Street, Suite A
Summersville, West Virginia 26651
304-872-4970
email: gsf02566@mail.wvnet.edu
Counties: Fayette, Greenbrier, Nicholas, Pocahontas, Webster

13E/ Region 5—Mid-Ohio Valley Regional Council

PO Box 247
Parkersburg, West Virginia 26102-0247
304-422-4993
email: jim.mylott@movrc.org
Web site: <http://www.movrc.org>
Counties: Calhoun, Jackson, Pleasants, Ritchie, Roane, Tyler, Wirt, Wood

13F/ Region 6—Planning and Development Council

7003-C Mountain Park Drive
White Hall, West Virginia 26554
304-366-5693
email: regionvi@regionvi.com
Web site: <http://www.regionvi.com>
Counties: Doddridge, Harrison, Marion, Monongalia, Preston, Taylor

13G/ Region 7—Planning and Development Council

4 West Main Street
Buckhannon, West Virginia 26201-2297
304-472-6564
email: rwagner@regionvii.com
Web site: <http://www.regionvii.com>
Counties: Barbour, Braxton, Gilmer, Lewis, Randolph, Tucker, Upshur

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

Local Development Districts in the Appalachian Region

13H/ Region 8—Planning and Development Council

PO Box 849
Petersburg, West Virginia 26847
304-257-2448
email: mail@regioneight.org
Web site: <http://www.region8pdc.org>
Counties: Grant, Hampshire, Hardy, Mineral, Pendleton

13I/ Region 9—Eastern Panhandle Regional Planning and Development Council

400 W. Stephen Street, Suite 301
Martinsburg, West Virginia 25401
304-263-1743
email: info@region9wv.org
Web site: <http://www.region9wv.org>
Counties: Berkeley, Jefferson, Morgan

13J/ Region 10—Bel-O-Mar Regional Council and Interstate Planning Commission

PO Box 2086
Wheeling, West Virginia 26003
304-242-1800
email: belomar@belomar.org
Web site: <http://www.belomar.org>
Counties: Marshall, Ohio, Wetzel; and Belmont County, Ohio

13K/ Region 11—Brooke-Hancock Regional Planning and Development Council

PO Box 82
Weirton, West Virginia 26062-0082
304-797-9666
email: jbrown@bhjmpc.org
Web site: <http://www.bhjmpc.org>
Counties: Brooke, Hancock

Note: Parentheses indicate non-Appalachian counties and independent cities included with the development districts.

Cover Photo

U.S. 23 near Norton, Virginia

Photo by Ken Murray

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Appalachian Regional Commission. Appalachian Regional Commission Performance
and Accountability Report, Fiscal Year 2005. Washington D.C., November 2005.*

This report is available on ARC's Web site at www.arc.gov

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