

Appalachia Forward



Four-Year Development Plan for the Appalachian Region of Virginia 2010-2013

**The Honorable Robert F. McDonnell
Governor of Virginia**

| | |
|---|-----------|
| INTRODUCTION AND BACKGROUND..... | 3 |
| BACKGROUND | 3 |
| GOVERNOR McDONNELL’S PRIORITIES | 4 |
| <i>Overall Economic Development Plan</i> | 4 |
| <i>Energy</i> | 6 |
| <i>Education</i> | 7 |
| <i>Housing</i> | 7 |
| <i>Health Care</i> | 8 |
| <i>Government Reform and Restructuring</i> | 8 |
| AN ASSESSMENT OF VIRGINIA’S ARC REGION | 10 |
| DEMOGRAPHICS | 10 |
| ECONOMY..... | 12 |
| EDUCATION | 15 |
| INFRASTRUCTURE AND TRANSPORTATION | 16 |
| HEALTH CARE..... | 21 |
| STATE DEVELOPMENT PLAN FOR THE APPALACHIAN REGION | 23 |
| THE REGION’S STRENGTHS, WEAKNESSES, AND OPPORTUNITIES..... | 23 |
| STRENGTHS:..... | 23 |
| WEAKNESSES: | 24 |
| OPPORTUNITY IDENTIFICATION FOR THE REGION:..... | 24 |
| EMERGING TRENDS..... | 25 |
| VIRGINIA’S APPALACHIAN DEVELOPMENT PROGRAM..... | 30 |
| DEVELOPMENT AND PLANNING ORGANIZATION..... | 30 |
| STRATEGIC INVESTMENTS..... | 30 |
| COORDINATION BETWEEN ARC, LDDs AND CITIZENS..... | 31 |
| OUTCOME FUNDING INVESTMENT APPROACH | 31 |
| FUNDING POLICIES AND PRINCIPLES | 32 |
| PROJECT DEVELOPMENT | 33 |
| PROJECT SELECTION | 34 |
| LEVEL 1..... | 34 |
| LEVEL 2: | 34 |
| PROJECT EVALUATION | 34 |
| INVESTMENT TIMETABLE..... | 35 |
| COUNTY DESIGNATIONS | 35 |
| DISTRESSED COUNTY | 35 |
| ATTAINMENT COUNTY..... | 36 |
| COMPETITIVE COUNTY | 36 |
| AT-RISK COUNTY | 36 |
| NEW COUNTIES AND CITIES | 36 |
| APPENDICES..... | 37 |

SUMMARY OF VIRGINIA'S FOUR-YEAR DEVELOPMENT PLAN FOR THE APPALACHIAN REGION OF VIRGINIA

The plan describes Virginia's Appalachian region by its demographics, economy, education levels, and infrastructure and transportation assets. This information is used to show the inequity between Virginia's Appalachian region and the rest of the state. A list of critical needs for Virginia's Appalachian region is included, as are the priorities that have been formulated by Governor McDonnell's administration. The needs of the region and the principles developed there were used in creating the state ARC funding priorities and investment strategies for the next four years.

The Plan is composed of four major sections: a discussion of Governor McDonnell's priorities; an assessment of Virginia's ARC region; the State Development Plan for the region; and a description of Virginia's ARC Program.

As Governor McDonnell continues to develop his community and economic development vision for the Commonwealth, several key issues are emerging. These issues signal the Administration's priorities for the next four years and will serve as a guide for the strategic investment of ARC funds. Areas in which Governor McDonnell is especially interested include:

- Economic Development – Virginia leads the way in building and maintaining an excellent business climate. To continue this success and further strengthen this foundation, one of Governor McDonnell's first actions was to establish a Chief Job Creation Officer and Governor's Economic Development and Job Creation Commission. In addition to the work of the Chief Job Creation Office and the Commission, the Commonwealth, through the Governor's leadership, has been very active in developing further measures to economic development, including several new pieces of legislation.
- Energy – Governor McDonnell has made a commitment to establish the Commonwealth of Virginia as the "Energy Capital of the East." To this end the Administration is dedicated to moving forward with recommendations from the 2010 Virginia Energy Plan.
- Education – Continuing Virginia's commitment to quality education, Governor McDonnell has introduced the "Opportunity to Learn" initiative and established the Commission on Higher Education Reform, Innovation, and Investment.
- Housing – Recognizing that affordable and safe housing is a fundamental component of healthy and prosperous communities, Governor McDonnell established Virginia's first executive housing policy framework, which will help guide the development of a housing policy.
- Health Care – The Governor recognizes the critical issue of providing access to quality and affordable health care services, particularly in rural areas of Virginia. Recently Governor McDonnell signed into legislation a measure to dramatically expand telemedicine coverage and has initiated a Health Care Reform Initiative to prepare Virginia for the implementation of federal health reform.

- Government Reform and Restructuring – To ensure that the Commonwealth of Virginia provides the necessary and appropriate core services utilizing the most cost effective methods available, Governor McDonnell is conducting a comprehensive, systematic and ongoing evaluation of the effectiveness and need for the state's existing agencies, governing bodies, programs, and services.

The Assessment section describes our Appalachian Region through factors relating to:

- Demographics;
- Economy;
- Education;
- Infrastructure and Transportation; and
- Health Care

The information highlights the inequity between Virginia's Appalachian region, the rest of the State and in some instances, the nation. In addition to historic and recent data, this section also sets forth current activities impacting the area, such as telecommunications efforts in the region, studies to identify existing and emerging economic sectors that represent an area of opportunity, recent developments that are helping to transform the region.

The State Development Plan section discusses how priorities for investment of ARC funds are determined and how each project must include clear, measurable outcomes. The project development, evaluation, and selection process is outlined, along with timetable for funding decisions. This section also discusses the procedure used to classify ARC counties based upon certain economic indicators.

The development of Virginia's plan is important because it will drive the Commonwealth's ARC strategic investments over the next four years and will focus our approach to Virginia's Appalachian region. By highlighting certain objectives, Virginia is stating its priorities in funding types of projects that relate to an objective or desired outcome that is discussed in this plan. The creation of this plan is a requirement of the Appalachian Regional Commission Code and must be revised every four years.

INTRODUCTION AND BACKGROUND

Introduction

In accordance with Section 5.3 of the Appalachian Regional Commission Code, this document will serve as the State of Virginia's Appalachian Regional Commission State Development Plan. The purpose of this Plan is to establish a process to set forth goals, objectives, priorities, and policies for Virginia's ARC Region, identify broad statewide issues and needs that the Governor has chosen to address with ARC resources, and prioritize development projects and programs in these key issue areas in the seven Local Development Districts. The implementation of this Plan will continue to meet the diverse and changing needs of Virginia's Appalachian Region by targeting and focusing the resources and strategies that mirror ARC's defined goals and objectives, as well as the Governor's goals and objectives.

As required by Section 5.3 of the Appalachian Regional Commission Code, this document provides the following:

1. A brief description of Virginia's Appalachian development planning process, including the roles of the LDDs and citizens;
2. A general profile of Appalachian Virginia;
3. The Governor's goals, objectives, and priorities for the region and the needs on which such goals, objectives and priorities are based;
4. The Commission's Strategic Plan goals and objectives, and its guiding principles, and the inter-relationship between economic development in the Appalachian portion of the state and the Appalachian Development Highway System corridors located in the state;
5. The state operating program policies; and
6. The methods used to measure relative financial resources of project applicants to ensure an equitable allocation of state contributions for projects to its Appalachian area, and explain the derivation, rationale, and application of such methods.

Background

The Appalachian Region of Virginia encompasses twenty-five counties and eight independent cities (map and list found at Appendix A). This Region is an area of beauty and natural appeal with mountains of hardwood and coal, and fertile valleys, plateaus and ridges for agricultural production. However, the same mountains that provide beautiful landscapes create geographical barriers to the rest of the Commonwealth of Virginia. These barriers have created an economic divide between Appalachian Virginia and the rest of Virginia. This divide has been reduced throughout the past decade by federal and state investments, through strong local efforts, through technological

investments, and due to the strong economy of the last decade. But while the rising tide of the economy lifted the standard of living for all Virginians, Appalachian Virginia has not closed the gap and a divide continues to exist, and the recent economic downturn have stifled progress and in some instances, further widened the gap between the region and the rest of the Commonwealth.

This geographic dissonance is substantiated by no shortage of statistics that show the Region does not compare favorably to the rest of Virginia in a number of areas including: lower level of educational attainment; higher unemployment rates; lower median household incomes; and a shortage of four-lane highways that connect to Regional Highway Corridors.

Governor McDonnell's Priorities

Governor Robert F. McDonnell took office in January, 2010 and his Administration is moving forward in the development of the state's community and economic development vision. As noted below, many of the Governor's efforts will positively impact Virginia's ARC Region.

Overall Economic Development Plan

Virginia is ranked second as being the "most pro-business state" in America according to the Pollina Corporate Top 10 Pro-Business States for 2010. Continuing this long tradition of fostering a strong economic development environment, Governor McDonnell has introduced new ideas and initiatives to sustain this positive climate. One of the first actions by Governor McDonnell was to establish a Chief Job Creation Officer and Governor's Economic Development and Job Creation Commission. This Commission is tasked with identifying impediments to and opportunities for job creation and ensures the Commonwealth maintains its standing as the best place to do business in the country. The Commission is organized into the following subcommittees reflecting key economic development priorities for the Commonwealth:

1. Business Development
2. Business Recruitment
3. Economically Distressed Areas
4. Energy
5. Manufacturing
6. Small Business
7. Technology
8. Tourism
9. Workforce Development

Since its formation, the Commission has developed strategies and initial policy recommendations to better position Virginia to create jobs and grow the economy. This group has been analyzing Virginia's economic development programs and agencies; assessing competitive initiatives in other states; considering existing tax and regulatory impediments to job creation; and, engaging private sector and state and local government stakeholders. Recommendations from the Economic Development and Job Creation Commission subgroups include:

- Establishing an Emerging Technology Fund
- Developing a Tourism Development Grant Program

- Transforming Academic Institutions into Economic Engines, including
 - Creating Centers of Excellence
 - Establishing a Virginia R&D Refundable Tax Credit
 - Maximizing Energy Based Research Coordination
 - Expanding Energy Education
- Creating a Small Business Investment Tax Credit
- Providing Additional Resources for Virginia Small Business Financing Authority
- Enhancing “Business One Stop” Website
- Expanding the Department of Business Assistance’s Business Information Center Programs
- Training Workers for Virginia Businesses, including:
 - Greater Alignment between job demand and workforce development efforts
 - Greater use of Career Pathways programs, including apprenticeship, on-the-job training, and other “Earn While You Learn” models
 - Greater coordination among education, workforce development, and economic development through designated cabinet-level leadership
 - Establishing goals around which federal and state workforce programs can align outcomes, actions, performance measures and budgets to streamline overall process
 - Providing additional resources for non-credit courses at Virginia community colleges
 - Recognizing the existing credentials of highly trained and experienced former military personnel and allow substitution of certain military training and service for formal certification in health and technical professions.
- Improving the Coordination, Efficiency and Responsiveness of Government, including:
 - Increasing Regional Collaboration
 - Creating a Chief Marketing Officer
 - Fast-tracking permitting
- Developing More Effective Business Recruitment Incentives, including
 - Fully Funding Enterprise Zones
 - Creating a Port of Virginia Tax Credit
 - Introducing Reform Incentives
 - Increasing Incentive Fund Flexibility

The Administration has also been successful in passing a number of bills from the "Jobs and Opportunity" legislative agenda in the recent General Assembly session. Designed to spur job creation and promote economic development in Virginia, the measures:

- Strengthens the criteria for Governor's Opportunity Fund (discretionary funds available to secure a business location or expansion project) and allows the Governor discretion regarding the local match for the Governor's Opportunity Fund
- Expands the Major Jobs Facilities tax credit
- Expands economic development incentive programs to attract major businesses to locate in Virginia by allowing Governor's Development Opportunity funds to assist with construction or build-out of privately owned buildings
- Establishes a major employment / investment project site planning grant fund
- Expands Enterprise Zones and reinvests surplus into real property grants

- Creates a Green Jobs tax credit
- Creates a motion picture film production tax credit
- Provides for temporary business licenses to applicants who hold a comparable license or certification issued by another state
- Dedicates a portion of the wine liter tax for wine marketing, research, and education efforts that is linked to the growing success of the industry
- Grants income tax exemption on capital gains related to investments in science based or bio-tech start-ups
- Creates the Universities Clean Energy Development and Economic Stimulus Foundation
- Adds the Lieutenant Governor and Commerce and Trade Secretary to Center for Rural Virginia Board of Trustees
- Changes the title of VEDP Executive Director to CEO

Energy

Virginia continues to press forward with the development of both traditional and alternative energy solutions. As part of this commitment, this year, Governor McDonnell will host "Virginia: Energy Capital of the East Coast — The Governor's Conference on Energy." The Conference will feature a comprehensive program that will cover every aspect of doing energy business in Virginia; provide the latest information on state and federal regulatory activity; present cutting edge projects; highlight research and development currently underway at Virginia's universities; and present the insights of business and government leaders about our energy future.

