



PART II: FISCAL YEAR 2003 PERFORMANCE REPORT

INTRODUCTION

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

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

To meet GPRA requirements, ARC has defined performance measures and goals for all major ARC operations. In FY 2003, ARC

- Collected and entered state estimates for FY 2003 into a database as part of daily operations and project management;
- Evaluated the planned and actual results of a sample of projects funded in FY 2001 through field visits and interviews with those managing the projects; and
- Conducted independent research to ascertain the benefits of projects.

The Commission has reassessed its FY 2004 performance plan in light of FY 2003 performance, and has determined that no amendments to the FY 2004 performance plan are required.

Organization of this Report

The following sections of this report present an overview of the Appalachian Regional Commission; a list of ARC strategic goals and objectives, a description of the methodology employed to monitor program outcomes in compliance with the GPRA; the estimated outputs and outcomes, by goal area, for projects funded in FY 2003 and each of the four prior fiscal years; and the results of project validations and project evaluations.

OVERVIEW OF ARC

ARC's mission is to be an advocate for and partner with the people of Appalachia to create opportunities for self-sustaining economic development and improved quality of life.

Organizational Structure

The Appalachian Regional Commission is a regional economic development agency representing a unique partnership of federal, state, and local governments designed to address local needs in Appalachia. ARC was established by an act of Congress in 1965, and in March 2002, a five-year reauthorization (through FY 2006) was enacted.

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

Project Funding

ARC funds approximately 500 projects annually throughout the 13-state Appalachian Region. All of these projects must address one of the five goals in ARC's 2003–2004 strategic plan: developing a knowledgeable and skilled population, strengthening the Region's physical infrastructure, building local and regional civic capacity, creating a dynamic economic base, and fostering healthy people. The Commission's strategic plan identifies the goal areas as the basic building blocks of sustainable economic development in the Region.

Each state's projects are approved by the governor and then by ARC's federal co-chair. ARC provides technical assistance to grantees in an effort to increase the likelihood of success for programs.

One of the key differences between ARC and typical federal executive agencies and departments is the flexibility given to state partners in determining how their allocated funds will be spent. Within a framework of broad flexibility, funds must be spent in counties designated as part of the Appalachian Region and must address one or more of the Commission's five strategic goals. In addition, some funds allocated to the states can be used only on projects that benefit counties and areas the Commission has designated as economically distressed.

STRATEGIC GOALS AND OBJECTIVES

In accordance with its 2003–2004 strategic plan, ARC organizes its funding policies and administration programs around five strategic goals to carry out its mission of promoting self-sustaining economic and social development in the Appalachian Region. Each goal has measurable objectives that embody core ARC policies.

GOAL ONE: Developing a Knowledgeable and Skilled Population

Appalachian residents will have the skills and knowledge necessary to compete in the world economy in the twenty-first century.

Objective 1.1–Workforce Training

The percentage of workers receiving basic education and skills training, skills upgrading, and customized training will increase, leading to development of a workforce that is competitive in the twenty-first-century world economy.

Objective 1.2–Student Readiness

The percentage of students participating in school readiness, dropout prevention, school-to-work transition, and GED programs will increase, thereby raising the college-going rate and preparing students for the world of work in the twenty-first century.

GOAL TWO: Strengthening the Region’s Physical Infrastructure

Appalachian communities will have the physical infrastructure necessary for self-sustaining economic development and improved quality of life.

Objective 2.1–Highway Completion

Substantial progress will be made toward completion of the Appalachian Development Highway System.

Objective 2.2–Water and Sanitary Sewer and Waste-Disposal Systems

All Appalachian communities will have access to safe drinking water and sanitary sewer and waste-disposal systems.

GOAL THREE: Building Local and Regional Capacity

The people and organizations of Appalachia will have the vision and capacity to mobilize and work together for sustained economic progress and improvement of their communities.

Objective 3.1–Leadership Development

The percentage of Appalachian residents participating in leadership development programs aimed at community improvement will substantially increase.

Objective 3.2–Capacity Building

All communities and community organizations will have access to capacity-building activities to enhance their ability to marshal resources, plan, and develop solutions to local problems.

GOAL FOUR: Creating a Dynamic Economic Base

Appalachian residents will have access to financial and technical resources to help build dynamic and self-sustaining local economies.

Objective 4.1–Entrepreneurial Education and Assistance

Access to programs that provide entrepreneurial education, technical assistance, and business services to entrepreneurs will increase.

Objective 4.2–Entrepreneurial Job Creation

Access to programs that help businesses participate in the global marketplace will increase, creating jobs and stabilizing employment opportunities.

GOAL FIVE: Fostering Healthy People

Appalachian residents will have access to affordable, quality health care.

Objective 5.1–Health-Care Providers

The number of professionals providing primary health care will substantially increase.

Objective 5.2–Comprehensive Delivery Systems

An increasing number of Appalachian counties will have integrated health-care delivery systems to improve the health status of their residents and provide them with universal access to comprehensive health-care services.

PERFORMANCE MEASUREMENT METHODOLOGY

Overview of ARC's Performance Measurement Program

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

ARC's performance measurement program has three components:

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

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

Following sections of this report present performance results for each of ARC's goal areas. Contained in each section are estimated outputs and outcomes, derived from grant applications, for projects funded in FY 2003. This part of the report is submitted to comply with GPRA policies that ask for the results of funded projects.

