

Commonwealth of Kentucky

Appalachian Regional Commission 2018 Annual Strategy Statement



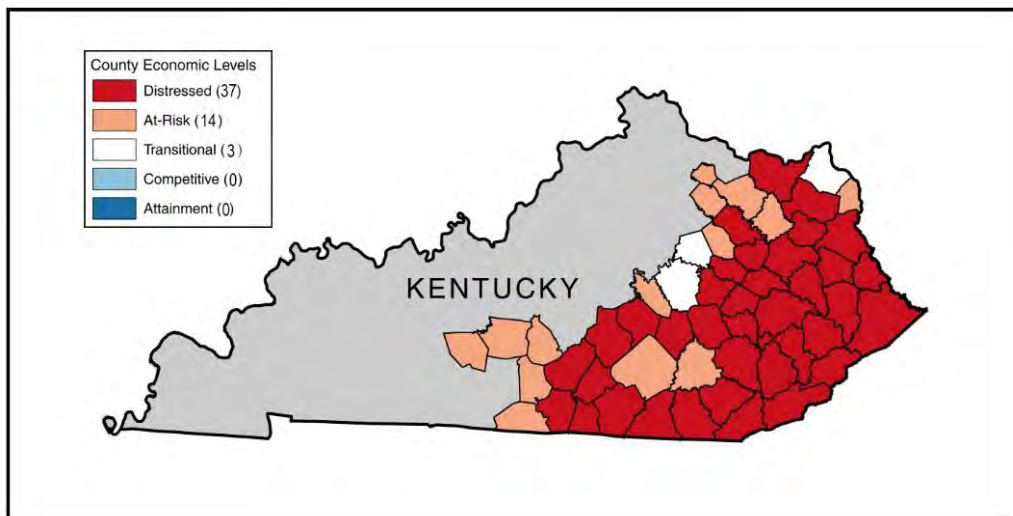
Commonwealth of Kentucky ARC Annual Strategy Statement Fiscal Year 2018

INTRODUCTION

In accordance with Section 5.3 of the Appalachian Regional Commission (ARC) Code, this document serves as the Commonwealth of Kentucky's ARC Annual Strategy Statement for Fiscal Year 2018 (October 1, 2017 - September 30, 2018). The purpose of the strategy statement is to establish a process to set forth goals, objectives, priorities, and policies for Kentucky's ARC counties. The 2018 strategy statement includes:

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

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



ECONOMIC CHALLENGES

The number of Kentucky counties rated as *distressed* has not markedly improved since the inception of ARC in 1965. Only 3 of the 54 ARC counties in Kentucky are reported as *in transition*, while 14 of 54 counties are listed as *at risk*. The remaining 37 counties are designated as *distressed*. Not a single Kentucky ARC county is designated as *competitive* or *attainment*. While past ARC efforts have resulted in positive changes throughout Kentucky's ARC region, the overall economic vitality of the region remains a serious concern.

Workforce Participation & Unemployment - In 2017, Kentucky ranked 47th in workforce participation with a 57.6% rate, 5 points below the national average. In addition, 23 of Kentucky's *distressed* counties had a three-year average unemployment rate in the double digits with a per capita income below \$20,000. While Kentucky is instituting reforms to address environmental factors that contribute to unemployment, much work needs to be done to adequately train, prepare, and incent local citizens towards employment.

Substance Abuse and Incarceration - The biggest pipelines to poverty in today's Appalachia are substance abuse and incarceration. Attention surrounding the opioid epidemic in Kentucky has reached national levels. Despite the creation of organizations such as Operation UNITE and the establishment of dozens of recovery centers and addiction counseling resources to address these issues, efforts to curb addiction have not kept pace with the growing problem.

Addicts most often become members of Kentucky's incarcerated population. Despite opportunities for rehabilitation during incarceration, addicts released in Appalachia have difficulty finding work and community acceptance leading to a return to their previous lifestyle and a return to incarceration. Kentucky's recidivism rate is 41% for inmates. The Commonwealth of Kentucky is actively launching pilot programs in training and apprenticeship opportunities to help these Kentuckians return to society as a capable and contributing workforce.

Foster Placement, Adoption and Children Aging Out of Foster Care - As opioid addiction rages in the Appalachian Region, our most vulnerable and valuable population of infants and children are the true victims as addicted parents are found unfit to care for their children and become incarcerated or fatal victims of their own drug abuse.

