



BILL LEE
GOVERNOR
STATE OF TENNESSEE

September 18, 2024

Mr. Brandon McBride
Executive Director
Appalachian Regional Commission
1666 Connecticut Avenue, N.W.
Washington, D.C. 20009

Dear Mr. McBride:

It is my pleasure to submit Tennessee's State Appalachian Strategy Statement for the 2025 fiscal year. This document identifies our priorities for investing Appalachian Regional Commission funds to enhance the development of the region. The 2025 program will focus on increasing community and economic development opportunities in Appalachia and on projects that create jobs, elevate tourism, provide access to quality infrastructure, and increase the skills of the workforce.

The information in the submission is consistent with the Appalachian Regional Development Act of 1965, as amended, and Section 5 of the ARC Code.

If you have any questions regarding its content, you may call my ARC Alternate Board Member, Brooxie Carlton, or the ARC Program Manager, Jill White, in the Department of Economic and Community Development at 615-981-7884.

Sincerely,

A handwritten signature in blue ink that reads "Bill Lee".

Bill Lee
Governor

Tennessee Appalachian Development Program Fiscal Year 2025 Strategy Statement

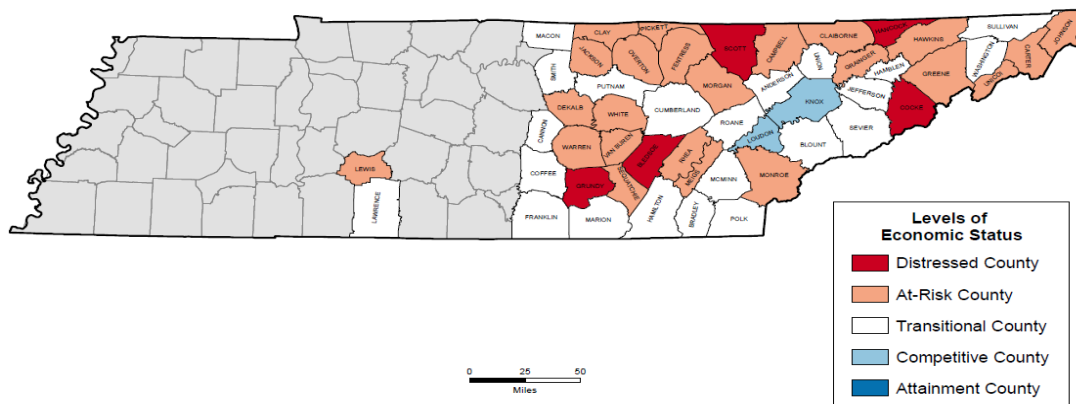
Introduction

Each year the thirteen member states of the Appalachian Regional Commission (ARC; arc.gov) submit strategy statements outlining their plans for the use of ARC funds in the region in accordance with Section 5.3 of the ARC Code. The 2025 Strategy Statement

1. Discusses the economic challenges and opportunities, as well as new developments and resources, that are impacting the state's Appalachian counties;
2. Provides an overview of targeted investment priorities for the program year;
3. Lays out specific state strategies for the state's Distressed Counties;
4. Sets forth the state operating program policies; and
5. Describes the methods used to review proposals.

Fifty-two Tennessee counties are included in the service region of the ARC. The Tennessee Department of Economic and Community Development (TNECD) administers the Appalachian Regional Commission funds in Tennessee. Within the department, the Rural Development division is responsible for the day-to-day administrative duties. The Assistant Commissioner, Brooxie Carlton, is the State's Alternate member of the Commission; Jill White is the ARC Program Manager, and Lindsay Gainous is the ARC Program Coordinator.