Project Data Collection and Analysis

Annual Performance Goals and Measures

Each fiscal year, ARC submits output/outcome goals for projects to be funded in coming years, as required in the budget submission process. In determining these annual performance measurement goals, ARC develops a likely investment scenario for each state in addressing ARC's five primary goals and then projects output/outcome results. These scenarios are based on state development plans, historical trends, and communication with the states. While ARC projections are made with the intent of anticipating state spending priorities, the states make independent spending decisions.

Allowing the 13 states to have such flexibility is a critical element of the ARC federal-state partnership; however, this same flexibility poses a challenge in setting performance goals for future projects. Each state's priorities will shift from year to year, occasionally producing unanticipated results. The numbers for FY 2003 reflect such shifts, as the states spent more money than anticipated in some goal areas and less in others. As a result, less-than-expected outcomes in some goal areas were offset by gains in others.

To address GPRA reporting requirements, ARC reports output/outcome measures on 10 strategic objectives that reflect priorities within the Commission's five goal areas. Although the approximately 500 projects funded by ARC each year could generate many more measures than those reported for GPRA compliance, the measures identified relate uniquely to both the five strategic goals and the broad mission of ARC.

Intermediate Results

Intermediate results presented in this report represent the total number of estimated outputs or outcomes in all approved project applications, as reported by grantees. Until the projects are validated by ARC staff two years after initial funding, the intermediate results are the most accurate numbers ARC can provide.

Data Analysis

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

Project Validation

Validation visits have been a critical part of validating actual program outcomes from the inception of ARC's GPRA compliance program. As a general rule, in each fiscal year ARC validates the outcomes of 50 to 60 projects funded two years earlier. The two-year lag allows time for projects to be completed, resulting in an accurate accounting of outcomes.

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

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

Project Evaluations

A critical component of ARC's GPRA compliance program is independent or external evaluation of ARC projects. Evaluations confirm both the output and the overall effectiveness of projects. Evaluations focus on the extent to which the projects have achieved, or contributed to the attainment of, their objectives. Particular emphasis is placed on assessing the utility and validity of the output and outcome measures. The findings of these project evaluations are summarized and made available to state and local organizations engaged in carrying out projects under ARC's five strategic goals, and are typically published on ARC's Web site. In FY 2003, an external evaluation of civic capacity (Goal 3) projects was in progress. In addition, ARC commissioned a needs-assessment report for use as a baseline measure in the evaluation of infrastructure projects (Goal 2).

GOAL ONE: Developing a Knowledgeable and Skilled Population

Appalachian residents will have the skills and knowledge necessary to compete in the world economy in the twenty-first century.

Education is the driving force behind economic growth. ARC works with various local, state, federal, and private-sector partners to achieve its goals for education. Alliances with existing programs and institutions, as well as pilot projects and new partnerships, address a range of priority needs, such as adult literacy, teacher training, workforce skills and technology upgrades, drop-out prevention, and comprehensive early education programs.

This section presents Goal One objectives along with performance measures (outputs and outcomes) for FY 2003 and for the three preceding years; results of project validation sampling conducted in FY 2003 on FY 2001 projects; and the findings of a project evaluation report issued in FY 2002.

Objective 1.1: Workforce Training

The percentage of workers receiving basic education and skills training, skills upgrading, and customized training will increase, leading to development of a workforce that is competitive in the twenty-first century world economy.

Performance Goals and Measures

Output Goal for FY 2003: ARC will support skills training for 5,000 trainees in order to ensure a skilled, employable workforce.

Output Result for FY 2003: Exceeded goal.

Objective 1.1 Outputs, FY 1999–2003

ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 1999 - 5,000 Trainees	FY 1999 - 17,053 Trainees
FY 2000 - 10,000 Trainees	FY 2000 - 4,822 Trainees
FY 2001 - 5,000 Trainees	FY 2001 - 7,810 Trainees
FY 2002 - 5,000 Trainees	FY 2002 - 5,274 Trainees
FY 2003 - 5,000 Trainees	FY 2003 - 13,605 Trainees

Outcome Goal for FY 2003: A total of 2,500 participants will either obtain or retain employment as a result of ARC-funded labor force training projects.

Outcome Result for FY 2003: Exceeded goal.

Objective 1.1 Outcomes, FY 1999–2003

ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 1999 - 2,500 Trainees w/results	FY 1999 - 7,852 Trainees w/results
FY 2000 - 5,000 Trainees w/results	FY 2000 - 3,276 Trainees w/results
FY 2001 - 2,500 Trainees w/results	FY 2001 - 6,093 Trainees w/results
FY 2002 - 2,500 Trainees w/results	FY 2002 - 4,809 Trainees w/results
FY 2003 - 2,500 Trainees w/results	FY 2003 - 10,786 Trainees w/results

Project Validation Sampling

In FY 2003, a member of ARC’s field validation team surveyed seven FY 2001 projects under objective 1.1 to compare estimated and actual results for output (number of trainees) and outcome (number of trainees with results). As shown below, the projects achieved 173 percent of projected output results and 154 percent of projected outcome results.