The state is also dedicated to moving forward with recommendations from the 2010 Virginia Energy Plan, including:

- Growing both traditional and alternative energy production, jobs and investment.
- Increasing the use of conservation and efficiency.
- Expanding public education about Virginia's energy production and consumption, its effect on our economy, and how Virginians can use energy more efficiently.
- Maximizing the investment in clean energy research and development through the work of the Universities Clean Energy Development and Economic Stimulus Foundation

To underscore the State's emphasis on developing renewable energy solutions, the Administration has pledged that funds generated from future offshore royalties and revenues will be directed to the Virginia Coastal Energy Research Consortium. The Consortium provides the research and development required for the commercialization and implementation of renewable energy and plays a vital role in meeting objectives set forth in the Virginia Energy Plan.

Exemplifying Virginia's dedication to embrace further research and implementation of renewable energy, the Virginia Universities Clean Energy Development and Economic Stimulus Foundation has been created to promote green energy research and development and make Virginia's universities and colleges national leaders in this growing industry.

The state has also moved forward with the creation of the Virginia Offshore Wind Development Authority, an important step to make wind energy a reality in Virginia's coastal waters. The

authority will promote the development of the offshore wind industry in Virginia and identify potential barriers to wind energy development, among other things.

Education

Continuing Virginia’s commitment to quality education, Governor McDonnell has introduced the “Opportunity to Learn” initiative. This effort is designed to offer options and innovation for all Virginia schoolchildren, but especially those who are at-risk or in underperforming school systems. The three key components of the package – improving public charter school applications, developing criteria for virtual school programs, and establishing college partnership laboratory schools exemplify the Commonwealth’s commitment to providing children with a world-class education.

Governor McDonnell has also established the Commission on Higher Education Reform, Innovation, and Investment. The Commission is charged with ensuring instructional excellence, creating affordable pathways to college degree attainment for many thousands more Virginians, preparing citizens of Virginia for employment in the high-income, high-demand fields of the new economy, fostering socio-economically important research and development, and guaranteeing affordable access to appropriate post-secondary education, training, and re-training for all Virginians.

Housing

Recognizing that affordable and safe housing is a fundamental component of healthy and prosperous communities, Governor McDonnell established Virginia’s first executive housing policy framework to help guide the development of a housing policy. The Governor’s policy will address homelessness and expanding affordable housing, as well as workforce housing, economic development, healthy neighborhoods, effective coordination of transportation, environmental issues and other opportunities. The guiding principles for the formation of the policy framework are:

- Recognizing the role of the housing industry as a critical economic development engine within the Commonwealth by streamlining regulations, ensuring robust finance and construction sectors, promoting the development of workforce housing, reducing commute times between home and work, and increasing residential access to transportation systems, while furthering public understanding of housing finance and economic literacy.
- Promoting sustainable and vibrant communities through measures that promote mixed use development, increase energy efficiency and use of cost effective green building concepts, support the rehabilitation of substandard housing, clarify the role of community associations in common interest communities, and expand public-private cooperation in addressing affordable safe housing.
- Ensuring that a range of housing options can be provided to meet the housing needs of a dynamic and changing population, achieve proper balance between homeownership and rental options, promote a continuum of quality housing options for special needs populations, match existing subsidies with areas of housing need, and increase the emphasis on fair housing (eliminating barriers to housing).
- Increasing capacity to address the needs of homeless Virginians by focusing on the reduction of chronic homelessness, ensuring the continued viability of the safety net of shelters and services, and investing in transitional and permanent supportive housing.

An interim report is expected in November 2010.

Health Care

The Governor understands the critical issue of providing access to quality and affordable health care services, particularly in rural areas of Virginia. Recently Governor McDonnell signed into legislation a measure to dramatically expand telemedicine coverage for Virginians and makes certain that health insurers will cover and reimburse for healthcare services provided through telemedicine.

The Commonwealth, through Governor McDonnell's leadership, has initiated a Health Care Reform Initiative to prepare Virginia for the implementation of federal health reform by planning for the expansion of Medicaid eligibility. However, the effort will not be limited to federal health care reform but will also help to ensure a safe, effective, and high quality health care delivery system while reducing costs. The Initiative will promote innovation, quality and cost-effectiveness within Virginia's health care delivery system and seek to reduce the regulatory burden on all Virginians.

The Virginia Health Workforce Development Authority has been created to facilitate the development of a statewide health professions pipeline that identifies, educates, recruits, and retains a diverse, appropriately geographically distributed and culturally competent quality workforce.

Government Reform and Restructuring

To ensure that the Commonwealth of Virginia provides the necessary and appropriate core services utilizing the most cost effective methods available, Governor McDonnell is conducting a comprehensive, systematic and ongoing evaluation of the effectiveness and need for the state's existing agencies, governing bodies, programs, and services. This comprehensive review will make certain that duplicative, outdated, unnecessary and ineffective services and service delivery methods are eliminated and that state revenues are dedicated to the core functions of government.

To facilitate this effort, Governor McDonnell created the Commission on Government Reform and Restructuring, tasked with putting forth bold and innovative ideas to ensure that duplicative, outdated, unnecessary and ineffective services and service delivery methods are eliminated and that state revenues are dedicated to the core functions of government. The Commission's mission is to:

- Identify opportunities for creating efficiencies in state government, including streamlining, consolidating, or eliminating redundant and unnecessary agency services, governing bodies, regulations and programs;
- Explore innovative ways to deliver state services at the lowest cost and best value to Virginia taxpayers;
- Seek out means to more effectively and efficiently perform core state functions, including potential privatization of government operations where appropriate, and restore focus on core mission-oriented service;
- Examine ways for state government to be more transparent, user friendly and accountable to the citizens of the Commonwealth.

Public input is critical to the Commission and several processes have been put in place to maximize participation, including regional public town hall meetings and an online submission process. In addition to forums which have been held, Governor McDonnell will hold additional town hall meetings around the Commonwealth. The "Virginia Speaks: A Conversation about Jobs,

Government Reform and Our Future” events will allow Virginians to speak directly with Virginia’s governor about the issues facing the Commonwealth. The Governor will also spend a portion of each town hall discussing his efforts to make government smaller and simpler, privatize Virginia’s state run ABC stores, and create good jobs statewide.

The Governor has also established an Operational Review Task Force to look for cost cutting best practices in Virginia’s operational costs. This Task Force was formed as a result of a recommendation by the Commission and will be chaired by Special Advisor to the Commission Bill Leighty, chief of staff to former Governors Mark Warner and Tim Kaine. The Task Force will evaluate 12 areas of government to identify potential savings in operational costs and recommend strategies for realizing those savings. The Operational Review Task Force will focus on the Commonwealth’s:

- Usage of Energy
- Usage of Water
- Usage of Waste Management
- Usage of Phones and Data
- Usage of Printers, Copiers and Fax Machines
- Asset Inventory & Management
- Travel
- Fleet Management
- Usage of Banking Services
- Accounts Receivable
- Surplus Property
- Insurance (Health & Risk Management)

As noted above, many of the Administration’s policies are still under development. While most of these policies are developed from a statewide perspective, the direct impact on Virginia’s ARC Region should be significant. Future decision-making and strategic investment decisions in the Region will align with the Administration’s initiatives and priorities.

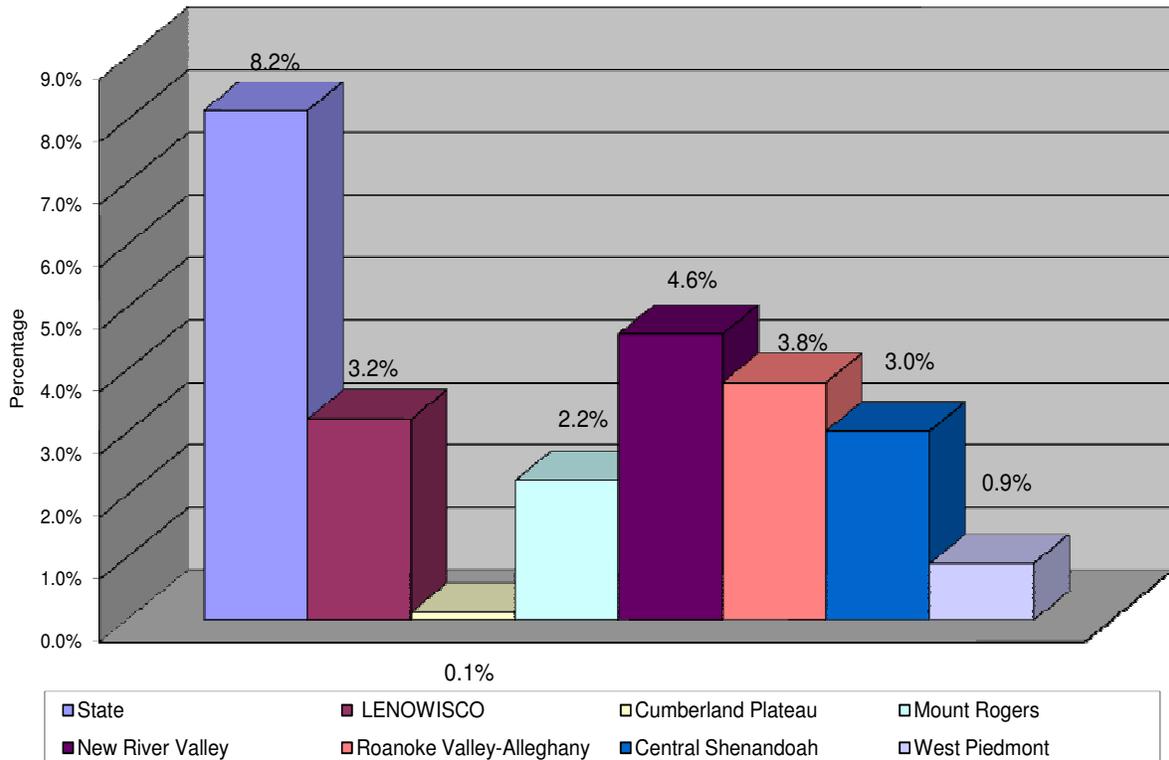
AN ASSESSMENT OF VIRGINIA’S ARC REGION

Virginia is a leader when viewed in terms of the quality of schools, the well-balanced economy, the excellence of the workforce, and the high quality of life. Broadly speaking, the data that follows indicates that Virginia’s ARC Region has benefited from continued federal, state and local investment throughout the past decade. The realized improvements are also a direct result of an economy that has historically been very strong throughout the Commonwealth. However, while the economy in the Commonwealth has been strong until the recent downturn and the effect of new technologies and new industries can be seen throughout the ARC region, the data also reflects that Virginia’s ARC region, has in many respects, been left behind.