**County Economic Status in Appalachian Tennessee,
Fiscal Year 2025**



Economic Challenges and Opportunities

Opportunities and Strengths

Tennessee has considerable strengths that have led to economic growth over the last few years and that will continue to impact job creation and expansion over the coming year. The State ranks

- January 2024- #10 among the top U.S. states to start a business in 2024 (*WalletHub*)
- November 2023- #6 in their Executive Survey Business Climate Ranking (*Site Selection Magazine*)
- September 2023- #3 in the 2023 Top States for Doing Business Ranking (*Area Development Magazine*)
- June 2024- #4 for Electric Vehicle Industry Investment (*Business Facilities*)
- April 2024- #3 Best State for Business (*Chief Executive*)

Additionally, the state recorded more than 5,000 job creation commitments in 2023 which has led to \$2 billion in capital investment in the Region.

The Haslam College of Business at the University of Tennessee prepares an Economic Report to the Governor of the State of Tennessee every year ([An Economic Report to the Governor of the State of Tennessee, 2024 : Publication - Haslam College of Business \(utk.edu\)](#)). According to this report, the economy in Tennessee has continued to thrive due a massive influx of new residents through migration.

Challenges

The Appalachian region of Tennessee also faces a few key challenges:

Infrastructure: lack of adequate or outdated infrastructure is a persistent problem in Appalachian Tennessee. This includes water and sewer, transportation and broadband infrastructure.

Leadership: many communities in Appalachia lack leaders who can identify needs and opportunities, develop effective and measurable economic development initiatives, and create community development opportunities in their communities.

Unemployment: The unemployment rate is higher in rural Appalachia than the state average. The lack of a skilled workforce is a continuing challenge for the area as well.

The designation of distressed counties is largely an identification of rural poverty. It may be useful, therefore, to identify some of the causes of rural poverty, which have resulted in distressed county designations.

The trend in economic development in recent years has been for industries to locate and expand on the fringe of urban areas and in medium-sized towns, especially those which are located on or adjacent to interstates or other transportation corridors which are absent from most of Tennessee's distressed communities. Rural areas often lack concentrations of business services needed to supplement manufacturing processes; similarly, they do not always offer the health services and other quality of life characteristics that are important to new and expanding industries.

Industries that may find a rural location advantageous often face the problem of inadequate skills in the labor force. Many rural areas traditionally have not had access to educational and training opportunities that prepare the labor force to operate in a high technology or advanced manufacturing work environment. This deficiency becomes more of a problem as industry utilizes evermore complex machinery and equipment. This problem is sometimes compounded by the lack of training facilities to upgrade the skills of the local labor force in the immediate area. Therefore, even if industries locate in rural areas, it is often difficult for those individuals with inadequate skills to secure and maintain employment.

Tennessee Targeted Investment Opportunities

Priorities for the use of ARC funds in fiscal year 2025 continue to be based on three factors: the priorities of Governor Lee as expressed in the Tennessee Appalachian Development Plan, priorities of local elected officials, and areas where the greatest gaps in services exist and where ARC funds can have the greatest impact.

Funding Priorities

FY 2025 priorities are in the following areas which align with the 2024-2028 Investing in Appalachia's Future document, the ARC strategic plan:

ARC Investment Goal 1

Economic Opportunities – Invest in entrepreneurial and business development strategies that strengthen Appalachia's economy

State Objective 1.1: Develop entrepreneurs and local businesses through the State's entrepreneur center system and other initiatives.

State Objective 1.2: Develop the infrastructure needed to create new jobs.

- State Objective 1.3: Create jobs in areas that align with the state’s job clusters.
- State Objective 1.4: Increase international exports from the ARC region.
- State Objective 1.5: Develop the broadband infrastructure needed to create jobs, educate students and assist with workforce development across the region.
- State Objective 1.6: Increase the number of marketable industrial sites.

ARC Investment Goal 2

Ready Workforce – Increase the education, knowledge, skills, and health of residents to work and succeed in Appalachian

- State Objective 2.1: Align programs with Governor Lee’s workforce development program.
- State Objective 2.2: Provide training opportunities for the current and future workforce.
- State Objective 2.3: Provide infrastructure and equipment needed for workforce development.
- State Objective 2.4: Increase educational attainment in the Appalachian region through Tennessee Promise and Reconnect.
- State Objective 2.5: Increase access to STEAM training throughout the education system.
- State Objective 2.6: Improve the health of the workforce and access to high-quality, affordable healthcare.