Number of Projects Surveyed	Projected # of Trainees	Actual # of Trainees	Results Achieved
7	3,566	6,166	173%

Number of Projects Surveyed	Projected # of Trainees w/Results	Actual # of Trainees w/Results	Results Achieved
7	2,371	3,620	154%

Project Evaluation

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

Types of Performance Measured

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

Project Outcomes

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

Objective 1.2: Student Readiness

The percentage of students participating in school readiness, dropout prevention, school-to-work transition, and GED programs will increase, thereby raising the college-going rate and preparing students for the world of work in the twenty-first century.

Performance Goals and Measures

Output Goal for FY 2003: ARC will provide access to education activities for 20,000 students as a step to ensuring an educated, resourceful, and skilled population.

Output Result for FY 2003: Exceeded goal.

Objective 1.2 Outputs, FY 1999–2003

ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 1999 - 40,000 Students	FY 1999 - 28,829 Students
FY 2000 - 35,000 Students	FY 2000 - 19,818 Students
FY 2001 - 20,000 Students	FY 2001 - 19,450 Students
FY 2002 - 20,000 Students	FY 2002 - 25,590 Students
FY 2003 - 20,000 Students	FY 2003 - 51,201 Students

Outcome Goal for FY 2003: As a result of ARC’s educational activities, a total of 15,000 students will have documented improvements in the following program areas: education readiness, dropout prevention, school-to-work transition, GED attainment, and college attendance.

Outcome Results for FY 2003: Exceeded goal.

Objective 1.2 Outcomes, FY 1999–2003

ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 1999 - 20,000 Students w/results	FY 1999 - 16,445 Students w/results
FY 2000 - 17,500 Students w/results	FY 2000 - 16,862 Students w/results
FY 2001 - 15,000 Students w/results	FY 2001 - 17,832 Students w/results
FY 2002 - 15,000 Students w/results	FY 2002 - 6,894 Students w/results
FY 2003 - 15,000 Students w/results	FY 2003 - 42,472 Students w/results

Project Validation Sampling

In FY 2003, a member of ARC’s field validation team surveyed seven FY 2001 projects under this objective. As the chart below illustrates, the combined projects almost met their projected goals. Six of the seven individual projects met or exceeded their goals.

Number of Projects Surveyed	Projected # of Students	Actual # of Students	Results Achieved
7	2,497	2,343	94%

Number of Projects Surveyed	Projected # of Students w/Results	Actual # of Students w/Results	Results Achieved
7	421	448	106%

Project Evaluation

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

Types of Performance Measured

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

Project Outcomes

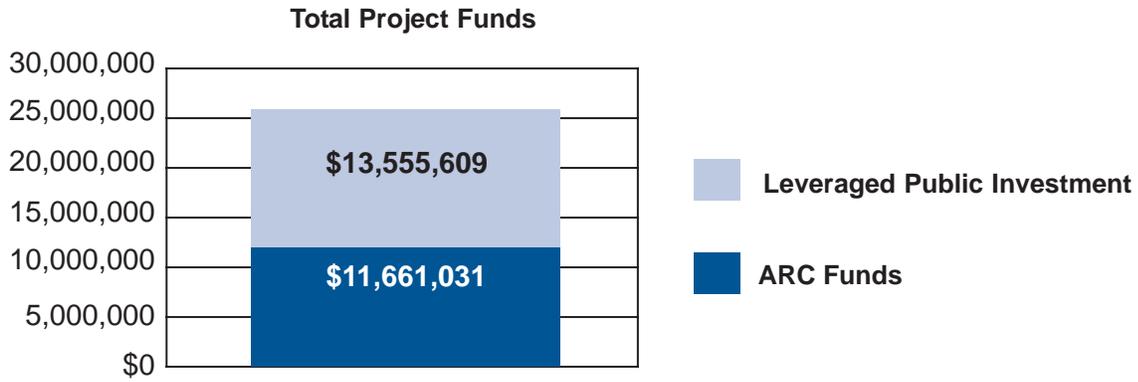
Study findings indicate that most of the projects in the study reached those segments of Appalachia that are most economically disadvantaged or geographically isolated.

Most projects were successful in achieving the outcomes they set forth in their original requests for ARC support:

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

Other Funds Leveraged

ARC FY 2003 Goal One grant funds of \$11,661,031 leveraged an additional \$13,555,609 of investment funds from various public sources.



GOAL TWO: Strengthening the Region's Physical Infrastructure

Appalachian communities will have the physical infrastructure necessary for self-sustaining economic development and improved quality of life.

Some of the Region's most persistent economic problems stem from geographic isolation brought about by mountainous terrain. The Appalachian Development Highway System (ADHS) was designed to connect Appalachia to the national interstate system and provide access to areas within the Region as well as markets in the rest of the nation.

At the end of FY 2003, a total of 2,609 miles, or 86.2 percent, of the 3,025 miles authorized for the ADHS were open to traffic or under construction. Another 209 miles were in the final design or right-of-way acquisition phase, and 207 miles were in the location studies phase. While the Administration and Congress are committed to completing the ADHS, this will be a difficult undertaking, as some of the most challenging portions of the ADHS are yet to be constructed.

Water, sewer, and telecommunications infrastructure and business development facilities are also key elements in economic development infrastructure. Due to rugged terrain and low population densities, many areas in the Region still suffer from poor water quality and inadequate wastewater treatment facilities. In many instances, existing facilities fail to meet the Environmental Protection Agency's minimum standards. Improvements to water and wastewater infrastructure are not only vital to health and safety, they are also needed to attract the private investment that stimulates long-term economic development.