Demographics

Population trends of a region are often indicative of the health of that region. Virginia’s Appalachian Region continues to lag behind the state in population growth. Data estimates for the Planning District Commissions located in the Virginia Appalachian Region indicate the average percentage population increase from 2002-2009 is 2.6% by PDC, while the overall state population grew approximately 8.2% during the same period. Both Cumberland Plateau and West Piedmont PDCs saw gains of less than 1 percent during the period. It is worth noting that nine out of 33 localities in the Virginia Appalachian region lost population during that period and that only two localities (Botetourt and Montgomery) had a higher percentage increase in population growth than the state. Highland County had the greatest population loss over that period at approximately 9.1%.

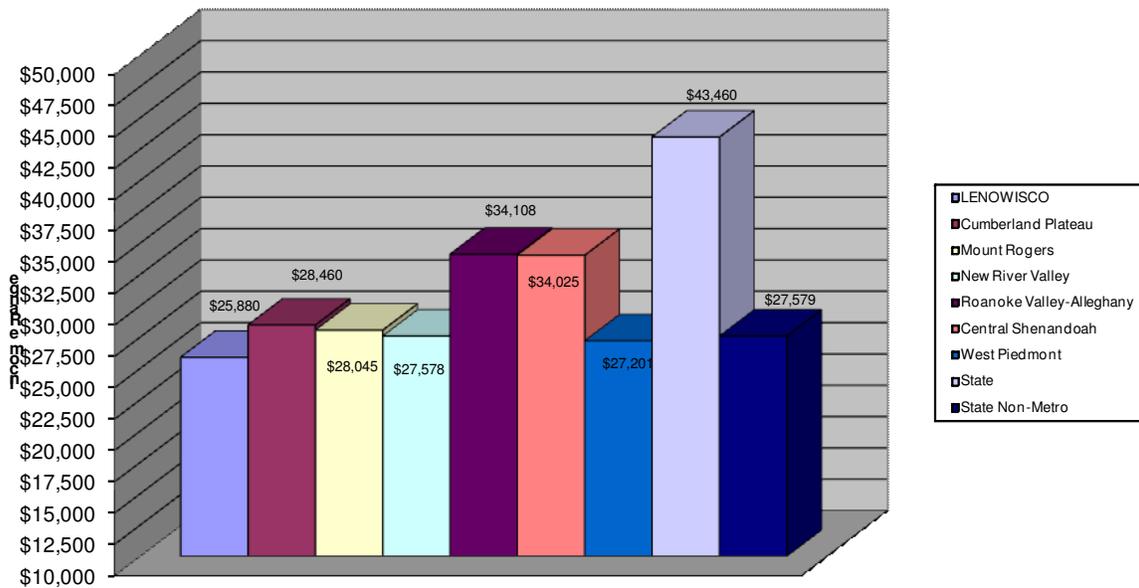
Population Change 2002-2009 ARC VA and State
(Source: Weldon Cooper Center for Public Service)



Increases in income have generally kept pace with the rest of the state, even exceeding the state average in some areas. The per capita income for the period of 2006-2008 increased at an average rate of 9.2 in Virginia's ARC region, while the overall average increase statewide was 8.2 percent.

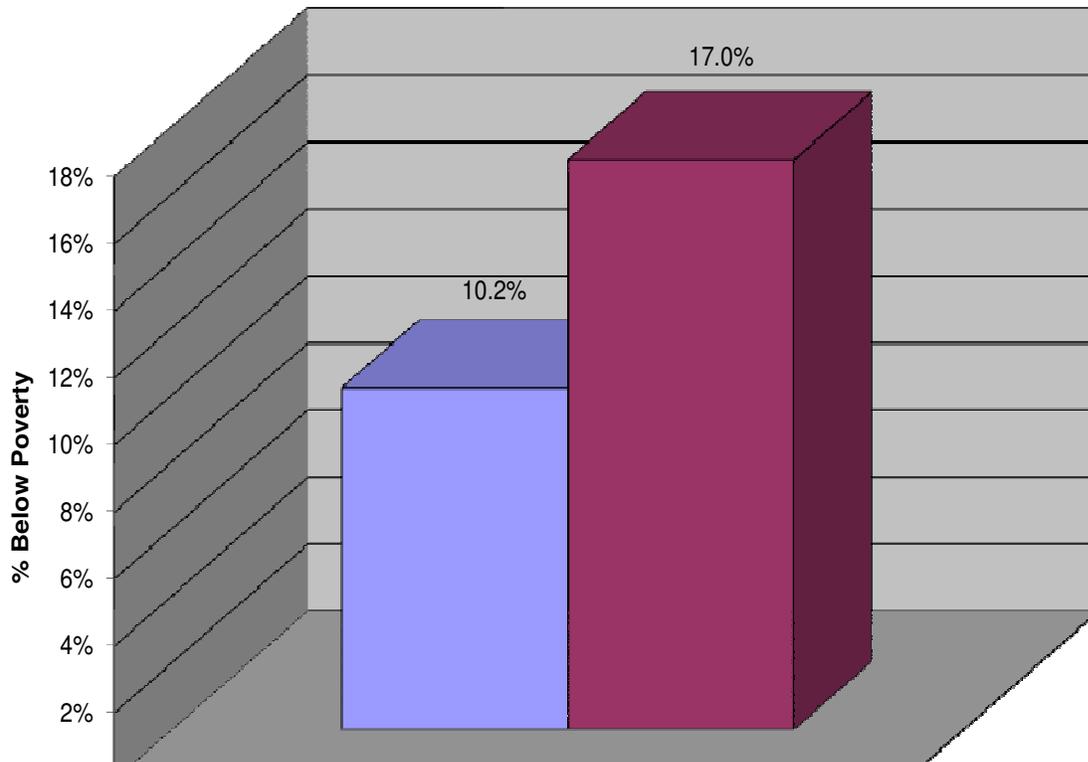
However, the overall, individual per capita income of \$29,262 in the Virginia ARC region continues to lag far behind the overall Virginia amount of \$44,756.

Per Capita Income - 2008
(Source: Bureau of Economic Analysis)



Poverty continues to be a major factor in Virginia's Appalachian Region. In 2008, poverty level estimates indicate the percentage of citizens below the poverty level statewide was 10.2%, while the average percentage in Virginia's Appalachian Region is 17.0%, a difference of almost 7% and a gap that has gradually been widening (up from 4% in 2004). Thirty-one of the thirty-three localities in Virginia's Appalachian Region have a higher poverty rate that the statewide average.

Median Poverty Level 2008
(Source: U.S. Census Bureau, 2008 Estimates)



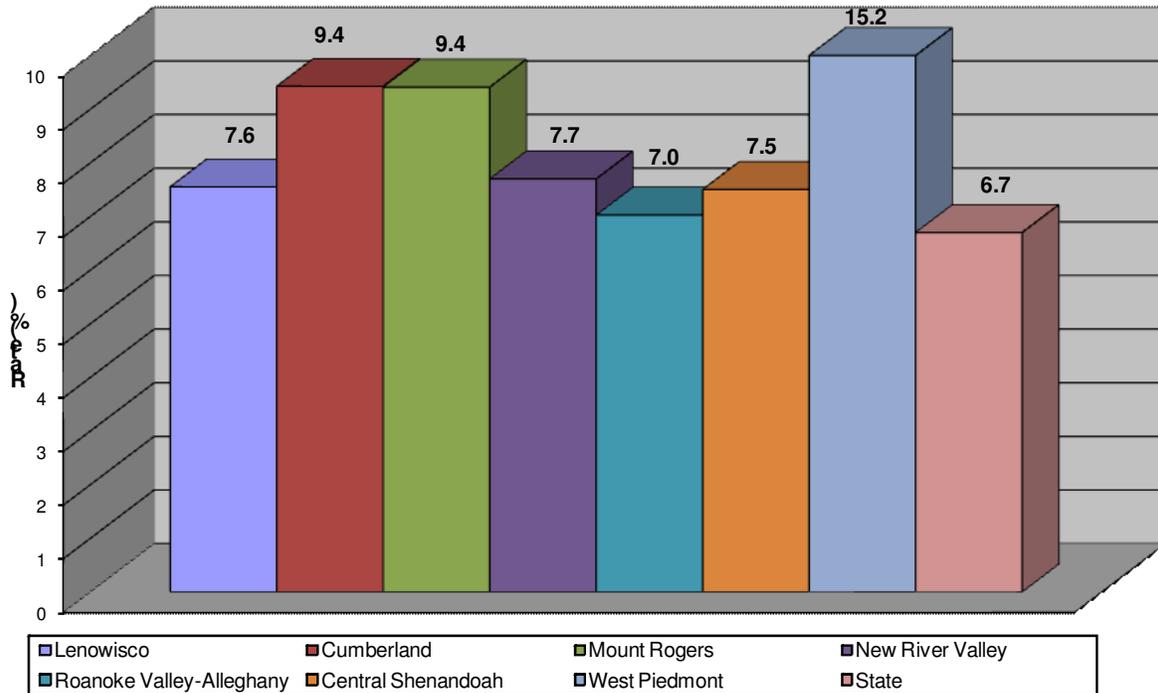
Economy

The Appalachian Region of Virginia has higher unemployment on average than the rest of the state, a factor only worsened by the recent economic downturn. The average annualized unemployment rate for localities in the Virginia Appalachian Region (9.3%) in 2009 was higher than the state rate (6.7%) for the same period. The City of Martinsville had the state's highest unemployment rate in 2009 at 20.1%. Due to the larger economic recession felt throughout the country, it is not surprising that all of the ARC localities experienced an increase in the unemployment rate from 2008 to 2009. Viewed as an aggregate, the 33 Virginia ARC localities saw an overall increase in the unemployment rate by approximately 3.7% for that same time. It should also be noted that the 2009 average unemployment rate in Virginia's Appalachian Region was equivalent to the national unemployment rate (9.3%). All seven PDCs in Virginia's Appalachian Region had average unemployment rates above the state rate in 2009.

There is an ongoing debate on how to statistically describe the true economic needs of a population. The two most notable indicators are the unemployment rate (the percentage of the civilian labor force that does not have a job) and the labor force participation rate (the proportion of the working age population 16 years and older that is employed or actively seeking employment). Neither measure takes into account such population segments as workers who give up looking for a job, homemakers, students and the mentally or physically disabled who lack the ability to participate in productive activities. In describing the true economic needs of Virginia's Appalachian region, some

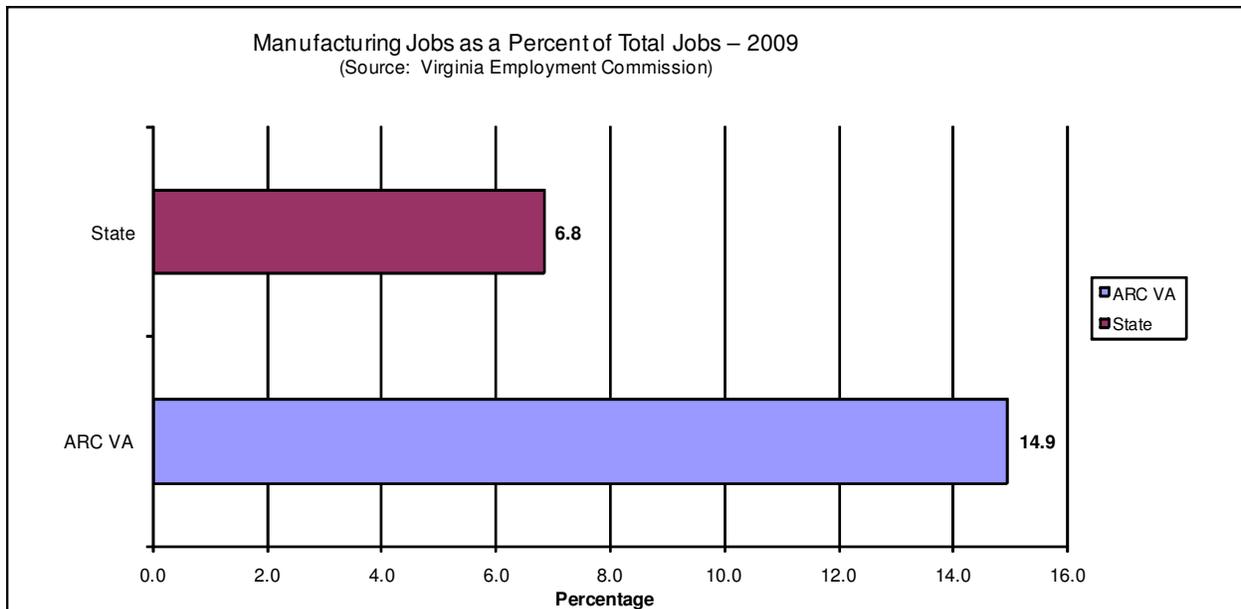
measurement of these additional population segments must be provided to more closely assess the region's current condition.

