



GOVERNOR JOSH SHAPIRO

July 1, 2024

Mr. Brandon McBride
Executive Director
Appalachian Regional Commission
1666 Connecticut Avenue, NW, Suite 700
Washington, DC 20009-1068

Dear Mr. McBride:

I am pleased to submit Pennsylvania's Appalachian State Development Plan. This plan has been developed to reflect the goals of the Appalachian Regional Commission and the objective and strategies the Commonwealth will utilize to advance our partnership with ARC and local organizations and communities across our 52 Appalachian counties. I am particularly pleased that this plan reflects the priorities of our new *Ten-Year Strategic Plan for Economic Development in Pennsylvania*.

I am also pleased to forward our FFY 2025 State Strategy Statement. This strategy details the investment priorities of our Appalachian region to reach the goals and objectives set forth in our plan.

Thank you for the work of the Commission and your excellent staff who work with my team to improve the quality of life and economic conditions in Appalachia Pennsylvania. Should you have any questions related to our State Plan or Strategy, please do not hesitate to contact my Alternate, Neil Fowler.

Sincerely,

Governor Josh Shapiro

Commonwealth of Pennsylvania

Annual Strategy Statement for the Appalachian Regional Commission

Josh Shapiro, Governor

Federal Fiscal Year 2025

Prepared by:
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Section II: Challenges and Opportunities

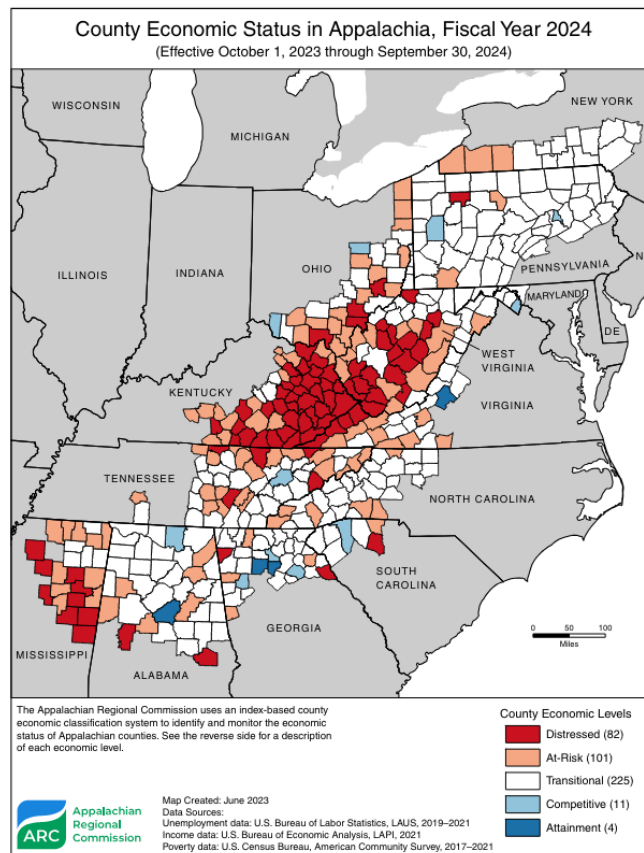
The Commonwealth of Pennsylvania is proud of our Appalachian heritage. It is a region characterized by a geography rich in natural resources such as majestic mountains, breathtaking rivers and streams, and abundant wildlife. It is also an area of tremendous cultural and historical resources as well that 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 Federal Fiscal Year (FFY) 2025 Annual Strategy Statement is a companion to Governor Shapiro’s Appalachian Development Plan and outlines the Commonwealth’s investment opportunities.

Pennsylvania FY24 ARC County Designations



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. But Pennsylvania's Appalachian region lags in population growth, which has affected manufacturing capacity. Pennsylvania has also lagged in economic growth rate compared to the national economy and for too long, our neighboring states have invested and focused on economic development while Pennsylvania has lacked a thoughtful, targeted game plan and serious investment.

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 Shapiro's new *Ten-Year Strategic Plan for Economic Development in Pennsylvania* will keep working to get stuff done — doubling down on site development to bring more commercial and industrial sites online, investing in innovation and leveraging our regional and economic diversity, and giving every Pennsylvanian the opportunity to succeed.

