Commonwealth of Pennsylvania

Annual Strategy Statement for the Appalachian Regional Commission

Fiscal Year 2020

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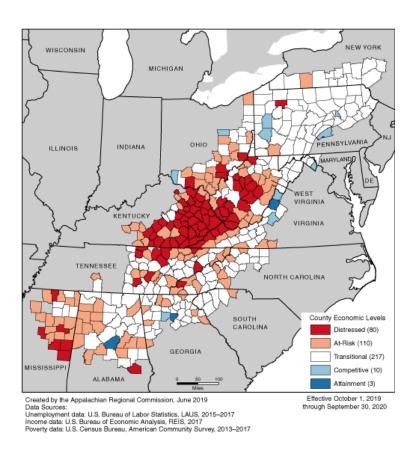# Section II: Challenges and Opportunities

The Commonwealth of Pennsylvania is proud of our Appalachian heritage. It is a region characterized by a geography rich in natural resources such as majestic mountains, breathtaking rivers and streams, and abundant wildlife. It is also an area of tremendous cultural and historical resources as well that bring a strong sense of pride to our neighborhoods and communities.

Appalachian Pennsylvania also reflects the sense of economic resiliency that is evident in our efforts over the past 50 years to partner with the Appalachian Regional Commission (ARC) to battle the impacts of poverty, unemployment and low per capita income in many of our neediest counties and areas.

Each of our 52 Appalachian counties possess opportunities, as well as challenges, that shape the culture of each community within their borders and create a sense of pride to all who call Appalachian Pennsylvania their home.

This Fiscal Year 2020 Annual Strategy Statement is a companion to Governor Wolf's Appalachian Development Plan and outlines the Commonwealth's investment opportunities and priorities.

<u>Pennsylvania FY20 ARC County Designations</u>

Created by the Appalachian Regional Commission, June 2019
Data Sources:
Unemployment data: U.S. Bureau of Labor Statistics, LAUS, 2015–2017
Income data: U.S. Bureau of Economic Analysis, REIS, 2017
Poverty data: U.S. Census Bureau, American Community Survey, 2013–2017

Effective October 1, 2019
through September 30, 2020

Economic Challenges

Jobs and population growth - Manufacturing has long been the heart of many Appalachian communities in Pennsylvania, and the growth of our middle class. During the current period of economic expansion, Pennsylvania is lagging in economic growth rate compared to the national economy, primarily due to its slow population growth, which remains below the national average. Also, recent Census estimates show that Pennsylvania is lagging many other states in net migration. These two factors contribute to limiting the labor force growth rate and have affected manufacturing. However, growing middle class jobs is key to helping our communities develop strong foundations to spur revitalization.

Concurrently, finding talent is one of the themes repeated by large and small businesses across the region and finding solutions requires the combined efforts of employers, educators, workforce development providers and others.

Pennsylvania recognizes the need to invest in good paying jobs and ensure our workers have the skills to fill them. Governor Wolf has expanded education and job training opportunities and successfully enacted a significant investment that further aligned Pre-K-12 programs, post-secondary programs, and job training programs.

Education – While investments in education by Governor Wolf have begun to pay off, Pennsylvania schools are still recovering from previous reductions. During the period of underfunding, data shows that as education classroom funding fell, so did student scores in reading and math. With new investments, there have been positive signs of improvement, such as increases in the number of kindergarten seats and more students earning industry recognized credentials. However, there is still more work to be done.

Across Appalachian Pennsylvania, schools must provide every child with a world-class education that equips them with the skills to succeed in the 21st century.

Infrastructure – Moving people, goods and information is critical in any state – particularly those with large rural populations. Pennsylvania has invested heavily in its intermodal infrastructure and offers unimpeded goods movement to any destination, whether via port-to-rail or by truck.
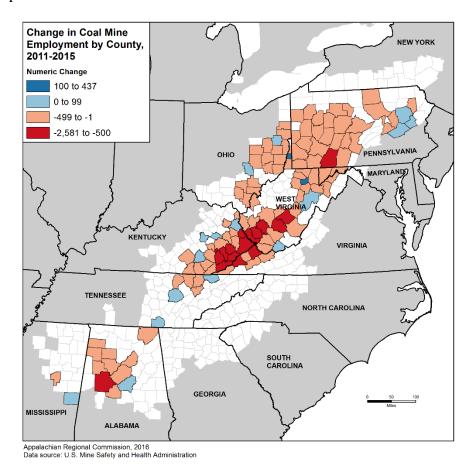
Pennsylvania is located at the center of the largest shale play in the U.S. and is quickly becoming one of the most energy-efficient production regions. The state offers a world-class integrated network of interstate highways, modern freight railroads and six international airports. Its three major ports (two in Appalachia) provide deep water inland and Great Lakes access for convenient international importing and exporting.