ARC and State Unemployment Rate 2009
 (Source: Virginia Employment Commission 2009 Annualized Data)



In 2008, approximately 30,000 manufacturing jobs in Virginia were lost. Although employment in the manufacturing sector in Virginia's Appalachian Region and the state as a whole has declined, the Region continues to rely significantly more on manufacturing as a source of employment than other areas of the state.

In 2009, the manufacturing sector in the Region comprised 14.9% of all jobs while statewide the same sector employed 6.8% of all jobs.



To effectively combat the declines in these traditional industries, the state has been aggressive in encouraging the growth of the technology sector. In urbanized areas of the state such as Northern Virginia, Central Virginia, and Hampton Roads, the technology sector has expanded and been a force for economic growth, while in rural parts of the state, necessary telecommunications infrastructure is lacking and it has therefore been difficult to leverage private investments.

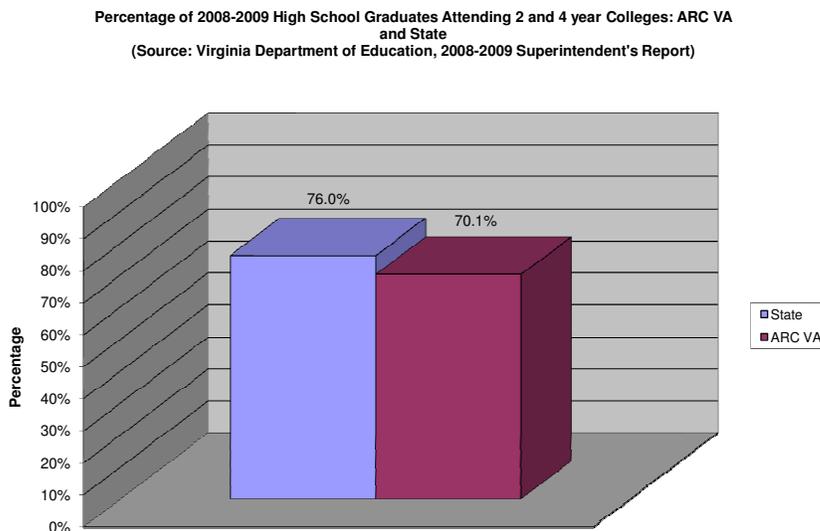
While there is much catching up left for many of the rural communities in Virginia’s ARC region, there have been some very noteworthy advances. Through cooperative efforts of local and state partners, there has been a greater emphasis on providing increased access to high-speed telecommunications. These investments are starting to show results, highlighted by the decisions by two technology firms, CGI-AMS and Northrop Grumman, to locate in Russell County, bringing with them over 800 new job opportunities. This announcement not only brings new jobs to the area, it will dramatically impact a rural county that in the past, relied on more traditional sectors of employment. Additionally, the community college is aggressively developing new curricula that will provide these new employers with a skilled workforce, helping to locally “grow” students and help stem the “brain drain” that plagues many rural communities.

A statewide Industry and Cluster Analysis was performed by the Virginia Economic Development Partnership and the Virginia Community College System that identified several existing and emerging sectors that represent a strong growth potential. In Virginia’s ARC region, the existing sectors of Wood Products and Furniture Manufacturing, Metals and Related Manufacturing, Distribution and Warehousing, Communication and Entertainment, and Health Care were shown to exhibit good growth potential. Additionally, the Finance and Insurance, Information Technology and Professional Services, Chemicals and Materials, Electronics Equipment and Instruments Manufacturing, Medical and Related Manufacturing, and Automotive Manufacturing sectors were identified as emerging areas that were not fully established in the region but which represent an opportunity for growth.

Education

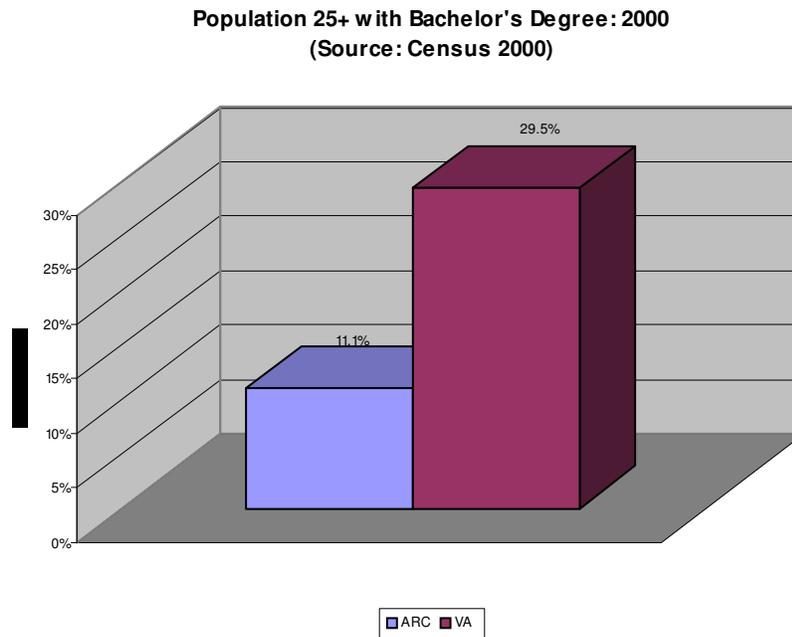
The quality of education continues to improve and it should be noted that as of the 2009 school year, 98 percent of schools in Virginia Appalachian Region were fully accredited, equal to the rate for the remainder of the Commonwealth. For Virginia, this rating marks a substantial improvement over the 2005-06 year, where 89% of schools were fully accredited. Accreditation ratings are based on the achievement of students on tests taken during the previous academic year.

The Region is making a concerted effort to ensure a basic level of education for its future workforce. Based on data derived from the 2008-2009 Superintendent's Report (Virginia Department of Education), the Appalachian Region of Virginia's percentage of high school graduates (78.7%) exceeds that of the state average (75.5%). These positive efforts are further substantiated according to additional 2008-2009 data from the Superintendent's report which shows that the percentage of high school graduates attending a 2 or 4-year college in the region (70.1%) is comparable to the state percentage (76.0%).



However, it appears that while respectable numbers of high school graduates seek to further their education, substantially lower percentages of a college-educated populace actually live in Virginia's Appalachian Region. According to data provided by a joint venture entitled Censusmapper (by Techbase International, Morrison, Colorado and Stratamodel Professional Geology and GIS Services, State College, Pennsylvania, February 2006) every Virginia Appalachian County showed a marked increase in the percentage of adults with less than 4 years of high school. The loss of a college-educated population must be stopped in order for Virginia's Appalachian Region to compete successfully with the rest of the state and the nation. While the median percentage of Appalachian residents aged 25 and over with a high school diploma is 70.6%, the median percentage of

Appalachian residents aged 25 and over with a bachelor's degree or higher is 11.1%. The statewide percentage of citizens with a bachelor's degree or higher is 29.5%, over two and one-half times the median Appalachian percentage. Only Montgomery County (35.9%) and the cities of Lexington (42.6%) and Radford (34.1%), communities with major public or private institutions of higher education, had higher percentages than the statewide average of those aged 25 years and older with a bachelor's degree or higher.



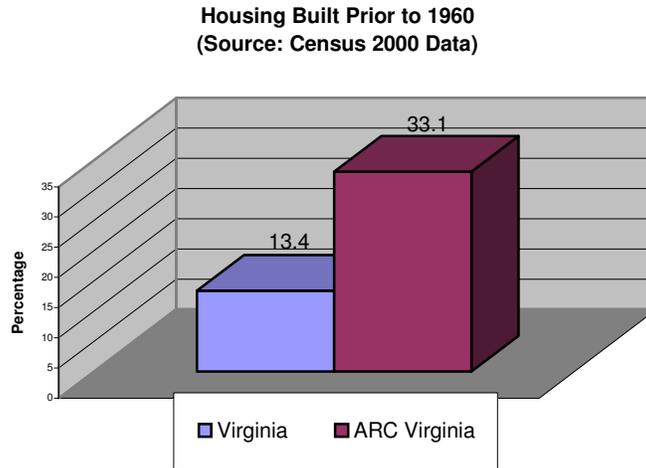
One of the keys to the future success of Virginia's Appalachian Region is the stemming of the brain drain that occurs throughout the state's rural areas. Appalachian Virginia's best and brightest students often leave the region to attend college at one of the Commonwealth's well-regarded public institutions. Once these students have received their college education they find few if any economic opportunities in their home region and thus choose to raise their family in other, more urbanized parts of the state. As such, the pool of well-educated, qualified labor declines in the Appalachian Region making it increasingly difficult to sustain quality educational systems and economic opportunities.

Infrastructure and Transportation

The lack of fully serviced business and industrial sites is a major barrier to economic development in Virginia's Appalachian region. The region's steep terrain places severe restriction on industrial development as flat land is difficult to acquire. Moreover, much of the land that is flat and presents the possibility of being developed is found along river valleys and wetlands and is susceptible to flooding. Additional infrastructure challenges involve the accessibility problems of adequate water and sewer services and major transportation thoroughfares.

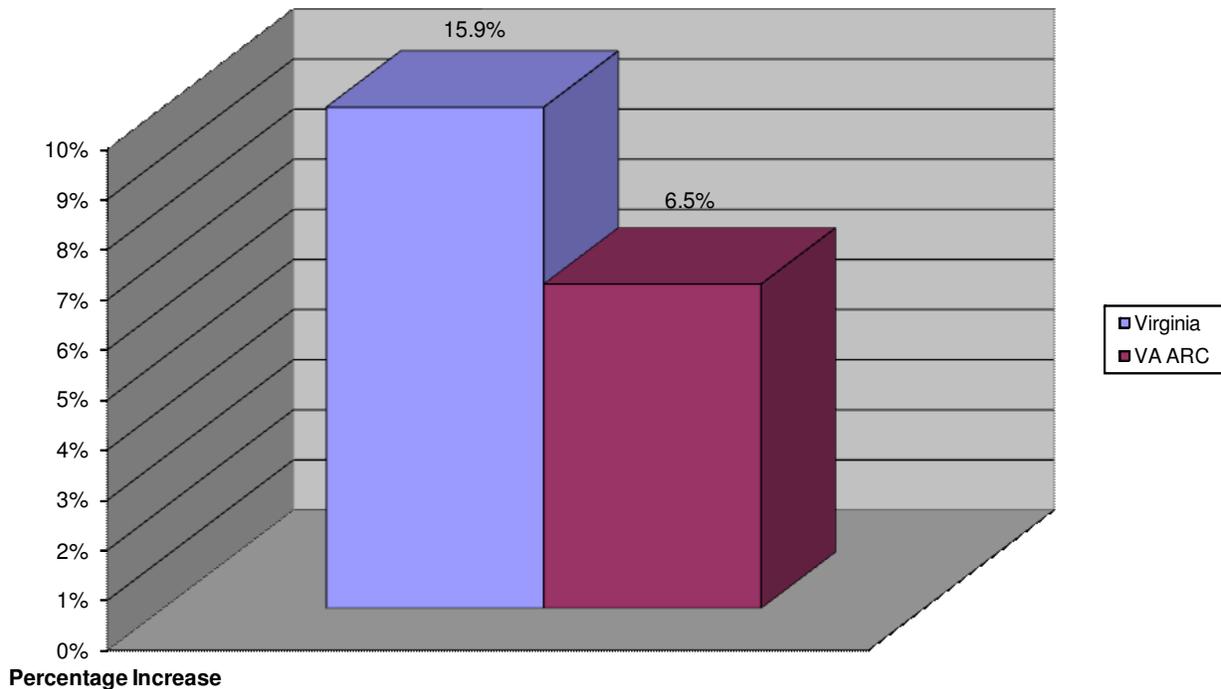
Data indicates that the housing stock in Virginia's ARC region is somewhat dated, but that construction of new homes has increased. The median percentage of housing built prior to 1960 for

the Region is 33.1%, compared to 13.4% statewide. However, the median percentage of homes built in the Region since 1990 is 17% compared to 8.1% statewide. The county with the oldest housing stock is Highland County, where 53.2% of the housing was built prior to 1960, while the city with the oldest housing stock is Covington, with 70.2% of the housing stock having been built prior to 1960. Craig County had some of the newer housing stock with 28.6 percent of housing being constructed since 1990. This table compares the housing built in the ARC region of Virginia prior to 1960 with the state.