Economic Competitiveness – Even as Pennsylvania's strengths enable economic growth throughout the state, we're falling behind our neighbor states in key measures of economic competitiveness and resiliency. Compared to neighbor states, the Commonwealth is being outspent on economic development incentives, with states like New York and Ohio leveraging as much as 16 times our total incentive spend. We're facing a widening labor gap with a need for better-targeted workforce training programs and transformational change in our higher education systems. And while our academic institutions are making significant investments in research and development, those investments are too often not translating to the commercialization of new technologies and innovations.

Site Development and Infrastructure – Pennsylvania's neighboring states are investing hundreds of millions of dollars in site development programs every year. As they have made those investments, our site inventory continues to decline, placing Pennsylvania at a distinct disadvantage in competing for business deals. Pennsylvania's *Ten-Year Plan for Economic Development* provides local communities and private developers with the resources necessary to build out new sites for sustained business investment. Many of Pennsylvania's economic development partners and community stakeholders continue to emphasize the need for mixed-use and residential site development. In addition to funding for industrial sites, state government will evaluate the potential of using PA SITES to help support non-industrial site development.

Many Appalachian Pennsylvania communities still require assistance with basic infrastructure needs such as water, sewer, energy and local access roads, 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 changing demands for coal, with negative impacts for coal mining companies, employees, and communities. Fortunately, the ARC POWER initiative to support coal-impacted communities has enabled many communities to address the associated needs.

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.

Downtowns - Pennsylvania's state government has long underinvested in regional community development support. The state's flagship downtown development program only contains \$6 million in competitive funding for main street reinvestment in the 2023 fiscal year, and its historic preservation tax credit is capped at \$5 million per year in 2023. These programs offer minimal flexible funding opportunities for communities to invest in their own regional strategies.

To create inclusive public spaces, we must invest further in strong downtowns and main streets. Pennsylvania's downtowns are the places where communities gather, and its main streets form the economic nexus of their regions. From rising commercial vacancy rates to outdated public infrastructure, commercial cores in downtowns and main streets require significant reinvestment to enhance and build back their status as regional drivers of economic activity.

Broadband Access – Access to high-speed, reliable internet is just as critical as access to electricity or water. This economic and social imperative is undeniable, and state government is urgently working to expand access to reliable and affordable internet for every resident and business in Pennsylvania. Using our federal allocation of American Rescue Plan Act funding, the Pennsylvania General Assembly appropriated \$279 million to the Pennsylvania Broadband Development Authority (PBDA) as a down payment for broadband internet deployment efforts. The pilot programs structured by this funding are informing the state's plan to deploy \$1.162 billion in additional funding through the federal government's Broadband Equity, Access, and Deployment program.

Armed with over \$1.4 billion in total at the state level and supplemented with additional funding from counties, municipalities, and internet providers, the PBDA is working together with both the Administration and the legislature to ensure affordable internet is available for every resident and business across the Commonwealth by 2030. Recognizing that the needs and challenges associated with equitable high-speed internet deployment will vary from Pennsylvania's rural farmlands to its downtown cores, the PBDA is working to create programs and provide funding streams that can flexibly target unserved and underserved residents and businesses in urban, suburban, and rural environments alike.

Economic Opportunities

Priority Industries – Pennsylvania's historic approach to economic development has been unfocused. Without targeted industries to attract, cultivate, and grow, Pennsylvania's limited economic development dollars have been spread across industries without focus or attention to

those industry segments where we either maintain a competitive advantage or can create one. That changes with our new Economic Development Strategy. Taking a data-based approach to our efforts, we have identified five key industry sectors where we should target resources and maximize opportunities for growth:

- Agriculture
- Energy
- Life Sciences
- Manufacturing
- Robotics and Technology

Focusing on these sectors will enable us to build out industry clusters in high-growth, high-value industry segments, and to double down in industries of historic and economic significance to Pennsylvania. Recognizing that individual regions, including our 52 Appalachian counties, may have priority industries that differ from this list, Pennsylvania will continue to work with partners such as Local Development Districts (LDDs) to promote regional strategies tailored to the needs of our diverse communities.