ARC Investment Goal 3

Critical Infrastructure – Invest in critical infrastructure – especially broadband; transportation, including the Appalachian Development Highway System; and water/wastewater systems

- State Objective 3.1: Provide quality basic infrastructure including water and sewer infrastructure in distressed counties and distressed areas.
- State Objective 3.2: Increase the availability of broadband through investment in broadband infrastructure.
- State Objective 3.3: Promote the completion of the Appalachian Development Highway System and local access roads.
- State Objective 3.4: Invest in infrastructure that supports the creation of new jobs in the industrial and tourism sectors.
- State Objective 3.5: Increase the availability of adequate industrial sites for job creation.

ARC Investment Goal 4

Natural and Cultural Assets – Strengthen Appalachia’s community and economic development potential by leveraging the Region’s natural and cultural heritage assets

State Objective 4.1: Develop and preserve natural and cultural assets.

State Objective 4.2: Develop local food assets.

State Objective 4.3: Develop tourism opportunities based on assets.

State Objective 4.4: Promote the Region’s natural and cultural assets.

ARC Investment Goal 5

Leadership and Community Capacity – Build the capacity and skills of current and next-generation leaders and organizations to innovate, collaborate, and advance community and economic development

State Objective 5.1: Develop leaders who understand asset-based economic and community development.

State Objective 5.2: Improve public safety and public health.

State Objective 5.3: Plan for strong, sustainable economic development.

In addition to these goals and the corresponding objectives that are more fully described in the Tennessee Appalachian Development Plan, Tennessee is focused on eliminating distressed communities. Projects that create economic and community development opportunities, create jobs, promote leadership and community capacity development, and develop the distressed communities based on their assets will be prioritized.

Tennessee Strategies for Distressed Counties

Of Tennessee’s 52 Appalachian counties, 5 are designated as distressed by ARC for 2025. These counties are among Tennessee’s most distressed regardless of the measures used and will receive special consideration and treatment in order to move them from their distressed county designation as indicated above.

TNECD will target two distressed counties in Appalachia to move off of the distressed list in 2025 and to provide additional resources, technical assistance and grant funding to. The Rural Development division as well as other state resources will be focused on the counties in an attempt to bring lasting economic development to the region. The focus for 2025 will be Morgan and Scott. While Scott has a long way to go, Morgan County is on the cusp of achieving the at-risk designation.

Development Strategy

Tennessee's strategy for reducing the number of distressed counties consists of the following elements:

1. Economic Development and Job Creation

Special efforts in community and economic development will be made in distressed and at-risk counties. These efforts will involve preferential treatment of distressed areas, including staff attention, tax credits, higher grant rates, lower interest rates on industrial loans, grant funding only available to these communities, and other incentives designed to specifically help distressed counties reach economic parity with the rest of Tennessee. This will involve industrial recruitment efforts, assistance to existing industries, and helping to nurture high growth industries, small businesses, and entrepreneurs.

The regional business development teams support growth of businesses, economic development planning and the recruiting of new industry to the area through their day-to-day work with the support of ARC technical assistance funding. TNECD provides incentives to companies expanding or locating in our state. For qualifying jobs created in at-risk communities, a 35% increase in incentives is offered and for jobs in distressed communities, the incentives increase 50%.

Entrepreneurship Centers supported by TNECD in each region provide mentoring, education, training, strategic support, technical support and assistance in identifying sources of capital for high growth potential companies, small businesses and entrepreneurs in the region. Federal SSCBI funding is also targeted to distressed areas and distressed businesses.

2. Leadership Development

Leadership development is crucial in distressed counties to develop the skill sets required to engage citizens and organizations and to identify the needs, resources and opportunities to develop viable economic development strategies to move communities forward. Governor Lee hosts a Rural Opportunity Summit each year to bring together local leaders to learn about their needs and to provide additional technical assistance to them. Recently, ARC has supported scholarships and other additional services through the University of Tennessee Center for Industrial Services for economic development training and certification for rural leaders in Appalachia.