Data on the increase in the number of housing units from 2000-2009 indicates that Virginia's Appalachian Region lags significantly behind the state. From 2000 through 2009, the estimated percentage increase in the number of housing units in Virginia's Appalachian Region was 6.5%, while the percentage increase statewide was 15.9%. Rockbridge County (16%) was the only Virginia ARC locality that matched or had a higher percentage increase in the number of housing units than the state average. The Virginia Appalachian Region localities of Covington (0.8%), Martinsville (0.5%), Galax (2.5%) and Alleghany County (2.5%) have the lowest percentage increases.

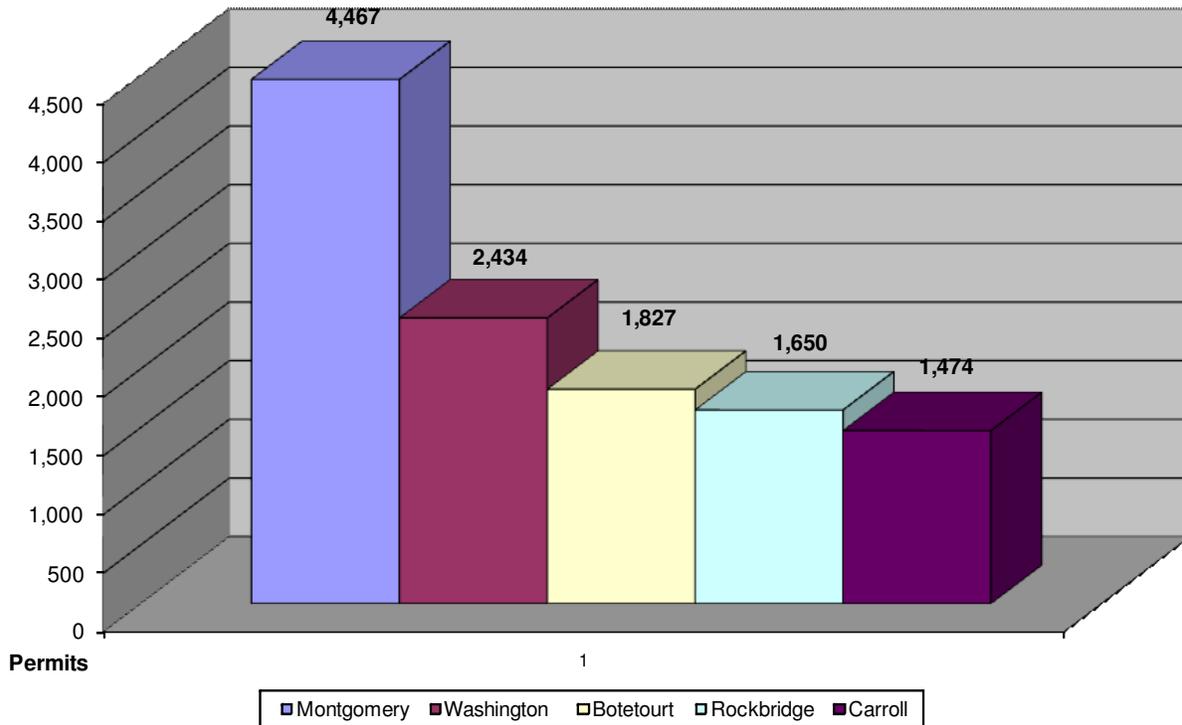
**Percentage Increase in Housing Units: ARC VA and State 2000-2009
(Population Data, US Census Bureau)**



During 2000-2009, Montgomery County had the largest number of building permits for single-family homes issued (4,467) while the Galax and Covington had the lowest number of building permits for single-family homes issued (133 and 87 respectively) for incorporated Cities; Alleghany (271) and Highland County (182) had the fewest number of single-family building permits issued for Virginia ARC counties. The total number of building permits issued for single family homes in the ARC Region for 2000-2009 was 23,357, approximately 6.7% of the state total of 375,889.

Manufactured housing is much more prominent in the ARC Region of Virginia than the state. The median percentage of manufactured housing by county in the Appalachian Region of Virginia is 20.3% while the state average is 6.4%.

TOP 5 VA ARC Counties with Most Building Permits Issued 2000-2009
 (Source: Weldon Cooper Center for Public Service)



Cable Modem Access

Data indicates the ARC region of Virginia does not yet have adequate telecommunications/technological infrastructure necessary to benefit fully from the high tech economy. Data from 2000-2003 indicates that the number of counties in the ARC Region of Virginia with cable modem access increased from one county in 2000 to six counties in 2003 (2004 Update: Links to the Future, University of Texas, June 2004). The authors of the data report indicate that the data may overstate cable access because it displays counties where there is cable modem service available anywhere in a county even though many parts of a county may not actually receive service. Nevertheless, the authors note the data indicates some increase in access to cable modem services.

Digital Subscriber Line Access

Data from the 2004 Update: Links to the Future on digital subscriber line access also indicates that, while services are increasing in the Virginia ARC region, the service is still significantly limited. Data indicates that in 2000, three Virginia ARC region counties had 1-3 DSL ready telephone switches while in 2003 there were seven counties with 1-3 DSL ready telephone switches and one county with 4 or more switches.

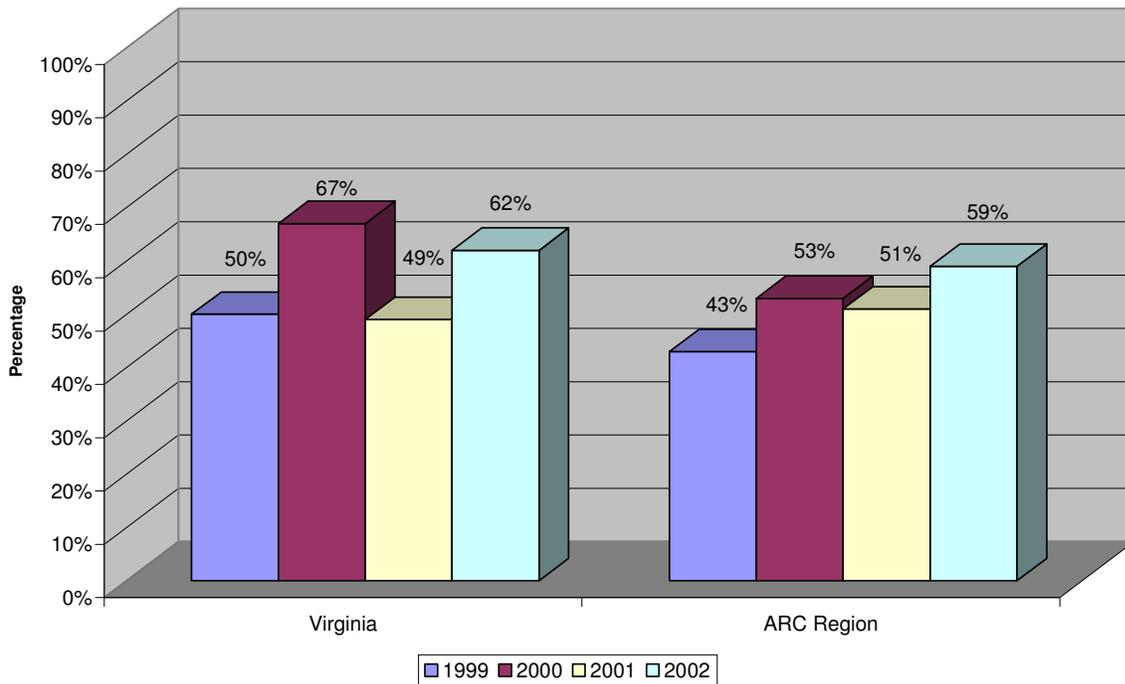
The authors of the report again indicate the presence of central office DSL switches does not mean that service is widely available throughout a county, especially in more remote rural areas.

High Speed Providers by Zip Code

The 2004 Update: Links to the Future also indicates there has been a modest increase in the number of high speed internet providers in the ARC region as a whole. In 1999, the percentage of zip codes

with at least one high speed provider in the entire ARC Region (not just Virginia) was 43% while in 2002 the percentage was 59%. Table 6 compares the percentage of zip codes with at least one high speed provider in the state and the ARC Region as a whole between 1999-2002.

Zip Codes with at Least One High Speed Provider Virginia and the ARC Region
 (Source: 2004 Update: Links to the Future, University of Texas, June 2004)



Transportation

Due to the mountainous terrain of Virginia’s Appalachian Region, the development of efficient surface transportation systems is a critical element in creating a viable and self-sustaining economic base in the area. Across the entire ARC region, at the end of FY 2009, a total of 2,694.6 miles, or 87.2 percent of the 3,090 miles authorized for the ADHS, were open to traffic or under construction.

The Virginia Appalachian Development Highway System (ADHS), when completed, will include 204.6 miles in three corridors (B, H and Q). The System is designed to open isolated, rural areas of the Region and enable economic development to take place. As of September 2009, 160.7 miles of the System are constructed. During fiscal year 2009, Virginia obligated a total of \$10.8 million federal funds on the ADHS. This included \$4.2 million from SAFETEA-LU funds, \$4.8 million from the Surface Transportation Extension Acts, \$128,363 from the Water and Energy Appropriation Acts, \$7.7 million from the Revised Continuing Appropriations Resolution for FY 2007 and \$312,737 from FY 1998 DOT Appropriation Act.

Status of Corridors

Corridor B (U.S. 23)

Corridor B runs from Weber City at the Tennessee State line to the State line near Jenkins, Kentucky. The total length of the corridor is 61.5 miles. All eligible work is complete.

Corridor H (State Route 55)

Corridor H runs from the West Virginia State line to I-81 at Strasburg. The total length of the corridor is 14.4 miles.

Corridor Q (U.S. 460)

Corridor Q runs from Breaks Interstate Park at the Kentucky State line to I-81 at Christiansburg. The total length of the corridor is 128.7 miles.

In addition to the completion of the ADHS, Virginia is working to further enhance surface transportation to the most needy of Virginia's Appalachian counties so that economic development efforts will be further enhanced. In November 1995, Congress enacted the National Highway System Designation Act of 1995, which extended the Coalfields Expressway from the West Virginia state line into Virginia. The proposed roadway is defined in the legislation as going to Pound, Virginia and generally following State Route 83 through Buchanan, Dickenson and Wise counties. The Coalfields Expressway - U.S. Route 121 - will not only provide a modern, safe and efficient highway through the coalfields region of southwestern Virginia, but also is expected to be an economic lifeline for a region experiencing high unemployment and a declining population. It is expected that the entire multi-state Appalachian region should see a boost in commerce and tourism as a result of the Coalfields Expressway.

Health Care

Access to affordable, safe, high quality health care and long-term care are fundamental building blocks of a strong society. Virginians today face challenges in accessing health care; more than 1 million Virginians are uninsured and a growing shortage of health professionals of all types complicates access to care. While Virginia's health professionals are tremendously skilled and dedicated, more needs to be done to improve the quality and safety of patient care. Health care costs continue to rise, creating further strains on access to care and raising competitiveness issues for employers providing health care to their employees and retirees.