Proximity to Major Markets - Pennsylvania connects America. The Keystone State is located within 500 miles of nearly 40% of the American population and over half of the Canadian population, with 25% of the U.S. population located only five hours from the Pennsylvania border. Our three major ports offer access to the Atlantic Ocean, the Gulf of Mexico, and the Great Lakes, and our six international airports combine to move over 600,000 tons of material and 35 million people each year by land, air, and sea. Pennsylvania is a short distance to major domestic and global markets and can quickly transport products and innovations to national and international population cores.

Cost of Doing Business - In addition to our location, Pennsylvania has a lower cost of doing business compared to many of our neighboring states. Low electricity costs coupled with a competitive natural gas price tag makes us a strong fit for advanced manufacturing and technology industries.

Tourism and Outdoor Recreation – As one of the largest industries in Pennsylvania, tourism generates over \$66 billion per year in total economic impact and accounts for more than 450,000 jobs across the Commonwealth. The industry includes subsectors like hospitality, transportation, regional attractions and entertainment, and travel tours and serves as a powerful economic engine in every corner of Pennsylvania. With minority populations making up roughly 50% of workers employed in the tourism industry and small businesses making up 80% of tourism-based businesses, increased investment in the tourism industry will assist in bridging equity divides and help to lift up all Pennsylvanians.

Section III: Investment Priorities

Boost State Investment in Site Development, Preparedness and Marketing - Ramp up existing site development programs to support site readiness and prepare shovel ready locations across all Pennsylvania regions.

Expand Support for Pennsylvania’s Small Businesses with a Focus on Historically Disadvantaged Businesses and Workers - Increase assistance for small, disadvantaged, and minority businesses, entrepreneurs, and workers.

Invest in Tourism and Recreation Asset Development to Drive Economic Growth – Renew focus on tourism and outdoor recreation to strengthen regional economies, create and enhance quality of life for Pennsylvania residents.

Keep Pennsylvanians in Pennsylvania through Internships, Pre-Apprenticeships and Registered Apprenticeships, and Experiential Learning Opportunities - Connect Pennsylvania students, graduates, and workers with Pennsylvania jobs through internships, pre-Apprenticeships and Registered Apprenticeships, and experiential education.

Provide Second Chances and Grow Our Workforce - Through educational, vocational, and training opportunities for incarcerated populations, Pennsylvania is establishing a strong workforce by engaging a source of employees who are highly qualified, skilled, and committed to succeed.

Support Communities by Investing in Downtowns and Main Streets - Revitalize communities by providing resources for downtowns and main streets.

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 workforce 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.

General Policies

- Each application for funding must contain detailed output and outcome measurements by which grant impacts may be evaluated.
- Applications must identify the primary ARC Goal being met along with the corresponding state objective and strategy.
- Priority is given to those projects which demonstrate a high degree of readiness, i.e. other funding sources committed, firm cost figures, local partner support, business commitments, etc.
- Grants funded under the Appalachian Regional Development Act (ARDA) shall include cost estimates valid not more than twelve (12) months prior to project application submission to ARC.
- Deliverables and impacts shall be documented and reported prior to funding additional phases of projects.
- Pennsylvania does not establish formal maximum and minimum investment amounts for ARC projects.
- ARC 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.
- Pennsylvania will utilize the annual and supplemental priority lists submitted by the Local Development Districts as a primary, but not exclusive, basis for project identification and selection.
- Specific Pennsylvania ARC Construction and Non-construction Guidelines will be maintained and posted on the Department of Community and Economic Development web site: www.dced.pa.gov.
- Note that all project applications are ultimately approved/disapproved by the ARC Federal Co-chair.

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 available funds by the end of the federal 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 ARC designated Competitive Counties 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 (Elk, 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.

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 may be considered as separate projects and will be subject to normal project selection criteria.

Project Monitoring and Progress Evaluation

ARC will establish reporting requirements and projects may be monitored by staff to assess progress in meeting scheduled milestones and to identify and resolve any problems that may occur during project performance. On-site inspections may be performed to ensure compliance with approved project scope by state and ARC staff. All open construction projects will be reported to DCED by the respective LDD every 90 days.

Distress Strategies

As a result of Pennsylvania's targeted ARC and state investments over the past 50+ years, we have a limited number of Distressed (Forest) or At-Risk (Elk, Fayette) counties. Still, Appalachian counties are extremely exposed to economic regression and are susceptible to sudden changes in the local economy. PA has the 3rd highest population among the Appalachian states living and working in distress as defined by ARC.

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.