Objective 2.1: Highway Completion

Substantial progress will be made toward completion of the Appalachian Development Highway System.

Performance Goal and Measures

Output Goal for FY 2003: For each \$100 million allocated to the Appalachian Development Highway System, ARC will construct eight miles of highway.

Output Result for FY 2003: ARC did not meet the output goal of \$12.5 million per mile due to difficult terrain that required expensive highway structures such as bridges. A total of 26.5 miles of road were completed and opened to traffic in the Appalachian Development Highway System in FY 2003, at an average cost of \$24 million dollars per mile. Also in FY 2003, 16.8 miles of highway advanced from the location phase to the design/right-of-way acquisition phase, and 47.2 miles advanced from the design/right-of-way acquisition phase to the construction phase.

Project Validation Sampling

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

Project Evaluation

In addition to preparing the annual status reports mentioned above, ARC contracted with Wilbur Smith Associates to undertake a comprehensive study of the economic benefits of the ADHS. *Appalachian Development Highways Economic Impact Studies*, published in 1998, focused on the contributions of completed portions of 12 corridors within the system. The portions studied totaled 1,417.8 miles and traversed 165 counties. The objective of the study was to quantify regionally specific economic development impacts (as measured by jobs, wages, and value added) as well as impacts on travel efficiencies.

The study found that the completed sections of the 12 corridors had created jobs (an estimated net increase of 16,000 jobs by 1995) and showed a solid return on investment (\$1.18 in travel efficiency benefits and \$1.32 in economic benefits gained for each dollar invested in construction and maintenance). The study concluded that the ADHS can take credit for highway-related growth in Appalachia and demonstrated that the completed portions of the ADHS have been a good investment.

Objective 2.2: Water, Sanitary Sewer and Waste-Disposal Systems

All Appalachian communities will have access to safe drinking water and sanitary sewer and waste-disposal systems.

Performance Goals and Measures

Outcome Goals for FY 2003: ARC will provide basic services and infrastructure for water, sewerage, and waste management systems to improve the livability of 25,000 households and create or retain 30,000 jobs.

Outcome Results for FY 2003: (1) Met 93 percent of goal for households served. Because infrastructure construction costs in Appalachia can easily vary 10 percent due to difficult terrain, this result is within the expected target range of achievement. (2) Met 78 percent of goal for jobs created or retained. In FY 2003, ARC’s program focus, as determined by the Appalachian states, emphasized improving the skill base of the Region by increasing the number of participants in ARC-funded educational activities (Goal One). This emphasis, along with the lingering effects of the economic downturn, resulted in a lower than expected number of jobs being created by Goal Two projects. These factors are not expected to affect performance in FY 2004. The investment in education and training will position the Region for growth in new job creation activities as the economic recovery progresses.

Objective 2.2 Outcomes for Households Served, FY 1999–2003

ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 1999 - 10,000 Households	FY 1999 - 20,473 Households
FY 2000 - 18,000 Households	FY 2000 - 32,727 Households
FY 2001 - 30,000 Households	FY 2001 - 24,454 Households
FY 2002 - 30,000 Households	FY 2002 - 74,105 Households*
FY 2003 - 25,000 Households	FY 2003 - 23,194 Households

*Results include 11,513 households with newly installed service and 62,592 households with upgraded service.

Objective 2.2 Outcomes for Jobs Created or Retained, FY 1999–2003

ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 1999 - 18,000 Jobs	FY 1999 - 33,879 Jobs
FY 2000 - 20,000 Jobs	FY 2000 - 32,668 Jobs
FY 2001 - 25,000 Jobs	FY 2001 - 41,495 Jobs
FY 2002 - 25,000 Jobs	FY 2002 - 19,649 Jobs
FY 2003 - 30,000 Jobs	FY 2003 - 23,358 Jobs

Project Validation Sampling

In FY 2003, a member of ARC’s field validation team surveyed 19 FY 2001 projects under this objective. The number of households served and the number of jobs created or retained exceeded projections, as shown below.

Number of Projects Surveyed	Projected # of Households	Actual # of Households	Results Achieved
12	7,859	8,395	107%

Number of Projects Surveyed	Projected # of Jobs	Actual # of Jobs	Results Achieved
7	2,003	2,015	101%

Project Evaluation

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

Job creation: An estimated 44,331 jobs were created by the projects evaluated in the study. This number includes jobs created directly and indirectly. It does not include retained jobs. Overall, the cost per job created, including jobs created indirectly, was \$2,412. If retained jobs are also counted, the average cost drops to \$1,761 per job.

Personal income: The new jobs led to increased personal income for residents of the affected counties. For each dollar invested in these projects—a one-time public investment—there was approximately \$9 of annual recurring personal income.

Non-residential water and sewer projects: The number of new jobs created was about 62 percent over projections, and the number of new businesses served was almost four times the projected total.

Industrial parks projects: Projections for new businesses and existing households served were exceeded; projections for existing businesses were met; while the percentage of actual jobs retained was slightly lower than projected (91 percent).

Incubator projects: Actual results for new businesses ran more than three times the projections. The number of retained businesses served was double the projection. The number of new jobs created was almost five times the projections; the number of retained jobs was 50 percent above projections.

Industrial access road projects: The number of new businesses served was greater than four times the projections, while the percentage of retained businesses served was below projections (77 percent). However, the numbers of new and retained jobs assisted by the projects came in above projections.