Access to medical care continues to be a major concern in Virginia's Appalachian Region. Data indicates that access to health care professionals is more limited in the Appalachian Region of Virginia than the rest of the state. According to federal guidelines for the designation of geographic areas as a Health Professional Shortage Area (HPSA) the area must be: (1) An urban or rural area (which need not conform to the geographic boundaries of a political subdivision and which is a rational area for the delivery of health services); (2) a population group; or (3) a public or nonprofit private medical facility. Based on data from the U.S. Department of Health and Human Services, of the thirty-three Virginia ARC localities, twenty-one are designated as a Health Care Professional Shortage Area.

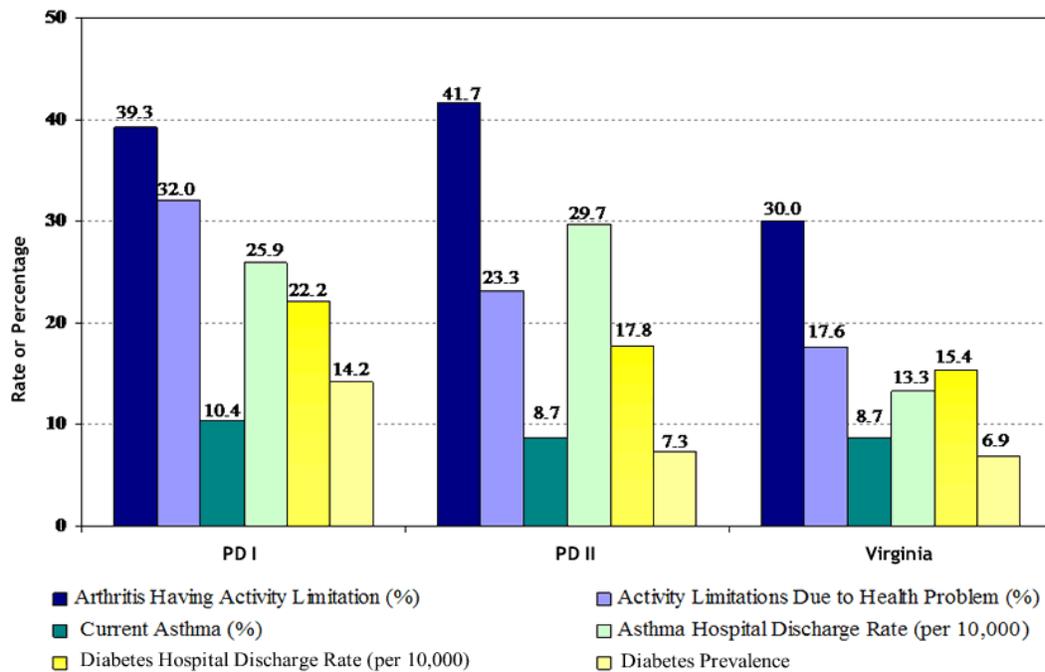
Virginia's Appalachian Region also has a significant number of federally designated medically underserved areas (MUA). A MUA is determined by the following factors: the ratio of primary medical care physicians per 1,000 population; 2) infant mortality rate; 3) percentage of the

population with incomes below the poverty level; and 4) percentage of the population age 65 or over. Using this criteria, twenty six of the thirty-three localities in Virginia’s ARC region have designation according to the U.S. Department of Health and Human Services.

According to the document Indicators of Health Communities 2003, the estimated percent of individuals that are uninsured in the state is 14.9%, or 1,070,972 individuals. Recent data presented by the Healthy Appalachia Institute suggests the problem may be worse in Virginia’s ARC region, where upwards of 19 percent of adults in the LENOWISCO and Cumberland Plateau Planning District Commissions’ service areas are without coverage. This is further substantiated from a 2007 survey, Health Care Access in Southwest Virginia, which indicates that of those surveyed, 81 percent had prescription coverage, only 39 percent had dental coverage, and 38 percent had vision coverage.

With support of ARC funding, The Healthy Appalachia Institute at the University of Virginia’s College at Wise has been created to facilitate collaboration of critical thinkers, scholars, system planners and leaders in government, education, business and healthcare who are examining issues that exist at the interface of health and Appalachian culture. This entity is working to develop a common understanding of the region’s health status and a strategic vision of a healthier future for the residents of far Southwest Virginia. Unfortunately, early indicators produced by the Institute further illustrate the disparities in health care in ARC Virginia’s region and other areas of Virginia. While these measures only reflect data from two ARC Planning District Commissions (LENOWISCO and Cumberland Plateau), this is still representative of the severity of health care issues.

*2005 Prevalence of Chronic Diseases –Select Virginia PDCS Compared to Virginia
(Source: Healthy Appalachia)*



STATE DEVELOPMENT PLAN FOR THE APPALACHIAN REGION

As documented by the afore-mentioned statistics, Virginia's Appalachian region has not completely kept pace with the rest of the Commonwealth. The key to future economic growth and prosperity in the Appalachian region of Virginia lies in strengthening the competitiveness of existing industry, supporting the formation of new small and medium sized businesses, especially high-wage, high technology firms, and continued development of the state's tourism industry.

Input from stakeholders in Virginia's ARC region has identified three main areas of need: the lack of access to affordable health care services, the need for a trained workforce that is ready to meet the new demands of businesses in Appalachian Virginia, and the need to expand and extend public water and sewer, particularly sewer, to address both substandard living conditions and enhance economic development opportunities. Other specific needs of the region include the following:

- Shortage of affordable capital;
- Support for improved development, networking, and marketing of the state's tourism attractions;
- Improved coordination of business assistance including consolidation of business services at central locations, where possible, for more comprehensive service;
- Assistance with worker training technology adaptation/modernization and formation of new technology-based businesses;
- Support for manufacturing enterprises, which would process and add value to existing Virginia products, particularly wood products.
- Continued support for the area's entrepreneurial business efforts
- Assistance in locating and accessing markets, particularly exporting assistance;
- Assistance in providing telecommunications infrastructure and access;
- Assistance in developing telemedicine infrastructure;
- Lack of properly trained hospitality staff;
- Need for quality social and cultural amenities that can be found in larger, metro areas;
- Support for homeownership and availability of affordable housing.
- Need to diversify the local economies and promote green and renewable energy options
- Continued regional collaboration.

The Region's Strengths, Weaknesses, and Opportunities

The following is a listing of the strengths, weaknesses and opportunities that are critical elements which feed into the assessment of the above mentioned economic and social indicators and the region's critical needs. These elements have been identified by participants during focus groups and other meetings in the region.

Strengths:

- Strong work ethic;
- Unique natural and cultural heritage;
- Quality of life;

- Tradition of regional cooperation and progressive local elected leadership;
- Economic development structure in place and functioning;
- Excellent LDDs;
- Access to technical and planning resources;
- Strong, well-respected two-year and four-year colleges;
- Collaborative and committed healthcare community;
- Workers returning home (Return to Roots Initiative);
- Telecommunications infrastructure
- Good highway access;
- New market rate housing being constructed;
- Growing pride in the region;
- Low cost of living.

Weaknesses:

- Outmigration of educated workers;
- Average annual wages below state level;
- Lack of infrastructure;
- Heavy reliance on single sector employment (lack of diversification);
- Lack of developable land for industrial sites;
- Negative perceptions of rural Virginia;
- Lack of affordable and accessible health care
- Lack of affordable housing;
- Prepared workforce and educational attainment;
- Lack of trained hospitality staff;
- Entrepreneurial business assistance
- Quality cultural and social amenities
- Access to transportation system
- Last Mile telecommunications infrastructure.
- Lack of adequate and affordable childcare

Opportunity Identification for the Region:

- Fund a variety of projects with longer ranged impact and leverage with varying funding sources to ensure success;
- Create community awareness among young people;
- Strengthen asset-based development efforts
- Provide incentives for students to stay in the Region;
- Encourage and reward regional partnerships;
- Maintain ARC program flexibility
- Coordination with CDBG and other revitalization programs;
- Pursue improvements in telecommunications;
- Explore/develop nontraditional businesses;
- Promote long-term comprehensive, regional planning
- Promote emerging energy and nanotechnology fields;
- Support coal mine reclamation efforts;
- Advanced manufacturing sector;

- International business opportunities;
- Collaboration with other states;
- Provide assistance to existing business in the Region to help them expand, grow, and create jobs;
- Capitalize on eco/heritage tourism opportunities;
- Improve workforce development efforts;
- Examine alternative sewage disposal systems.

Overall economic growth is a critical need of the Region, and is the focus of the Virginia ARC program. Virginia's challenge is to work with the strengths of the Region, find methods to take the best advantage of the Region's many opportunities, and to deal with its imperfections.

Emerging Trends

In 2009 input session participants were asked to reflect on prior years' statements and to consider any new or emerging trends. Responses included:

- Energy, including resurgence of the coal and gas mining industry, as well as opportunities for alternative forms such as wind;
- Workforce housing and decreasing supply of affordable housing;
- High-speed telecommunications;
- Transportation, including impact of increased commuting costs and lack of good alternate transportation options;
- Provision of wastewater disposal services (sewer)
- Loss of key leadership to retirement; succession planning;
- Tourism, asset-based development
- Adapting workforce and workforce training to meet new job demands
- Downtown revitalization; return to cultural centers

Participants of the 2011 input session echoed many of the same issues and trends as the previous year but also identified several new items and areas of interest, including:

- Place-based education in schools which ties local geography, history, arts, and other subject matter academic objectives.
- Trail development, moving beyond planning to construction and implementation
- Substance abuse as a significant hindrance to economic development since employers cannot find a suitable workforce and because of the cost of the broken families and displaced children

Participants also felt the Virginia ARC Region is transitioning and is suddenly becoming linked to the rest of the world. The area's remoteness and undeveloped land, once seen as a detriment, is now considered an asset. However, the challenge moving forward is to preserve these qualities and embrace the culture while also ensuring that development occurs in a managed and "smart" manner.

Overall economic growth is a critical need of the Region, and is the focus of the Virginia ARC program. Virginia's challenge is to work with the strengths of the Region, find methods to take

the best advantage of the Region's many opportunities, and to deal with its imperfections.

There is a very strong and direct relationship between the State's Four Year Plan and the goals and initiatives set forth by Governor McDonnell's Administration. Many of the Governor's stated goals and objectives clearly support the Commission's goals, reflected in the existing Strategic Plan and priorities emerging from developing of the new strategy, and will target services and funds to Virginia's Appalachian Region. The items below demonstrate the alignment of Governor's McDonnell's priorities and the strategic goals of Virginia's ARC program.

Commission Goal 1:

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

Established a Chief Job Creation Officer and Governor's Economic Development and Job Creation Commission. The Commission is organized into the following subcommittees reflecting key economic development priorities for the Commonwealth:

1. Business Development
2. Business Recruitment
3. Economically Distressed Areas
4. Energy
5. Manufacturing
6. Small Business
7. Technology
8. Tourism
9. Workforce Development

Presented for consideration recommendations from the Economic Development and Job Creation Commission subgroups including:

- Establishing an Emerging Technology Fund
- Developing a Tourism Development Grant Program
- Transforming Academic Institutions into Economic Engines, including
 - Creating Centers of Excellence
 - Establishing a Virginia R&D Refundable Tax Credit
 - Maximizing Energy Based Research Coordination
 - Expanding Energy Education
- Creating a Small Business Investment Tax Credit
- Providing Additional Resources for Virginia Small Business Financing Authority
- Enhancing "Business One Stop" Website
- Expanding the Department of Business Assistance's Business Information Center Programs
- Improving the Coordination, Efficiency and Responsiveness of Government, including:
 - Increasing Regional Collaboration
 - Creating a Chief Marketing Officer
 - Fast-tracking permitting

- Developing More Effective Business Recruitment Incentives, including
 - Fully Funding Enterprise Zones
 - Creating a Port of Virginia Tax Credit
 - Introducing Reform Incentives
 - Increasing Incentive Fund Flexibility

Passed a number of bills from the "Jobs and Opportunity" legislative agenda with measures to:

- Strengthens the criteria for Governor's Opportunity Fund (discretionary funds available to secure a business location or expansion project) and allows the Governor discretion regarding the local match for the Governor's Opportunity Fund
- Expands the Major Jobs Facilities tax credit
- Expands economic development incentive programs to attract major businesses to locate in Virginia by allowing Governor's Development Opportunity funds to assist with construction or build-out of privately owned buildings
- Establishes a major employment / investment project site planning grant fund
- Expands Enterprise Zones and reinvests surplus into real property grants
- Creates a Green Jobs tax credit
- Creates a motion picture film production tax credit
- Provides for temporary business licenses to applicants who hold a comparable license or certification issued by another state
- Dedicates a portion of the wine liter tax for wine marketing, research, and education efforts that is linked to the growing success of the industry
- Grants income tax exemption on capital gains related to investments in science based or bio-tech start-ups
- Creates the Universities Clean Energy Development and Economic Stimulus Foundation

- Adds the Lieutenant Governor and Commerce and Trade Secretary to Center for Rural Virginia Board of Trustees
- Changes the title of VEDP Executive Director to CEO

Moved forward with recommendations from the 2010 Virginia Energy Plan, including growing both traditional and alternative energy production, jobs and investment.