Kentucky has 1,774 children within the foster care program eligible and waiting for permanent homes. While children within the system receive care within the oversight of the Commonwealth, children who reach 18 years of age leave the care of their foster family and become legal adults. Few resources are available for this transition, particularly in the Appalachian Region of the Commonwealth. Currently, 2,451 children in Kentucky's 54 counties within the ARC region are in the state's foster care system. Thus, the Commonwealth will seek projects that strengthen the adoption process and provide assistance to young adults transitioning from foster care to encourage entry into higher education, apprenticeship training or other work ready opportunities to facilitate self-sufficiency.

Inadequate Infrastructure - Kentucky leads the nation in the availability of public water supply to the citizens of the Commonwealth in part due to significant investment of Appalachian Regional Commission dollars. Sewer systems are available within the majority of rural municipalities with extensions into some areas of rural counties. However, despite the success of rural water and wastewater infrastructure construction, difficult terrain and the ability of citizens to pay rate increases as needed to maintain rural systems creates challenges to upgrades and response to catastrophic operational events. Assistance to water/wastewater utilities continues to be a priority as rate payers outwardly migrate, water shortages occur and systems struggle to operate.

Broadband access is critical to education systems of the area, recruitment of new business to the region and to local businesses and residents who are falling behind in the technology gap. ARC counties continue to lack adequately developed land for further business expansion and relocation to the Commonwealth.

Health Outcomes - Kentucky recognizes the dismal statistics of the 54 Appalachian Regional Commission designated counties, but also considers the importance of health for the Commonwealth in its entirety. One in three Kentuckians struggles with obesity and weight-related health issues, the state has the second highest rate of smoking in the nation and is first in the nation for cancer deaths and preventable hospitalization. Partnership with the Appalachian Regional Commission is vital to the Commonwealth's Kentucky Health initiative, including the Partnering to Advance Training and Health component of the project.

ECONOMIC OPPORTUNITIES

Governor Bevin is committed to making Kentucky the hub of excellence for manufacturing and engineering in North America. Kentucky enjoys a strategic location, abundant natural resources, basic infrastructure, temperate climate, and cost of living advantages as a necessary foundation for economic vitality and growth. A commitment to sound fiscal discipline, a prepared workforce and a focused investment strategy to make this vision a reality is critical to the implementation of the vision.

Changing Economic and Regulatory Environment - In 2017, Kentucky saw a record-setting \$9.2 billion in corporate investment that included both expansion and relocation as economic forecasting continues to improve in Kentucky.

The Commonwealth has a strategic plan to reduce burdensome regulations by 30%, to reform the tax system, increase labor participation, and streamline education for greater efficacy.

Industry Expansion - Kentucky's manufacturing industry accounts for 19.4% of the state's GDP and is growing at twice the national average 11.8%. Currently, 250,000 Kentuckians work in a manufacturing facility. Kentucky is the number one per capita producer of cars, light trucks, and SUVs, employing 95,000 workers. Kentucky's aerospace industry has increased exports 183% in the last five years and was the second largest U.S. exporter in product and part manufacturing in 2016, while accounting for 17,000 jobs across 75 aviation facilities.

Growing Tourism - In addition, Kentucky tourism has significantly increased over the past 10 years, accounting for \$14.6 billion in economic impact and 192,000 jobs in 2016, with the Kentucky Bourbon Trail drawing over 1 million visitors per year. Kentucky is within one day's drive to over 65% of the U.S. population. The tourism industry continues to see growth in economic opportunity as horses, bourbon, music, arts, outdoors and culinary attractions have been universally recognized as Kentucky's cultural mainstays.

Leadership & Renewed Focus - Governor Bevin and the Commonwealth of Kentucky are taking a fresh look at its ARC strategies for the greatest economic, social and cultural outcomes. The needs for workforce readiness, infrastructure, drug counseling and recovery are critical, but there is also a renewed emphasis on leadership and competition with excellence. While concerns over the *distressed* counties remain, there is leadership with a new focus and determination to tackle these challenges.

TARGETED INVESTMENT PRIORITIES

In FY 2018, Governor Bevin will continue to use available ARC funding to assist Eastern Kentucky's Appalachian region in meeting targeted goals for (1) Economic Opportunities, (2) Ready Workforce, (3) Critical Infrastructure, (4) Natural and Cultural Assets, (5) Leadership and Community Capacity, (6) Health. These goals and priorities will specifically address significant gaps in necessary resourcing, education and infrastructure for maximum effect.

Goal 1: Kentucky's Investment in Economic Opportunities through entrepreneurial and business development strategies that include expansion of manufacturing, aviation and technical training in Eastern Kentucky's ARC region.

Goal 2: Kentucky's Investment in Ready Workforce through education and technical training programs for displaced workers in eastern coal regions, inmate apprenticeships, addiction recovery programs and fostering successful programs for children aging out of the Commonwealth's foster care program.