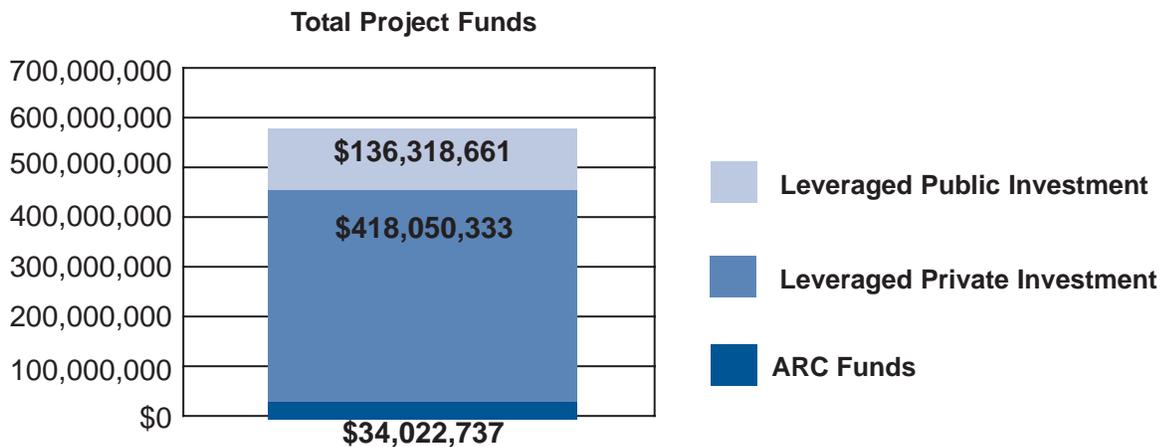
Recommendations: The study recommended more follow-up technical assistance to small rural communities, as well as better methods for assessing the quality of jobs created by ARC investments and the amount of private investment in each project.

Water and Sewer Infrastructure Gaps Study

In FY 2003, ARC funded a study of water and sewer infrastructure gaps in Appalachia. This study will build on previous research to identify alternative data sources from state and federal agencies to develop an overall assessment system.

Other Funds Leveraged

ARC FY 2003 Goal Two grant funds of \$34,022,737 leveraged \$418,050,333 in private investment and \$136,318,661 in public investment.



GOAL THREE: Building Local and Regional Capacity

The people and organizations of Appalachia will have the vision and capacity to mobilize and work together for sustained economic progress and improvement of their communities.

Leadership and civic capacity are prerequisites for sustained development, and underlie all of the other ARC goals for economic development. Long-term, sustainable development occurs when local businesses, area governments, community groups, nonprofit organizations, and citizens work together to mobilize resources towards common goals. The people of Appalachia are increasingly convinced that they themselves hold the key to their communities' futures, and are organizing themselves accordingly. Communities are increasingly able to assume more responsibility for addressing economic problems, and learning how to do more with less.

Objective 3.1: Leadership Development

The percentage of Appalachian residents participating in leadership development programs aimed at community improvement will substantially increase.

Objective 3.2: Capacity Building

All communities and community organizations will have access to capacity-building activities to enhance their ability to marshal resources, plan, and develop solutions to local problems.

Performance Goal and Measures

Output Goal for FY 2003 (for both objectives): ARC will support 3,500 participants in leadership development and/or civic capacity programs.

Output Result for FY 2003 (for both objectives): Exceeded goal.

Objectives 3.1 and 3.2 Outputs, FY 1999–2003

ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 1999 - 4,000 Participants	FY 1999 - 5,063 Participants
FY 2000 - 5,000 Participants	FY 2000 - 5,568 Participants
FY 2001 - 2,000 Participants	FY 2001 - 1,769 Participants
FY 2002 - 2,000 Participants	FY 2002 - 3,467 Participants
FY 2003 - 3,500 Participants	FY 2003 - 5,714 Participants

Project Validation Sampling (for both objectives)

In FY 2003, a member of ARC's field validation team surveyed three FY 2001 projects under this objective. The surveyed projects slightly exceeded projections.

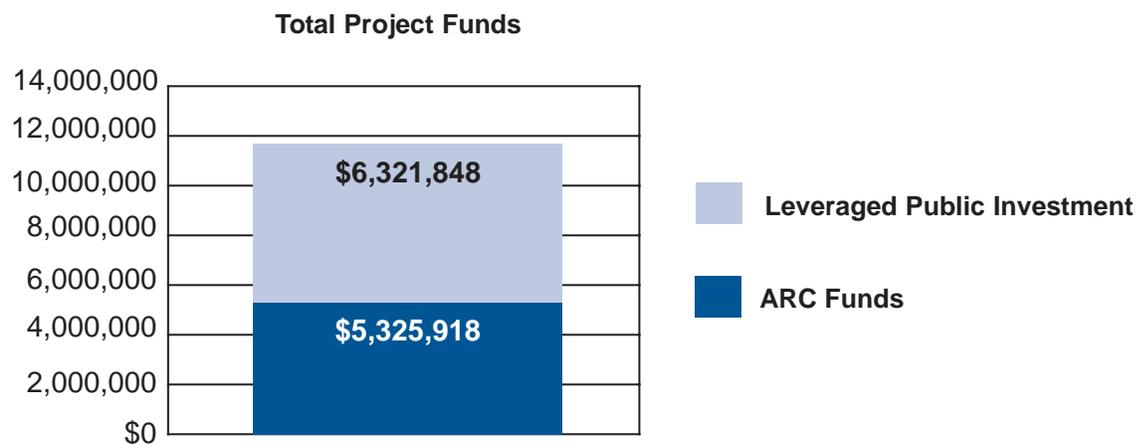
Number of Projects Surveyed	Projected # of Participants	Actual # of Participants	Results Achieved
3	1,205	1,240	103%