Created the Virginia Offshore Wind Development Authority to promote the development of the offshore wind industry in Virginia.

Commission Goal 2:

Develop a world class work force that is well educated and appropriately trained for the job market, as well as provide adequate health care services throughout the Region.

Presented for consideration recommendations from the Economic Development and Job Creation Commission subgroups including:

- Transforming Academic Institutions into Economic Engines, including
 - Creating Centers of Excellence
 - Establishing a Virginia R&D Refundable Tax Credit
 - Maximizing Energy Based Research Coordination
 - Expanding Energy Education

- Training Workers for Virginia Businesses, including”
 - Greater Alignment between job demand and workforce development efforts
 - Greater use of Career Pathways programs, including apprenticeship, on-the-job training, and other “Earn While You Learn” models
 - Greater coordination among education, workforce development, and economic development through designated cabinet-level leadership
 - Establishing goals around which federal and state workforce programs can align outcomes, actions, performance measures and budgets to streamline overall process
 - Providing additional resources for non-credit courses at Virginia community colleges
 - Recognizing the existing credentials of highly trained and experienced former military personnel and allow substitution of certain military training and service for formal certification in health and technical professions.

Introduced The “Opportunity to Learn” initiative to offer options and innovation for all Virginia schoolchildren, but especially those who are at-risk or in underperforming school systems.

Established the Commission on Higher Education Reform, Innovation, and Investment.

Created the Chief Job Creation Officer to help coordinate all economic and workforce development and job creation initiatives.

Established the Virginia Health Workforce Development Authority to facilitate the development of a statewide health professions pipeline that identifies, educates, recruits, and retains a diverse, appropriately geographically distributed and culturally competent quality workforce.

Established the Governor’s Economic Development and Job Creation Commission, where one areas of focus is workforce development.

Expanded public education about Virginia’s energy production and consumption, its effect on our economy, and how Virginians can use energy more efficiently.

Created the Virginia Universities Clean Energy Development and Economic Stimulus Foundation to promote green energy research and development and make Virginia’s universities and colleges national leaders in this growing industry.

Initiated a Health Care Reform Initiative to prepare Virginia for the implementation of federal health reform by planning for the expansion of Medicaid eligibility.

Expanded telemedicine coverage for Virginians and makes certain that health insurers will cover and reimburse for healthcare services provided through telemedicine.

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

Developing a state housing policy to address homelessness and expanding affordable housing, as well as workforce housing, economic development, healthy neighborhoods, effective coordination of transportation, environmental issues and other opportunities.

Ordered a comprehensive performance and financial audit of the Virginia Department of Transportation, noting that a comprehensive approach, including greater management efficiency, more innovation and new sources of funding are needed to get long overdue construction underway.

Commission Goal 4:

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

Ordered a comprehensive performance and financial audit of the Virginia Department of Transportation, noting that a comprehensive approach, including greater management efficiency, more innovation and new sources of funding are needed to get long overdue construction underway .

Virginia's Appalachian Development Program

Governor McDonnell is dedicated to improving the quality of life for those that live in Virginia's Appalachian Region. In order to achieve this goal, he recognizes the need to effectively target investments to projects that are well planned, can be appropriately implemented and have tangible benefits. The Governor also recognizes the need for the agency that administers Appalachian Regional Commission funds to have a solid foundation in project development and management and strong relationships with other funding partners and non-profit and local government agencies that serve the Appalachian Region.

Development and Planning Organization

Governor Robert F. McDonnell has appointed William C. Shelton as the Director of the Virginia State Department of Housing and Community Development (DHCD), the agency responsible for ARC program administration. Mr. Shelton will serve as the Governor's Alternate to ARC. Ms. Lisa Atkinson and Ms. Denise Ambrose will serve as ARC Program Managers and be responsible for the program's administration and project implementation. This organizational structure is the most efficient and effective structuring of ARC program administration for Virginia.

DHCD is a leader in the state for the development and implementation of strategies that improve the quality of life in Virginia communities through local and regional planning, community and economic development programs, the availability of affordable housing, and building local leadership capabilities. DHCD is also the administrator of the Small Cities Community Development Block Grant Program, which enables the agency to be in a unique position to coordinate these programs, as well as maintain the working relationships with other funding sources such as Rural Development, Virginia Department of Health (VDH), Economic Development Administration (EDA), the Virginia Tobacco Indemnification Commission (VTIC) and Virginia Resources Authority (VRA). Additionally, DHCD is located in the State Secretariat of Commerce and Trade and maintains a close working relationship with the Virginia Economic Development Partnership and the State Department of Business Assistance.

There are seven Planning District Commissions (PDCs) which serve Virginia's thirty (33) Appalachian cities and counties. West Piedmont Planning District Commission is the latest member, resulting from the addition of two new counties and one city that were formerly outside of the Virginia ARC region. Local participation in the Virginia ARC program is provided directly through these PDCs, which have been designated as Local Development Districts (LDDs) for executing planning and economic development functions for the Appalachian communities. The LDDs serve as a focal point for citizen participation in the ARC program. DHCD and the LDDs interface frequently to develop investment strategies and projects in the ARC program.

Strategic Investments

In recent years, Virginia has received less than four million dollars annually from the Appalachian Regional Commission (ARC) for non-highway programs. Therefore, if the ARC Program is to deliver its most potent and measurable impact, it's focus must be narrow so as to concentrate

resources and it must be flexible enough to partner with other Federal and State resources.

Investments of ARC funds are looked at from a regional perspective and projects that have the potential to provide a regional impact are viewed as priorities. As such, staff takes a very active role in identifying and fostering the development of regionally-focused projects. From time to time Virginia will, in conjunction with its partners in the region, embark on initiatives designed with specific regional foci and outcomes. This is the case with Heartwood, Southwest Virginia's Artisan Gateway, The Crooked Road: Virginia's Heritage Music Trail effort, and with the Southwest Virginia Artisans Network. In such cases, Virginia may convene meetings and committees, in conjunction with appropriate LDDs, citizens, sparkplugs, and other appropriate participants to help determine a level of participation and investment through Virginia ARC resources.

Coordination between ARC, LDDs and Citizens

A Public Input Session is conducted in June of each year to solicit comments on Virginia's Annual Strategy Statement and Program Policies. Participants representing LDDs, educational institutions, nonprofit organizations, economic development organizations, public service authorities, and local governments are invited and heavily represented. The input of those in attendance is useful in preparing the Annual Strategy Statement and in allowing ARC Program staff the opportunity to ensure investment strategies are matched with the changing needs of the Region.

An input meeting specifically for the PDCs (LDDs) is also held in June of each year to solicit their feedback on the previous year's Program and to obtain suggestions for the next year. The State ARC Program staff also consults with the seven LDDs throughout the year regarding specific project development and implementation. The LDD Input meeting and the constant consultation between ARC Program staff and the LDDs provides a useful avenue of communication whereby investment strategies are reviewed and projects can be aligned with this strategy.

In addition to these input sessions, the State ARC Program staff conduct How-to-Apply Workshops to educate interested parties on ARC funding offerings, including Area Development / Distressed Communities, Asset-Based Development, and Telecommunications.

This process will be repeated each year during the McDonnell Administration to ensure that Virginia's ARC program is responsive to changing needs and shifting priorities.

Outcome Funding Investment Approach

In order to comply with the incremental phasing in of the Government Performance and Results Act of 1993 (GPRA), the State ARC office has aggressively moved toward incorporating outcome funding into the administration of its federal programs. The Commonwealth of Virginia intends to use an outcome framework with the expenditure of all ARC program funds. Funded projects must demonstrate a direct relationship with the achievement of tangible improvements in the economic health of the community. Projects must be sustainable or replicable to other communities, provide measurable long-term outcomes, as well as distinct and measurable outputs.

Each project will include a description of the output and outcome measures to be derived from the

project. Benchmarks for each project and the time frame for measurement will be established as part of the initial contract negotiation.

Performance milestones will be monitored and managed by the appropriate state, ARC, and basic federal administering agency staff. An initial risk analysis will be completed on each project to determine its level of difficulty and to gauge the extent of technical assistance that may be warranted.

Funding Policies And Principles

Virginia will incorporate several funding policies and principles into the implementation of its ARC Program. These policies and principles are as follows:

- A. VA ARC funding for a construction project is limited to a maximum of \$500,000.
- B. VA ARC funding for a non-construction project is limited to a maximum of \$100,000. In instances where there is a regional project that has a clear, specific, significant, and targeted economic development impact, VA ARC non-construction funding is limited to a maximum of \$500,000.
- C. VA ARC participation costs for a project will be limited to 50 percent (50%) of total project costs, with the following exceptions:
 1. For community development projects that are located in ARC designated distressed counties and will provide basic services, the maximum ARC grant will be 80 percent (80%) of total project costs;
 2. For community development projects that are located in ARC designated at-risk counties and will provide basic services, the maximum ARC grant will be 70 percent (70%) of total project costs;
 3. For community or business development projects that are located in an ARC designated economically competitive county, the maximum ARC grant will be 30 percent (30%) of the project costs; and
 4. For the State's consolidated technical assistance program and local development access road projects, the maximum ARC grant will be 50 percent (50%) of total project costs.
- D. For Fiscal Year 2011, Virginia will consider one county as a designated distressed county: Dickenson.
- E. In addition to meeting the requirements of the Appalachian Regional Development Act (ARDA) of 1965, each project must demonstrate that it will contribute to the achievement of one or more of the Commission's goal(s) and objective(s). Except that the State may request, in accordance with Section 303 of the ARDA, approval of a project or projects without such supporting demonstration to take advantage of special development opportunities or to respond to emergency economic distress.

- F. The focus of the Virginia ARC program is economic development. Projects that have a greater and direct impact on this focus will receive more favorable consideration than those projects of lesser and indirect impact. To demonstrate direct impact, documentation of job creation or retention and private sector investments must be provided along with how the project will benefit the establishment, expansion, or modernization of firms.
- G. ARC assistance for equipment projects must be matched dollar-for-dollar with non-ARC equipment purchases.
- H. ARC assistance for solid waste is eligible for multi-county (or city) projects for planning solid waste systems, organization of solid waste systems (including recycling / re-use), and for landfill establishment.
- I. Demonstration, planning and technical assistance funds will be available to provide for such activities as more effective delivery of programs/services (multi-jurisdictional consolidations), business development research, technical assistance, community capacity building planning, developing civic entrepreneurship, and technical assistance designed especially for distressed counties.
- J. Virginia will limit the use of the ARC Access Road funding to “development access roads” to be used after other state access road funds have been exhausted.
- K. Preference will be given to projects that address identified regional needs and reflect cooperative efforts among local governments, nonprofits, the private sector, and/or educational institutions.
- L. Funding recaptured through closeout of older Virginia Appalachian Regional Commission projects may, from time to time, be committed to new projects that meet the policies and principles defined above. These projects may be unsolicited and do not have to be received under the competitive ARC programs administered by Virginia, however, they would need to demonstrate special merit and timeliness.
- M. All construction projects must have a project sign installed at the construction site within thirty (30) days of the execution of the ARC Grant Agreement. The sign must include the DHCD and ARC logos and information about the project. Guidance will be provided to successful applicants.