3. Infrastructure Improvements and Expansion

The provision of infrastructure, for both quality of life and economic development purposes, is a high priority in distressed counties. For this reason, infrastructure grants in distressed counties will be funded at the maximum 80 percent. Communities are encouraged to use other sources of funding as well for infrastructure projects including USDA Rural Development, Community Development Block Grants, Infrastructure

Planning Grants, Economic Development Administration and the State Revolving Loan fund. Partners from each of these organizations participated in Rural Roundtables in each of the 5 regions of Appalachian Tennessee in the fall of 2023 and early 2024 to discuss project development and combining funding sources.

Broadband is an area of focus for Governor Lee and TNECD. Federal funding from the American Rescue Plan as well as broadband funding from NTIA through their Broadband Equity Access and Deployment program will focus on serving every Tennessean with fiber and provide digital opportunity funding that will increase adoption and digital literacy. Distressed and at-risk counties receive additional points on applications and other incentives to ensure our most rural and distressed residents have access to high quality service that is affordable.

4. Workforce Development

Inadequate education and training in many of Tennessee's rural areas represents a serious disadvantage to economic development. Governor Lee has been particularly focused on the development of technical skills and has provided funding through ARC, the Governor's GIVE grants, and funding allocations from the Tennessee General Assembly for the expansion of current and construction of new Tennessee Centers for Applied Technology (TCATs) and for new and expanded programs of study.

5. Community Development

Community Development and quality of life must be in place before economic development can occur. TNECD has a renewed focus on promoting community and economic development in rural areas. Initiatives including the Three-Star program, federal funding for infrastructure improvements (especially broadband), and Asset Enhancement funding will be targeted to rural, distressed communities with the goal of eliminating distressed counties. The TNECD Community and Rural Development division offers a suite of programs from planning and technical assistance to grant funding for industrial site development, downtown development and asset development. Distressed counties have lower match rates for these funds, receive additional technical assistance to complete applications and projects, and get additional points on many of the applications to ensure they can utilize the funding.

Tennessee ARC Operating Policies

Eligible Activities

The best ARC projects are strategic, impactful, collaborative, and sustainable. A broad range of projects are appropriate for ARC federal funding. Overall, most of these grants are funded through the Area Development Program to invest in projects that align with ARC's strategic investment priorities. These grants generally fall into two broad categories: construction and non-construction. ARC awards program grants to state and local agencies and governmental entities, local governing boards, and nonprofit

organizations. Indian tribes and higher education institutions are also eligible for ARC program grants.

ARC also offers dedicated funding to support coal-impacted communities recovering from the difficulties of economic transition via the POWER Initiative; to communities supporting substance abuse disorder recovery-to-work efforts through the INSPIRE Initiative; and to collaborative, multi-state projects that drive large-scale, regional economic transformation through the ARISE funding opportunity. TNECD promotes these programs and assists potential grantees with project development.

In addition to traditional grants, READY Appalachia, ARC's new community-capacity building initiative, offers flexible funding to organizations in four key economic development pillars: nonprofits, community foundations, local governments, and Local Development Districts, and free training to the Appalachians that work for them.

Ineligible Activities

Certain types of projects are inappropriate for federal funding. Except for very unusual circumstances, which will be documented, the following types of activities will not be eligible for ARC funding in Tennessee:

1. Projects that would result in the relocation of business enterprises from another state to Tennessee.
2. Funding commitments that will influence the location of new industry or the expansion of existing business enterprises within the state. This restriction, however, will not extend to assisting a community in meeting the infrastructure or social demands that may be placed on it by a business that has already decided to locate or expand.
3. Projects that are related to the general operation of local governments. This would include the construction of city halls, courthouses, jails, fire halls, etc., as well as salaries and operating costs related to these governmental functions. This restriction will not, however, extend to programs operated by local governments that provide direct service to the residents of Appalachian Tennessee such as education or health services.
4. Political activities of any kind, at the local, state or national level.