Project Evaluation

In FY 2003, ARC oversaw an independent evaluation of Goal Three projects, conducted by Westat Corporation. The purpose of the evaluation was to assess factors associated with successful capacity-building projects and to recommend a range of performance measures that could be used to document the impact of successful initiatives. The report's evaluation included both quantitative and qualitative findings on outcomes, based on multiple sources (i.e., documentary evidence, interviews, and case studies) and incorporated lessons learned about community capacity building, including studies conducted by various foundations, private nonprofits, academic researchers, and federal agencies. The report is scheduled for release in spring 2004.

Other Funds Leveraged

ARC FY 2003 Goal Three grant funds of \$5,325,918 leveraged \$6,321,848 in investment funds from various public sources, a substantial increase over the \$4,072,475 leveraged by approximately the same amount of ARC funds in FY 2002.



GOAL FOUR: Creating a Dynamic Economic Base

Appalachian residents will have access to financial and technical resources to help build dynamic and self-sustaining local economies.

Building dynamic, self-sustaining local economies is a strategy that reflects the evolution of ARC’s original mission to stimulate underdeveloped areas. The emphasis on sustainability underscores the need for communities to adjust to a rapidly changing global economy, the fast pace of technological innovation and market formation, and the education and skills needed in competitive labor markets. While business recruitment still plays an important role in most state and regional economic development strategies, states are increasingly focusing on strengthening local and regional economic development institutions, investing in human resources, leveraging assets, and promoting participation in export trade.

ARC views entrepreneurship as a critical ingredient in establishing self-sustaining communities that create jobs and generate local wealth. Since 1997, the Commission has funded a regional initiative to build entrepreneurial economies. ARC promotes locally owned, high-value-added, sustainable ventures that increase local wealth, foster human and social capital, and reduce the need for government subsidies. ARC believes that entrepreneurship can be nurtured through a variety of educational, business assistance, and capacity-building initiatives.

Objective 4.1: Entrepreneurial Education and Assistance

Access to programs that provide entrepreneurial education, technical assistance, and business services to entrepreneurs will increase and be improved.

Performance Goal and Measures

Output Goal for FY 2003: Provide access to enterprise and business services for 8,000 participants.

Output Result for FY 2003: Exceeded goal.

Objective 4.1 Outputs, FY 1999–2003

ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 1999 - 10,000 Participants	FY 1999 - 20,684 Participants
FY 2000 - 7,000 Participants	FY 2000 - 15,418 Participants
FY 2001 - 10,000 Participants	FY 2001 - 7,273 Participants
FY 2002 - 10,000 Participants	FY 2002 - 7,697 Participants
FY 2003 - 8,000 Participants	FY 2003 - 9,198 Participants

Project Validation Sampling

In FY 2003, a member of ARC's field validation team surveyed 17 FY 2001 projects under this objective. All but one of the projects met or exceeded their goals.

Number of Projects Surveyed	Projected # of Participants	Actual # of Participants	Results Achieved
17	2,811	4,606	164%

Objective 4.2: Entrepreneurial Job Creation

Access to programs that help businesses participate in the global marketplace will increase, creating jobs and stabilizing employment opportunities.

Performance Goal and Measures

Outcome Goal for FY 2003: Support the creation or retention of 15,000 jobs in the Region.

Outcome Result for FY 2003: At the time of publication, ARC is conducting further research to confirm intermediate estimates reported by grantee organizations.

Objective 4.2 Outcomes, FY 1999–2003

ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 1999 - 7,500 Jobs	FY 1999 - 22,834 Jobs
FY 2000 - 8,700 Jobs	FY 2000 - 15,511 Jobs
FY 2001 - 10,000 Jobs	FY 2001 - 18,114 Jobs
FY 2002 - 10,000 Jobs	FY 2002 - 9,150 Jobs
FY 2003 - 15,000 Jobs	<i>At the time of publication, ARC is conducting further research to confirm intermediate estimates reported by grantee organizations.</i>

Project Validation Sampling

In FY 2003, a member of ARC's field validation team surveyed 11 FY 2001 projects under this objective. Projects in this category focused on new job creation. A total of 2,320 jobs were created or retained as a result of the projects.