Goal 3: Kentucky's Investment in Critical Infrastructure through maintenance and expansion of Eastern Kentucky's highway system, water/water systems, gas, broadband and telecommunications access.

Goal 4: Kentucky's Investment in Natural and Cultural Assets by focusing specifically on infrastructure assets for Eastern Kentucky's mountain trail systems, adding welcome/visitor centers and preserving Kentucky's historical sites and heritage.

Goal 5: Kentucky's Investment in Leadership and Community Capacity by focusing early childhood education, Kentucky's foster care system, STEM training for youths, crisis counseling and addiction recovery centers in order to reduce the poverty pipeline and increase community health.

Goal 6: Kentucky's Investment in Health will include assisting the region in the acquisition of modern preventive diagnostic equipment, access to care and preventative programs that result in measurable health outcomes. Kentucky will continue to apply for Department of Defense Innovative Readiness Training (IRT) clinics for counties adjacent to the original quad with a goal of holding a clinic activity in each of the distressed counties.

STRATEGIES FOR DISTRESSED COUNTIES

With 37 of 54 ARC counties designated as *distressed*, Kentucky has more *distressed* counties and communities than any other Appalachian state. These counties have demonstrated persistent, long-term problems that have resulted in extraordinary levels of economic and human distress. For Fiscal Year 2018, Pike County moved from *at-risk* in the previous year to *distressed*. In addition, Boyd and Nicholas counties moved down from *transitional* to *at-risk*. Governor Bevin's goal for Kentucky's ARC program funding is to invest in projects that will increase the quality of life and lead to better, more stable economic outcomes.

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

1. WORKFORCE READINESS & EDUCATION

Governor Bevin will continue to use ARC funding to support initiatives in workforce readiness and education for ARC *distressed* counties. In both 2017 and 2018, Kentucky issued \$100 million bonds to be invested in apprenticeship programs. This was in part to address the double-digit unemployment rate experienced in 23 of 37 Kentucky ARC counties. In 2016, Kentucky also established the first-ever Haas Technical Center (HTEC) in Eastern Kentucky to retrain displaced coal miners for new careers in advanced manufacturing and tech related fields. The Governor will continue to push for funding that will assist programs like this for highly skilled workers to find permanent placement in growing industries. The ARC program staff in Kentucky will continue to promote these workshops with local stakeholders to ensure a ready and stable workforce.

In addition, the Governor will continue to use ARC resources to support projects that reduce crime while increasing workforce participation. This includes programs like, "Justice to Journeyman" which affords inmates at Kentucky correctional facilities the opportunity to obtain credentials and certifications in skilled trade, such as communications, welding, carpentry and general maintenance. With approximately 95% of inmates serving limited terms, Kentucky has a 41% recidivism rate that will be addressed, in part, by workforce participation and meaningful employment.

The Governor will invest ARC funding to support education throughout the Eastern Kentucky region that will lead to strong economic outcomes. ARC funding afforded the Galen College of Nursing the opportunity to come to Perry County to give area residents opportunities for a nursing certification and college degree. Graduates from the program are able to continue their education and seek employment in the Appalachian Regional Hospital (ARH).

2. LOCAL ECONOMIC & BUSINESS DEVELOPMENT

In 2016, Governor Bevin launched the Red-Tape Reduction Initiative with a target of 30% regulatory reduction in the 5th most highly regulated state in the nation. Since then, 372 regulations have been repealed and 68 boards and commissions disbanded, while \$12 billion in new corporate investment has come to Kentucky. The most significant private investment was a \$1.3 billion aluminum facility in Boyd County. The Governor plans to use ARC funding with greater emphasis on private sector investment in Eastern Kentucky to tackle poverty and dramatically improve economic outcomes.

The Governor is making a concerted effort with the Economic Development Cabinet to reduce burdensome tax, address location factors and boost business confidence throughout the Eastern Kentucky region. In December 2017, EnerBlu Inc. announced that it would relocate from California to Kentucky while investing \$372 million to add 875 full-time jobs in a lithium battery manufacturing facility located in Pikeville, Ky.

The Governor is also putting a greater emphasis on creating a hospitable small business environment through the Eastern Kentucky region. This includes workshops and programs for entrepreneurial activities for increased business activity. Last year the Southeast Kentucky Economic Development Corporation (SKED) received funding to hold workshops in digital marketing, media promotion, and entrepreneurship. SKED has already resourced over 40 business owners, with \$4.9 million in funds, creating 286 new jobs. The Governor will continue to pursue ARC resourcing so that business education and resourcing will continue to propel the local economy forward.