Grant Rates

Distressed counties may be funded to the maximum 80 percent ARC funding; At-Risk counties will be eligible for 70 percent. Transitional counties may be funded to the maximum 50 percent ARC funding, and total federal funding for all projects will be

limited to 80 percent. These percentages apply to construction projects. Non-construction projects may have different requirements.

For multi-county projects, if half or more of the counties participating are distressed, the project may be funded at 80 percent. If less than half but at least one of the participating counties are distressed counties, ARC assistance may be limited to the higher of 50 percent or the average percentage applicable to the various counties in the project. If a multi-county project includes at least one competitive county but no distressed counties, funding will be limited to the average percentage applicable to the various counties in the project.

Development district funding is at 75 percent with the remaining 25 percent as non-federal if a district has at least one distressed county. Four of Tennessee's five Appalachian developments have at least one distressed county.

Maximum Grants

Grant amounts for Area Development programs will not exceed \$1,000,000 in most cases. However, for very large and complex projects with high total costs, a \$3,000,000 maximum grant may place an inordinate burden of funding on the local government. Therefore, projects that reach the \$3,000,000 ceiling will be individually evaluated against the financial ability of the potential grantee, and grants in excess of \$3,000,000 will be recommended if warranted.

Exceptions Authorized

Applications may be submitted at any time if job creation is an outcome. Potential grantees should discuss the project and a potential application with the Program Manager.

The state fully intends to implement the above policies as stated. The state also recognizes that there may be instances where one size does not fit all, and unusual conditions will warrant exceptions. It is not possible at this time, however, to identify conditions which will warrant exceptions because this will be different in each situation. Therefore, each situation which warrants an exemption to the state's base policies will be fully explained when the application is submitted.

Notices

The state sends emails to eligible grantees and posts on the TNECD website when pre-applications are due. The information is also given to the development districts and consultants.

Development Districts

Local Development Districts (tndistricts.com) are enabled by state statute and organized by local governments to provide planning and technical assistance to the governmental entities in their areas.

Tennessee relies on the development districts for regional and local planning, project development, application preparation and grant administration. These are extremely useful services, especially in the rural areas and distressed counties. This will continue, and the state will look for additional opportunities to strengthen the development districts. The development districts that serve the ARC region are as follows:

First Tennessee Development District 3211 N. Roan St. Johnson City, TN 37601 (423) 928-0224, ftdd.org	Upper Cumberland Development District 1104 England Drive Cookeville, TN 38501 (931) 432-4111, ucdd.org
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East Tennessee Development District 216 Corporate Place Alcoa, TN 37701 (865) 273-6003, etdd.org	South Central Tennessee Development District 101 Sam Watkins Blvd. Mount Pleasant, TN 38474 (931) 379-2929, sctdd.org
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Southeast Tennessee Development District
1000 Riverfront Pkwy
Chattanooga, TN 37405
(423) 266-5781, sedev.org

Tennessee ARC Operating Policies

Additional project information including the pre-application, when available, is at <https://www.tn.gov/ecd/rural-development/appalachian-regional-commission1.html>.

Pre-applications are available in the fall and are emailed to local governments, local development districts and non-profit and community agencies that have indicated interest in the program. Pre-applications will generally be due in early December. Notifications that full applications will be accepted and submitted to ARC occur in the Spring. Full applications are due to ARC approximately six weeks after they are requested.

Applications are reviewed by TNECD for eligibility and alignment with the ARC and State goals and priorities. Applications are ranked based on impact to community, alignment with goals of ARC and the State, feasibility of the project approach, ability of the community or organization to fund the project on their own, timeline, and on outputs,

outcomes and performance measures. All projects must also be approved by the Governor's office.

Construction projects must have a preliminary engineering report included with the pre-application. Additional funding required must be fully committed before the project can receive final approval.