Number of Projects Surveyed	Projected # of Jobs	Actual # of Jobs	Results Achieved
11	2,123	2,320	109%

Project Evaluation (for both objectives)

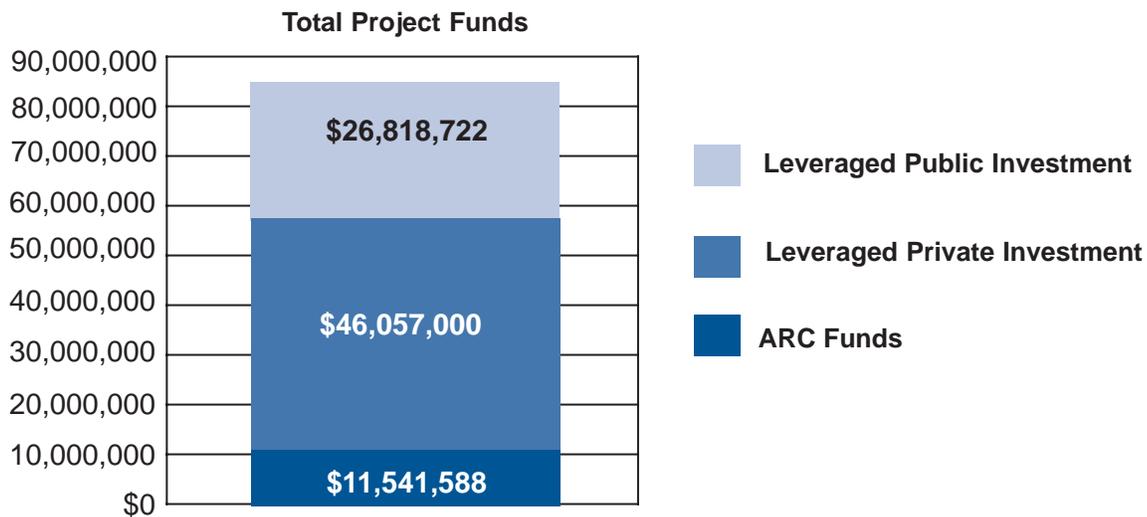
ARC commissioned a progress report on its entrepreneurship program in the early stages of the program’s development. The report evaluated 24 entrepreneurship projects that were complete or nearly complete during the 1997–2000 period. The sample was generally representative of the project mix and participation rates by state, as drawn from the 48 projects that were complete or nearly complete. Total ARC funding for these 24 projects was \$2,124,700, which leveraged another \$1,412,000 in funding from other sources. When the evaluation began, 133 projects had been funded.

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

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

Other Funds Leveraged

ARC FY 2003 Goal Four grant funds of \$11,541,588 leveraged an additional \$26,818,722 in investment funds from various public sources, a substantial increase over the \$18,496,721 leveraged in FY 2002 by approximately the same level of ARC funding. In addition, \$46,057,000 in private investment funds was leveraged by FY 2003 Goal Four funds.



GOAL FIVE: Fostering Healthy People

Appalachian residents will have access to affordable, quality health care.

Since the 1960s, ARC has helped provide basic health-care services for residents in the Region while expanding training opportunities and fostering regional agency cooperation on health issues. Although many areas have experienced improvements, significant challenges related to health-care provider shortages and persistent health problems in isolated and distressed communities remain.

ARC supports the placement of physicians in the Region through two programs. The J-1 Visa Waiver Program, carried out under the Office of the Federal Co-Chair, provides physicians for work in designated health professional shortage areas (HPSAs) in the Region for a minimum of three years. ARC also supports the attraction and retention of health professionals through area development projects. ARC was instrumental in establishing the Pikeville College School of Osteopathic Medicine, which has received major funding from ARC's area development program for the past several years. The number of physicians counted under this goal is derived from the results of both programs.

Objective 5.1: Health-Care Providers

The number of health-care professionals providing primary health care will substantially increase.

Performance Goal and Measures

Output Goal for FY 2003: ARC will place 60 physicians in the Region's health professional shortage areas.

Output Result for FY 2003: Exceeded goal.

Objective 5.1 Outputs, FY 1999–2003

ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 1999 - 100 Physicians	FY 1999 - 123 Physicians
FY 2000 - 140 Physicians	FY 2000 - 104 Physicians
FY 2001 - 100 Physicians	FY 2001 - 68 Physicians
FY 2002 - 100 Physicians	FY 2002 - 96 Physicians
FY 2003 - 60 Physicians	FY 2003 - 79 Physicians*

* The total number of physicians includes 58 physicians placed through the J-1 Visa Waiver Program, 4 medical school graduates from outside the Region who undertook residencies inside the Region, and 17 graduates of the Pikeville College School of Osteopathic Medicine (in Appalachian Kentucky) who undertook residencies in the Region in FY 2003.

Objective 5.2: Comprehensive Delivery Systems

An increasing number of Appalachian counties will have integrated health-care delivery systems to improve the health status of their residents and provide them with universal access to comprehensive health-care services

Performance Goal and Measures

Outcome Goal for FY 2003: ARC will increase the capacity of the Region’s health-care delivery system to provide an additional 300,000 patient office visits annually.

Outcome Result for FY 2003: Exceeded goal.

Objective 5.2 Outcomes, FY 1999–2003

ANNUAL PERFORMANCE GOAL	INTERMEDIATE ESTIMATES
FY 1999 - 500,000 Office Visits	FY 1999 - 565,800 Office Visits
FY 2000 - 700,000 Office Visits	FY 2000 - 478,400 Office Visits
FY 2001 - 460,000 Office Visits	FY 2001 - 312,800 Office Visits
FY 2002 - 460,000 Office Visits	FY 2002 - 441,600 Office Visits
FY 2003 - 276,000 Office Visits	FY 2003 - 363,400 Office Visits