However, many Appalachian Pennsylvania communities still require assistance with basic infrastructure needs such as water, sewer, access roads, business incubators and parks, plus the telecommunications infrastructure that opens rural areas to the rest of the world.

Coal Impacted Communities – The impacts of the downturn of Pennsylvania's coal economy have been all encompassing for local economies. Extended unemployment is the most identified

and ubiquitous impact of the coal downturn. Over the past decade, a series of events has resulted in reduced demand for coal, with negative impacts for coal mining companies, employees, and communities.

Along with other Appalachian states, Pennsylvania has experienced significant loss of coal mining jobs. In addition, reduction in energy generation from coal, along with associated supply chain impacts has left many communities across the region struggling to overcome these negative economic impacts.

Change in Coal Mine Employment by County, 2011-2015

Numeric Change
- 100 to 437
- 0 to 99
- -499 to -1
- -2,581 to -500

Appalachian Regional Commission, 2016
Data source: U.S. Mine Safety and Health Administration

Heroin and Opioid Crisis – The prescription opioid and heroin overdose epidemic is the worst public health crisis in Pennsylvania according to the PA Department of Health. It affects Pennsylvanians across the state, from big cities to rural communities. Overdoses, fueled by heroin and opioids, are the leading cause of death for Americans under 50 years old — killing more people than guns or car accidents, and doing so at a pace faster than the H.I.V. epidemic did at its peak.

In March of 2019, Governor Wolf signed the fifth renewal of his 90-day opioid disaster declaration. This order is meant to bolster the states' response and direct greater resources, including ARC funds, to fight drug addiction.

Blight - Communities across the commonwealth, including Appalachia, have long struggled with how to combat the challenges posed by unoccupied vacant buildings and open, empty lots that constitute the widespread problem of blight. Blighted properties have numerous negative effects on the communities where they exist, including: reduced property values, deterred business and economic development, increased risk of crime, and an overall adverse impact on our neighborhoods. The Wolf Administration and General Assembly have worked closely together and in a bi-partisan manner to pass legislation that takes steps towards eradicating blight.

Broadband Access – In large areas across Appalachia Pennsylvania, lack of quality internet access means businesses are not able to market themselves and conduct business online, students miss out on learning opportunities and healthcare facilities cannot share information with specialists.

Economic Opportunities

Clean Energy – Pennsylvania's energy economy is undergoing a fundamental transformation. The Commonwealth has already seen the announced closure of at least 14 coal-fired power plants since 2010, representing a significant loss of capacity from coal-fired generation sources. However, with a balanced portfolio of energy resources, including natural gas and renewables, Pennsylvania is positioned to maximize economic opportunities.

Advanced Manufacturing - Placing a strong emphasis on advanced manufacturing makes sense for Pennsylvania. The manufacturing industry has long formed the foundation of Pennsylvania's economy — a status maintained over the years through dynamic evolution to meet modern needs, and the incorporation of world-class research and development (R&D) and innovative methods. About half of all jobs supported by foreign-owned companies in Pennsylvania are in the manufacturing sector; and, manufactured goods represent much of our state's growing exports. Recognizing this, Governor Wolf has continued the Manufacturing PA initiative to support manufacturing and link job training to career pathways to ensure that training leads to careers that provide higher pay and opportunities for advancement.

National trends and data support Pennsylvania's belief that advanced manufacturing is a primary sector on which to focus our resources, and the nexus of our manufacturing base, strong university research network, workforce delivery system, unique global network, and natural gas availability position us for strong job growth in this sector.

Tourism Promotion – In addition to the growth of nature-tourism, Pennsylvania remains well-positioned to continue expanding innovative visitor experiences across the region. Expanded trail and recreational opportunities will increase domestic and international leisure travel to the commonwealth – leading to the creation of new businesses and jobs.