3. INFRASTRUCTURE

The Governor will continue to use program funding that supports projects and provisions for infrastructure. This includes a priority on water/wastewater utilities that are underperforming or not servicing areas of the population in distressed counties. Water is vital to area residents while providing necessary support for ongoing business operations and expansion. In addition, the ARC program manager will look for ways to bridge gaps in Appalachian communities that are underserved or do not qualify for housing with the goal of providing safe and affordable housing in distressed areas.

The remaining planned miles of the Appalachian Development Highway System (ADHS) in Kentucky will directly impact designated *distressed* counties within the region and remain a high priority for completion. Expansion of regional industrial parks along ADHS corridors will continue toward creation of jobs within the *distressed* and *at-risk* counties. Further development of the Southern Kentucky Intermodal Center in Pulaski County will benefit marketing efforts for products coming from *distressed* counties within the region and make added steps toward sustainable economic development in these areas.

Eastern Kentucky continues to lag behind in broadband internet access and telecommunications networks. Past efforts have been made to expand the fiber optic networks and broadband internet access to the Eastern Kentucky region, but these efforts have suffered setbacks due to construction and cost overruns. The Kentucky Communication Network Authority (KCNA) and the Center for Rural Development have overseen much of the project across the Appalachian region and are attempting to further Kentucky's potential in developing its digital telecommunications.

4. HEALTH AND PUBLIC SAFETY

Appalachian Kentucky is in markedly worse health than non-Appalachian Kentucky. The diseases of despair, suicide, drug and alcohol addiction, alcoholic cirrhosis cause more deaths in Appalachian Kentucky than in the rest of the state. General illnesses such as heart disease, cancer, diabetes and injury inflict more harm in Appalachian Kentucky than in the rest of the state. Mental health outcomes continue this same grim trajectory. Working toward an elimination of this gap in health outcomes is essential to pulling Appalachian Kentucky out of poverty.

Kentucky's opioid epidemic has been a tremendous barrier to developing a ready workforce. Nearly every Kentucky county experienced a fatal drug overdose in 2016, proving that the consequences of this crisis are far-reaching and affecting every corner of our communities. The Governor will continue to seek program funding to assist area recovery and addiction counseling centers to address the growing crisis in drug abuse.

Kentucky also has turned its attention to vulnerable children who have suffered at the hand of addiction, parental joblessness and abuse. Many foster children are victims of system poverty, substance abuse and crime riddled throughout the area. The Governor has invested \$10.8 million in new funding for adoption and foster children supports; and funding for 75 new Commonwealth and county attorneys and 51 new public advocates to strengthen the criminal justice system. The goal is to streamline the process of children finding placement families and significantly reducing the number of children in the poverty pipeline.

The Governor also will be looking for program funding to improve public health in *distressed* counties. ARC will participate in a Department of Defense Innovative Readiness Training (IRT) program that will provide vital health resources to Breathitt, Owsley, Estill and Lee Counties. This initiative provides much needed troop training hours for the military personnel who are providing necessary medical services during a two-week training period. The Governor's Office intends to dovetail the IRT opportunity to coordinate with government and private sector resources such as Health Kentucky to move the four participating counties toward long-term health improvement goals.

KENTUCKY ARC OPERATING POLICIES

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

Pre-Application, Training and Evaluation

Pre-applications may be solicited by the Kentucky Department for Local Government from county judge/executives, mayors, ADD directors, non-profits and other local agencies, including other elected officials serving in counties or cities. Local agency staff may communicate this solicitation to area programs and non-profits within the region. The ARC Program Manager also maintains a list of agencies to direct such communication about ARC pre-applications when necessary.

In addition, training sessions are conducted each year prior to the pre-application deadline to raise applicant awareness and provide all necessary information to local agencies and staff. This will better prepare counties and cities in understanding the application process. All pre-applications are screened initially by the ARC Program Manager and staff to determine if they are eligible for funding consideration. This screening process determines the following: (1) application completeness, accuracy and project feasibility, (2) eligibility under the ARC Code and Guidelines, and (3) Project consistency with ARC strategic goals and state strategies.

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

ARC Funding Project Prioritization

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

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

Priority I applicants are asked to submit full applications for submission to ARC for approval.

GENERAL FUNDING TIMELINE

- Pre-Application Packet published online March 1, 2018.
- Pre-Applications will be due on June 1, 2018.
- Applicants will be invited to submit full applications by July 1, 2018.
- Full Applications will be due on August 1, 2018.
- Governor's Distressed County Project Recommendations will be submitted to ARC by August 30, 2018.