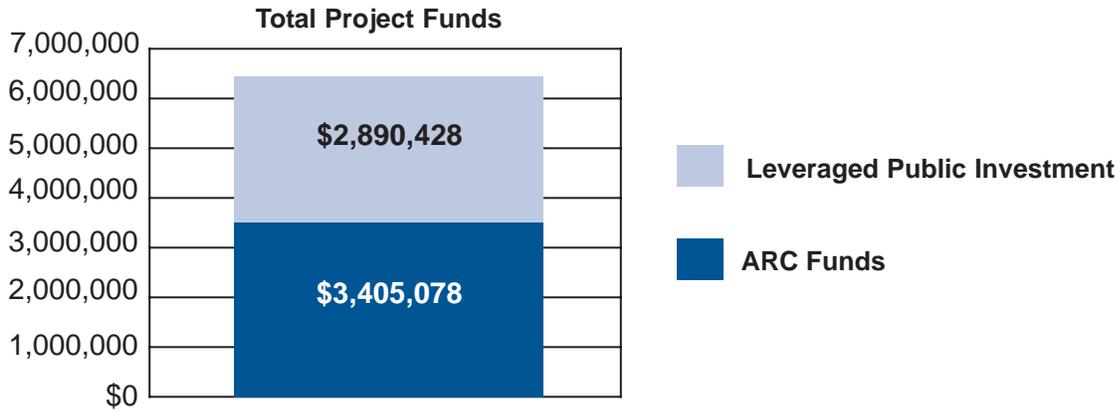
ARC determines the effectiveness of placing a physician based on whether or not people are actually visiting his or her office. This is the most practical way to tell if residents of the Region are being served. In a recent survey, ARC asked physicians to provide a count of their total number of patients on two random days. That number was averaged (18.4 patients a day), multiplied by the number of physicians (79), then multiplied by 250 working days in a year to yield a total number of office visits for all physicians for FY 2003.

Project Validation and Evaluation (for both objectives)

The performance measures associated with Goal Five relate to the actual placement of physicians in rural areas experiencing a shortage of physicians. In FY 2003, a legal intern validated the placement of ARC J-1 Visa Waiver Program physicians, following up on a comprehensive inspector general validation in FY 2001.

Other Funds Leveraged

ARC FY 2003 Goal Five grant funds of \$3,405,078 for health activities leveraged an additional \$2,890,428 in investment funds from various public sources.



SUMMARY OF ACHIEVEMENTS

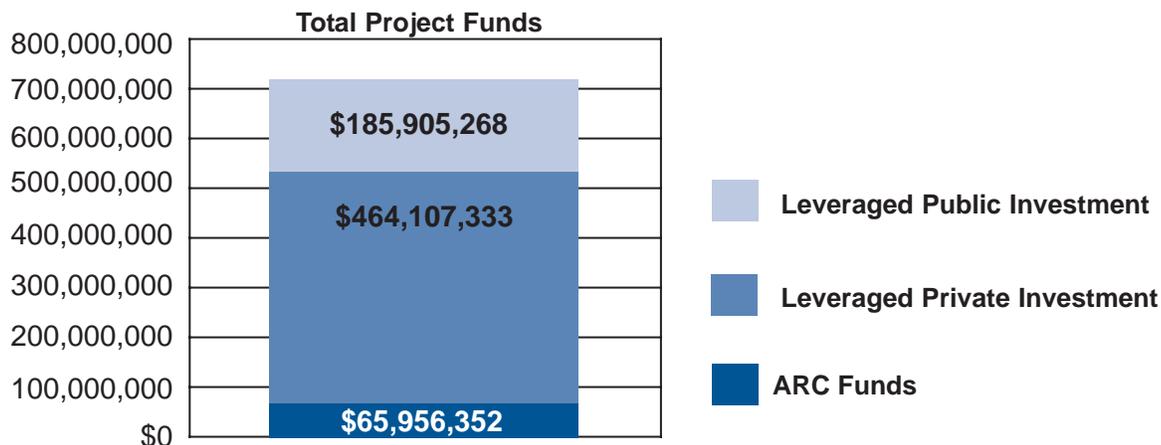
Output and Outcome Results for FY 2003 Area Development Projects

INTERMEDIATE RESULTS

GOAL 1—	
Objective 1.1: Workforce Training—Outputs	Exceeded Goal
Objective 1.1: Workforce Training—Outcomes	Exceeded Goal
Objective 1.2: Student Readiness—Outputs	Exceeded Goal
Objective 1.2: Student Readiness—Outcomes	Exceeded Goal
GOAL 2—	
Objective 2.2: Water, Sanitary Sewer and Waste-Disposal Systems	
Households Served—Outcomes	Met 93% of Goal
Jobs Created or Retained—Outcomes	Met 78% of Goal
GOAL 3—	
Objectives 3.1 and 3.2: Leadership Development and Capacity Building (Combined)—Outputs	Exceeded Goal
GOAL 4—	
Objective 4.1: Entrepreneurial Education and Assistance—Outputs	Exceeded Goal
Objective 4.2: Entrepreneurial Job Creation—Outcomes	<i>At the time of publication, ARC is conducting further research to confirm intermediate estimates reported by grantee organizations.</i>
GOAL 5—	
Objective 5.1: Health-Care Providers—Outputs	Exceeded Goal
Objective 5.2: Comprehensive Delivery Systems—Outcomes	Exceeded Goal

Other Funds Leveraged in FY 2003

ARC spent a total of \$65,956,352* on area development projects in FY 2003. Those funds leveraged \$650,012,601 from both public and private revenue sources.



*This figure does not include funds for LDD support, the highway program, or research activities.