Foodways – Across Appalachia, entrepreneurs are embracing the agricultural resources of the region and leveraging the economic opportunities that exist within a local food and beverage economy. Pennsylvania is no exception as major cities like Pittsburgh, and small communities

such as Hustontown and its successful Tuscarora Organic Growers Cooperative are adding value to our food industry.

Generating Economic Opportunities for Pennsylvania's Retired Coal Fired Power Plants -

The commonwealth will partner with ARC to support:

1. The Commonwealth's interest in and commitment to marketing the redevelopment of retired coal-fired power plants; and

2. Pennsylvania's economic incentives for decommissioning and redevelopment of retired assets.

Pennsylvania's economic success has long been based on its abundance of natural resources that provide it the opportunity to play a formidable role in national energy production. The Commonwealth has historically been a leader in coal production (4th in the nation currently), but in the last decade has rapidly become a leader in natural gas production largely due to prolific Marcellus Shale gas reserves (2nd in the world currently). As a result, Pennsylvania has become the country's leading domestic net exporter of electricity, which is generated almost exclusively from coal and natural gas.

Pennsylvania is at a critical inflection point in its energy economy with the current coal bust/gas boom. Since 2000, coal has dropped from 57% of Pennsylvania's electricity generation, to 35%, while natural gas has increased from 1% to 23%. The marked decline in coal-fired electric generation has led to retirements of plants across the commonwealth. These sites have premier access to rivers, roads, rail, utilities, and transmission, which demands a comprehensive statewide effort to market and incentivize these sites for repositioning and redevelopment.

Combating Blight - Communities have long struggled with how to combat the challenges posed by the unoccupied, vacant buildings and open, empty lots that constitute the growing problem of blight. The commonwealth will work with ARC to encourage a targeted and specific economic development strategy in coordination with local governments, school districts, non-profits, land banks and development authorities. Governor Wolf's plan to address blight includes the following objectives:

- Improve, maintain and manage vacant land;
- Support community planning and capacity building;
- Enhance neighborhood services;
- Make targeted residential improvements;
- Eliminate blight through the promotion of neighborhood-community-regional coordination efforts; and
- Promote productive reuse of blighted and vacant properties.

The PA ARC program will consider blight-related projects that demonstrate a direct connection to business and job creation.

Fighting the Heroin and Opioid Crisis – In March 2019, Governor Wolf renewed a statewide Disaster Declaration to take additional steps to combat the heroin and opioid epidemic in Pennsylvania. Since taking office in 2015, Governor Wolf has made combating the heroin and opioid epidemic a priority. Working with key departments under his jurisdiction as well as with the General Assembly, he has expanded access to naloxone through a standing order and a funding initiative; helped increase the number of drug courts in the state, diverting individuals into treatment as opposed to correctional facilities; developed voluntary prescribing guidelines, signed legislation to limit prescribing of opioids to minors, regulate recovery homes, and require education in medical schools and as part of continuing education requirements for prescribers; expand education initiatives in our schools, and expanded access to treatment; and revamped the commonwealth's prescription drug monitoring program. The Pennsylvania ARC program will continue to support the administration and its work with the legislature to push for measures to further tighten requirements for prescribing opioids and address prevention, education, and treatment. The PA ARC program will emphasize projects that help affected citizens remain employed or gain new employment as part of a broad recovery ecosystem.

Qualified Opportunity Zones - Led by the Governor's Action Team, PA will provide support and resources to assist the 300 approved census tracts increase the likelihood of private-sector investments resulting in increased economic development and job creation in distressed communities.

PA will partner with ARC to encourage and support Qualified Opportunity Funds to spur investments in eligible properties.

Section III: Investment Priorities

Job Creation, Workforce Training, Business Growth and Attraction: The Pennsylvania ARC program will emphasize new investments in 21st century skills to stimulate business growth and attraction to create family-sustaining jobs and develop and maintain a high-quality workforce by training Pennsylvania workers. Job creation and retention will help ensure that businesses and communities provide opportunities for the entire Appalachia region, improve the local tax base, and achieve prosperity and a higher quality of life for families and communities. Workforce training helps to bridge the current skills gap, maintain a sustainable competitive economic environment, and support critical current and future needs of individuals, local governments, businesses, and industries. The commonwealth, with ARC's help, can help set the table for robust private sector growth to create and retain good jobs while strengthening the middle class, and provide employment opportunities to those in need.