Project Development

The Virginia ARC project development process involves two separate phases: the proposal phase (conducted between October and February) and the final application phase (conducted between February and July of the following calendar year).

The Virginia ARC project development process begins in October of the current fiscal year. After notification by the State ARC Office to local governments, educational institutions, nonprofit organizations, and the LDDs in the region, the State ARC Office and the LDDs provide technical assistance to applicants in the development of proposals. A “How-to-Apply” workshop

was held on August 10, 2010 to provide project development technical assistance for FY 2011 Area Development, Telecommunications, and Asset-Based Development proposals.

During October, the State ARC Office begins the process of reviewing and evaluating each project proposal.

The exception to the project development timeline is for the \$250,000 set-aside of Area Development funds targeted for “just-in-time” energy related or asset-based projects. As noted earlier, these projects must have a significant regional impact and demonstrate the potential to have a substantial stimulating effect on the economy. Requests will be received on a first-come, rolling basis from October 7, 2010 through June 1, 2011. Virginia ARC program staff will work with applicants at any point during the noted timeframe to determine the appropriateness of the proposed project and to provide necessary technical assistance. The Project Selection and Project Evaluation steps outlined below will be followed accordingly.

Project Selection

The following qualification and proposal evaluation criteria levels will be utilized in the project selection process for 2011 proposals.

Level 1:

Review at this level will concentrate on the project's:

1. Applicant and activity eligibility;
2. Demonstrated demand for the project;
3. Project description clarity;
4. Ability to meet the challenges and opportunities identified in the proposed service area; and
5. Ability to fill a “gap” in currently offered services available locally or regionally.

Level 2:

Review at this level will concentrate on the project's:

1. Possession of clearly described performance targets (product-focused outputs) to be achieved throughout the project and the overall outcomes;
2. Capacity of applicant organization to implement the project and readiness to-go of project;
3. Leveraging of non-ARC resources;
4. Creativity of approach; and
5. Establishment or significant enhancement of collaborative relationships among local and regional providers.
6. Sustainability or the ability to maintain the proposed effort into the future.
7. Potential of project to meet current expectations and directives of the Federal Co-Chair's office

Project Evaluation

Project implementers will have the responsibility of documenting the project's achievement of the intended performance targets. Implementers should not wait until the end of the project to

evaluate performance target attainment. Evaluative measures will focus on verifying whether the customers (1) experienced the desired effect in each performance target, and (2) successfully moved to the next level of performance targets. Strategically timed and direct customer verification will allow for necessary program analysis and reconfiguration in order to achieve the overall project outcome.

As the **project investor**, the Virginia ARC Office will periodically review the customer verification of performance target attainment. Evaluative measures will focus on highlighting goal attainment and providing technical assistance in project reconfiguration.

Investment Timetable

The above described proposal evaluation and selection process for the Virginia ARC program will occur during the months of October and November (except as noted). This office anticipates amending this Strategy Statement with the selected FY 2011 project recommendations by February 2011.

County Designations

ARC uses a county economic classification system to target counties in need of special economic assistance. The system classifies counties into five economic status designations—distressed, at-risk, transitional, competitive, and attainment—based on a comparison of county and national averages for three economic indicators: three-year average unemployment rate, per capita market income, and poverty rate. Each fiscal year, using the most current data available, ARC determines each Appalachian county's economic status designation based on thresholds established for each level. The county's designation is then used in the distribution of funds for the fiscal year. A list of the ARC localities, along with their designation, can be found in Appendix C.

Distressed County

The Appalachian Regional Commission (ARC) designated one county as a Distressed County for FY 2011. This county is Dickenson. The ARC designated distressed counties are generally located in the coalfield's subregion of Southwest Virginia. The economies of these counties are traditionally based on coal mining and other natural resource industries. The lack of economic diversity, their relative geographic isolation, and the quasi-dependence on the coal industry have been, in the past, contributors to the area's limited economic vitality. With the decline in coal employment driven by global economic trends, technical innovation, and reserve depletion, renewed efforts are underway to reinvigorate the local economies.

Much of this distressed county area has a mountainous terrain and substantially inadequate infrastructure; provision of basic services such as water, wastewater and solid waste is expensive. Groundwater sources are limited and of poor quality. The areas are highly rural, characterized by isolation and scattered settlements typical of Central Appalachia. The local governments have a very limited local ability to generate revenue. Several droughts in recent years have contributed to the extent of the need for water in several of the distressed counties. The area is struggling with developing infrastructure telecommunications and access to help overcome their geographic isolation.

The Virginia ARC program provides financial leveraging incentives for projects developed in these distressed counties. The program also seeks to contribute to the enhancement of economic development activities in the distressed counties. Strategies to promote infusion of ARC funds into this County includes:

- Continuation of funding for regional water and sewer infrastructure projects
- Continuation of regional initiative efforts that promote asset-based development and telecommunications
- Exploration of solutions for health issues and use of telemedicine to address these
- Continuation of telecommunications projects in Distressed areas
- Administration of Flex-E-Grant Program and similar capacity building efforts
- Continuation of efforts to capitalize on the region's rich cultural heritage

Attainment County

Botetourt County is Virginia's only ARC-designated attainment county. Income, unemployment and poverty measures since 1980 reflect the county's overall stable, positive economic vitality. Within Botetourt County, economic disparity exists between the southern part of the county that is part of the Roanoke region and the northern part of the county whose economy identifies more closely with the Alleghany Highlands' economic profile. Therefore, Botetourt's overall economic indicators of income, population growth, unemployment, and poverty tend to be indicative of the county's positive economic contributions generated as part of the Roanoke economic region.

Competitive County

Bath County is the only Competitive County in Virginia's ARC region this year. In 2009 Bath County was designated as Attainment.

At-Risk County

ARC has recently adopted the "At-Risk" designation for counties that are in danger of becoming economically distressed. As a result of the ARC reauthorization, At-Risk Counties are now eligible for ARC funding of up to 70 percent of project costs. In Virginia, the Counties of Buchanan, Grayson, Lee, Patrick, Russell, Scott, and Wise have received this designation. In most instances, these counties were in recent years classified as Distressed.

New Counties and Cities

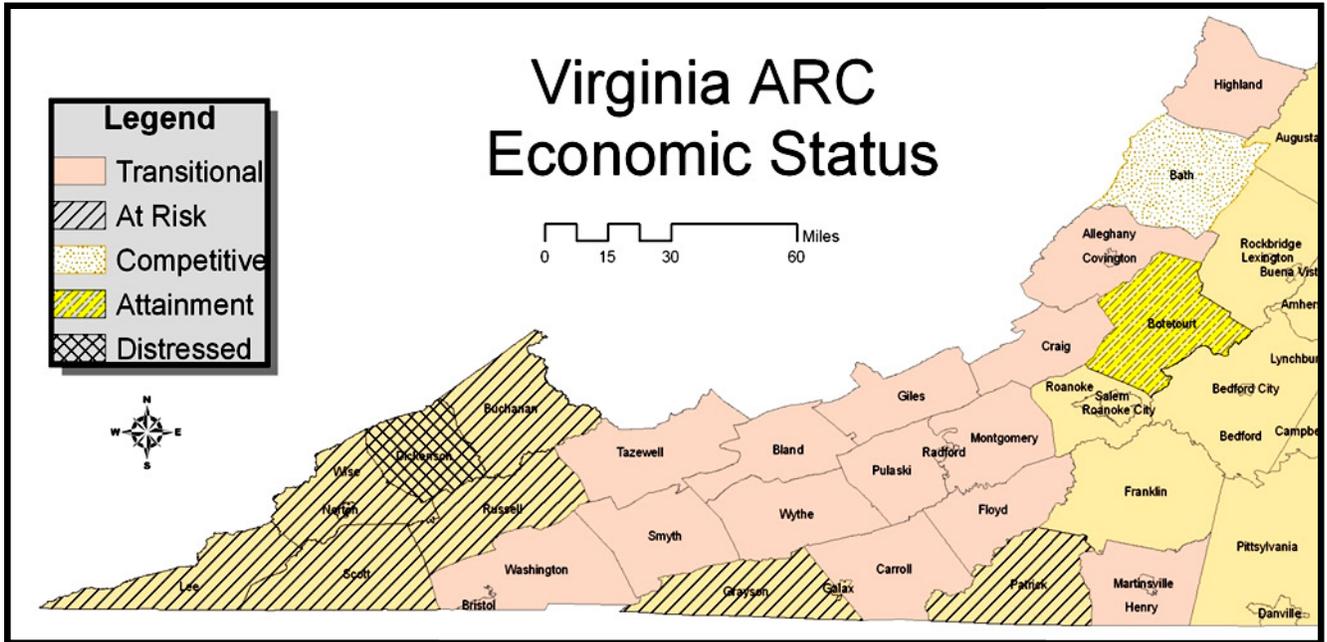
Patrick and Henry Counties were included in the ARC re-authorization language and have now been added to Virginia's ARC region. As a result of the addition of these two counties, a new Local Development District / Planning District Commission (West Piedmont) may be added. DHCD has worked closely with staff from this PDC to provide technical assistance, including participating in a community workshop for potential applicants.

All localities not designated as Attainment, Competitive, or At-Risk are classified as Transitional.

APPENDICES

Virginia’s ARC Region (Map).....A
ARC County Designations.....B
Local Development District Contacts.....C

Map of Virginia's ARC Region



Virginia's ARC Region

In Virginia, twenty-five counties and eight independent cities are eligible for in the ARC program. These localities and their economic stress designation are as follows:

| Counties | | | |
|---------------------|---------------------|----------------------|---------------------|
| Alleghany County | <i>Transitional</i> | Lee County | <i>At Risk</i> |
| Bath County | <i>Competitive</i> | Montgomery County | <i>Transitional</i> |
| Bland County | <i>Transitional</i> | Patrick County | <i>At Risk</i> |
| Botetourt County | <i>Attainment</i> | Pulaski County | <i>Transitional</i> |
| Buchanan County | <i>At Risk</i> | Rockbridge County | <i>Transitional</i> |
| Carroll County | <i>Transitional</i> | Russell County | <i>At Risk</i> |
| Craig County | <i>Transitional</i> | Scott County | <i>At Risk</i> |
| Dickenson County | <i>Distressed</i> | Smyth County | <i>Transitional</i> |
| Floyd County | <i>Transitional</i> | Tazewell County | <i>Transitional</i> |
| Giles County | <i>Transitional</i> | Washington County | <i>Transitional</i> |
| Grayson County | <i>At Risk</i> | Wise County | <i>At Risk</i> |
| Henry County | <i>Transitional</i> | Wythe County | <i>Transitional</i> |
| Highland County | <i>Transitional</i> | | |
| Cities | | | |
| City of Bristol | <i>Transitional</i> | City of Lexington | <i>Transitional</i> |
| City of Buena Vista | <i>Transitional</i> | City of Martinsville | <i>Transitional</i> |
| City of Covington | <i>Transitional</i> | City of Norton | <i>At Risk</i> |
| City of Galax | <i>Transitional</i> | City of Radford | <i>Transitional</i> |

Virginia's Local Development Planning Districts

LENOWISCO Planning District Commission
P.O. Box 366
128 LENOWISCO Drive
Duffield, Virginia 24244
Glenn "Skip" Skinner, Executive Director

Cumberland Plateau Planning District Commission
P.O. Box 548
Lebanon, Virginia 24266
Jim Baldwin, Executive Director

Mount Rogers Planning District Commission
1021 Terrace Drive
Marion, Virginia 24354
David Barrett, Executive Director

New River Valley Planning District Commission
6580 Valley Center Drive, Box 21
Radford, Virginia 24141
Kevin Byrd, Executive Director

Roanoke Valley-Alleghany Regional Planning District Commission P.O.
Box 256
Roanoke, Virginia 24010
Wayne G. Strickland, Executive Director

Central Shenandoah Planning District Commission
112 MacTanley Place
Staunton, Virginia 24401
Bonnie Reidesel, Executive Director

West Piedmont Planning District Commission
P.O. Box 5268
1100 Madison Street
Martinsville, Virginia 24115
Robert Dowd, Executive Director