Schools That Teach – The Pennsylvania ARC program will support initiatives to eliminate the disconnect between our education systems and the state's economy by supporting projects that provide Pennsylvania citizens with the technical training necessary to succeed in the 21st century. Pennsylvania cannot get ahead if our schools fall behind. Fair and increased education funding for all Pennsylvania schools continues to be a top priority to ensure students are college and career ready.

The PA ARC program will consider projects that compliment Governor Wolf's **PAsmart** initiative, a first-of-its-kind workforce development initiative that invests in computer science and STEM education programs for students and expands apprenticeship efforts and industry partnerships.

Government That Works – The Pennsylvania ARC program will help local governments incorporate some of the same initiatives that are making state government more efficient and less wasteful. This includes an expanded focus on ensuring all levels of government are transparent and fully accountable. This collaboration, combined with other resources, technical assistance, and impactful investments will enhance the performance and quality of Pennsylvania's local governments and communities.

Developing a robust entrepreneurial and innovation ecosystem in Appalachia - The Pennsylvania ARC program will coordinate with all partners across the region to help provide technical support and access to capital to Pennsylvania's business and entrepreneurial community through its strategic networks while leveraging other sources of capital, including private and state funds, to support special initiatives, and to increase the number of successful entrepreneurs and innovative companies in Pennsylvania.

Expanding the Region's export potential - The Pennsylvania ARC program will coordinate with all partners across the region to help increase export sales and foreign direct investments while leveraging the state's overseas network and seeking to open new markets for Pennsylvania companies to take advantage of global opportunities. The program will also highlight opportunities for international investors to invest and expand within the commonwealth. Increased export sales by Pennsylvania companies and increased investment in Pennsylvania by foreign companies help to create and retain jobs in the commonwealth.

PA Broadband Initiative – In 2018 Governor Wolf launched his Broadband Initiative, a dedicated effort to provide high-speed internet access to every household and business in Pennsylvania. The PA ARC program will support broadband technical assistance, analysis and deployment via both its area development program and the ARC POWER initiative which now has specific resources allocated for this critical infrastructure.

Distress Strategies - As a result of Pennsylvania's targeted efforts over the past 50 years, we have a limited number of Distressed (Forest) or At-Risk (Fayette) counties. However, both counties, along with Elk and Washington counties, reflect a lower county designation change in FY20. This reflects the fact that Appalachian counties are extremely exposed to economic regression and are susceptible to sudden changes in the local economy. In addition, PA also has a significant number of citizens living and working in ARC-defined distressed areas.

Pennsylvania will encourage project development or impact in counties, areas or census tracts as defined by ARC where distress or higher risk may be evident and proactively seek ways to further reduce higher levels of poverty, unemployment and per capita income.

Section IV: Processes and Policies

Project Solicitation & Selection

All project pre-applications are initially screened to determine if they are eligible for funding consideration. The screening process determines consistency with the Commission's five (5) goals and reviews the pre-application for completeness, accuracy and project feasibility. This process also evaluates whether the project is consistent with Pennsylvania's objectives and strategies.

The Commonwealth will look favorably at projects that will:

- Encourage new business start-ups and job creation as well as those projects that will enhance the local community and its economic vitality.

- Improve, on a continuing rather than a temporary basis, the opportunities for employment, and the average level of income or economic and social development of the area served by the project.

- Invest in individuals and their potential, so they can gain skills and increase the opportunities available to them.

- Forge new partnerships with the private sector and other public entities to enhance regional delivery of economic development services. Our partners in the economic development, education, workforce development, career and technical school, and business community must be the implementers of change and the leaders of initiatives.

- Be performance-based by advancing projects evaluated by defined metrics, which provide consistent and positive returns-on-investment.

- Foster competition by increasing the level of competition for scarce resources to ensure the greatest return.

General Policies

1. Each application for funding must contain detailed output and outcome measurements by which grant expenditures may be evaluated.

2. Applications must identify the ARC Goal(s) being met along with the corresponding state strategy.

3. Priority is given to those projects which demonstrate a high degree of readiness, i.e. other funding sources committed, firm cost figures, Basic Federal Agency involvement, etc.

4. Grants funded under Section 214 of the Appalachian Regional Development Act

(ARDA) shall include cost estimates valid not more than twelve (12) months prior to project application submission to ARC.

5. Deliverable impact shall be identified prior to funding additional phases of projects.

6. Pennsylvania will not establish formal dollar caps for ARC projects.

7. Grants funded under Section 214 of the ARDA that have a commitment from a company will be reviewed in the highest of priority when recommendations for funding are made.

8. Pennsylvania will generally not fund a specific initiative for more than three years. However, exceptions may be granted on a case-by-case basis as need dictates.

9. Pennsylvania will utilize the annual priority lists submitted by the Local Development Districts and ranked by their Boards of Directors as a primary, but not exclusive, basis for project identification and selection.

10. Pennsylvania may invite the submission of back-up projects which may be selected to replace projects that fallout during review in situations such as ineligibility, loss of matching funds, etc.

11. Specific Pennsylvania ARC Guidelines will be maintained and posted on the Department of Community and Economic Development web site: www.dced.pa.gov.

Application Deadlines

Applicants invited to submit full applications must meet all deadlines established by the Center for Strategic Partnerships. Applications are not considered complete and timely unless all pertinent documentation is included in the project package. This includes match commitment letters. Pennsylvania supports ARC's efforts to obligate all available funds by the end of the fiscal year and will act accordingly if applications are not submitted in a timely fashion.

Matching Requirements

In general, the Commonwealth expects a recipient of an ARC grant to contribute its own resources to a project to the extent it can do so and seek additional non-ARC funding assistance when possible. Matching funds should be identified by amount and source with evidence of assurance that such funds are available. In addition to the ARDA match requirements described in the ARC Project Guidelines, Pennsylvania's ARC participation costs will be limited to 50 percent of project costs, with the following exceptions:

- Section 7.6 of the ARC Code restricts ARC assistance to 30% of eligible project costs on most projects located in an ARC designated Competitive Counties (Allegheny, Butler, Montour, and Perry) except for projects noted in Section 7.6d of the code. This restriction may also be waived or modified in accordance with the code.

- Projects located in designated Distressed Counties (Forest) may be funded up to 80% of the eligible costs.

- Projects located in designated At Risk Counties (Fayette) may be funded up to 70% of the eligible costs.

- Projects located in an ARC designated attainment county (currently none in Pennsylvania) are generally ineligible for any ARC assistance. This restriction may be waived or modified by a demonstration in accordance with Section 7.6f of the code.

Grants funded under Section 302(a) will comply with the terms of the ARDA, which require a 50%-50% matching requirement.

Funding for work on the Appalachian Development Highway System, including Local Access Roads, is allowed at 100% wherever the project is located.

When funding for an access road project is under section 214, the project will be subject to the general funding limits (80% distressed, 50% transitional, and 30% competitive. When funding for an access road project is under 201 (Federal Highway Administration) the project will be funded at levels dictated by current FHWA directives. Other public and private investments are strongly encouraged, and availability may be considered when selecting projects.

Pennsylvania may use the discretionary grant authority contained in section 302 of ARDA to increase ARC participation above the statutory limits in projects implementing Regional Initiatives. The discretionary authority, however, cannot be used to eliminate the funding restrictions on projects in competitive and attainment counties. Pennsylvania may use all or a portion of its allocated authority for projects involving emergency economic distress upon approval of the Co-chair's Committee.

Multi-County Projects - Matching Requirements: Special matching rules apply to projects that are carried out in more than one county. Projects may be funded at the average match limits for the counties if at least one county is competitive and there are no distressed or attainment counties.

Examples:
Seven transitional @ 50% and two competitive @ 30%
50+50+50+50+50+50+50+30+30=410/9=45.5%
Project may be funded at 46%

Two transitional @ 50% and two competitive @ 30%
50+50+30+30+=160/4=40%
Project may be funded at 40%

Seven transitional counties @ 50% and one competitive county @ 30%
50+50+50+50+50+50+50+30 = 380/8=47.5%
Project may be funded at 48% of eligible cost

Cost Overruns/Underruns

When project cost underruns occur, ARC funds will generally be de-obligated and made available for other eligible projects. Cost overruns will be considered as separate projects and will be subject to normal project selection criteria.

Project Monitoring and Progress Evaluation

ARC projects may be monitored by staff to assess progress in meeting scheduled milestones and to identify and resolve any problems that may have occurred in project performance. On-site inspections may be done at the midpoint and at project completion to ensure compliance with approved project scope by state and ARC staff. Interim monitoring will usually be done by telephone. All open construction projects will be reported to DCED by the respective LDD every 90 days.