



BILL LEE

GOVERNOR
STATE OF TENNESSEE

August 22, 2022

Mr. Brandon McBride
Executive Director
Appalachian Regional Commission
1666 Connecticut Avenue, N.W.
Washington, D.C. 20009-1068

Dear Mr. McBride:

It is my pleasure to submit Tennessee's State Appalachian Strategy Statement for the 2023 fiscal year. This is a plan and corresponding strategy for the development of Appalachian Tennessee, not merely for the expenditure of ARC funds.

This document was prepared with my understanding and involvement. If you have any questions regarding content, you may call my ARC Alternate Board Member, Brooxie Carlton, or the ARC Program Manager, Logan McCoy, in the Department of Economic and Community Development at 629-201-0063.

Sincerely,

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

Bill Lee
Governor



Department of
**Economic &
Community Development**

**Tennessee Appalachian Development Program
Fiscal Year 2023 Strategy Statement**

Economic Challenges and Opportunities

Challenges

The Appalachian region of Tennessee 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Infrastructure: lack of adequate or outdated infrastructure is a persistent problem in Appalachian Tennessee.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 and Labor Participation: Tennessee's statewide unemployment rate decreased to 3.3% in June 2022, according to the latest data by the Department of Labor and Workforce Development (TDLWD). Unemployed (and employed) Tennesseans are facing new challenges affecting the state and national labor markets, such as inflation and high costs of childcare, that are impacting participation in the labor market.

The state's new unemployment rate is 1.6 percentage points lower than the rate in June 2021. Although Tennessee's unemployment rate is currently quite favorable, many Tennesseans stopped looking for work, and since they are no longer participating in the labor market, they are not included in the calculation for unemployment rate. Prior to the pandemic in 2019, Tennessee's labor force participation rate was 61.9%, and the current participation rate is still only 61.2% (June 2022).

Tennessee employers helped thousands of individuals return to the workforce in the last year. Total nonfarm employment increased by 130,600 jobs across the state year-over-year. The largest growth year-over-year for Tennessee's supersectors was in Leisure and Hospitality, which added 38,800 net new jobs. The Leisure and Hospitality supersector had been the slowest to see job recovery from the pandemic. Leisure and Hospitality in Tennessee has seen over 12% job growth year-over-year, which ranks No. 1 in the Southeast.

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 counties 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. Geography and access to "shovel-ready" sites with infrastructure also play a part in company's site location decisions, and rural communities more commonly have geographical barriers and aging infrastructure.

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 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.

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

- Business Facilities ranked Tennessee #5 in the nation for Best Business Climate in their 18th annual State Rankings Report released in August 2022.
- Chief Executive ranked Tennessee #3 Best State for Business (April 2022)
- Tennessee ranks #4 for advanced industry job growth as a percent (33%) in the last 10 years (2011-2021).
- 1st in the nation for lowest state debt per capita (The Tax Foundation, March 2022) and one of only nine states with no income tax wages.
- Tennessee ranked #2 in the U.S. for total tax burden in 2021. (WalletHub, March 2022)
- Kiplinger ranked Tennessee #4 on its list of the Most Tax-Friendly States for Middle-Class Families (Kiplinger, May 2022)
- AAA Bond rating
- Site Selection ranked Tennessee #1 for workforce development in the South Central Region

In 2021, the state worked with companies to land 130 expansion and recruitment economic development projects, representing 34,372 new job commitments and \$12.9 Billion in private capital investments. Eighty-three percent of these job commitments are high-quality jobs, defined as providing wages above the county median wage. Forty-three percent of these job commitments are in rural counties of Tennessee, and 22 percent (7,690+) are in distressed and at-risk counties, as defined by the ARC for FY23. Over 9,180 of the new job commitments in 2021 were generated through expansion activity of companies already doing business in Tennessee, and over 2,310 new job commitments were the result of foreign direct investment in Tennessee.

Tennessee offers two years of tuition-free education at a community college or technical center to high school graduates (Tennessee Promise) and adults who need to complete

a post-secondary credential (Tennessee Reconnect). Tennessee is currently investing in infrastructure at the state's colleges of applied technology to double the skilled workforce by 2026.

TNECD has a prioritized focus on rural development, and new incentives are being considered for smaller job creation projects in rural and distressed communities. \$8M in new programs have been announced by the TNECD Rural Development division for the coming year to promote industrial site development, tourism enhancement, entrepreneurial development in central business districts, etc. (tnecd.com/rural). Additionally, Governor Lee issued Executive Order 1 which aligns resources in the executive branch to target distressed counties

(<https://publications.tnsosfiles.com/pub/execorders/exec-orders-lee1.pdf>) Governor Lee and the executive branch held a "rural opportunity summit" in which 16 current and recent distressed counties were invited for a 2-day retreat to learn from them about the issues and concerns impacted rural communities. Representatives from each county included the county mayor, chamber director, nonprofit leader, community volunteer, K-12 superintendent, and industry. In 2020, Governor Lee announced enhanced incentive packages for companies locating in Tennessee's distressed and at-risk counties. ¹



Tennessee Targeted Investment Opportunities

Priorities for the use of ARC funds in FY 2023 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.

¹ See 'Bonus Incentives': <https://tnecd.com/advantages/incentives-grants/>

Funding Priorities

FY 2023 priorities are in the following areas which align with the 2022-2026 Investing in Appalachia's Future document, the ARC strategic plan, and may include priorities from the new ARC strategic plan to be released in late fall 2023:

ARC Investment Goal 1: **Building Appalachian Businesses – Strengthen and diversify the Region's economy through inclusive economic development strategies and investments in entrepreneurship and business development.**

Primary Objectives: Provide financing, technical assistance, and other support for entrepreneurship and small business development in the Region. Pursue economic and enterprise development strategies that grow existing industries, support economic diversification, and advance economic prosperity at the regional level.

ARC Investment Goal 2: **Building Appalachia's Workforce Ecosystem – Expand and strengthen community systems (education, healthcare, housing, childcare, and others) that help Appalachians obtain a job, stay on the job, and advance along a financially sustaining career pathway**

Primary Objectives: Develop and support educational programs and institutions from early childhood through post secondary that provide the building blocks for skills development and long-term employment success. Invest in workforce development programs and strategies informed by industry talent needs and designed to allow workers to simultaneously earn, learn, and advance along a career pathway. Develop a network of employment supports to help Appalachians enter and remain in the workforce. Expand access to high quality healthcare as well as programs and services that support overall mental and physical health, for workers and their families.

ARC Investment Goal 3: **Building Appalachia's Infrastructure – Ensure that the residents and businesses of Appalachia have access to reliable, affordable, resilient, and energy efficient utilities and infrastructure in order to successfully live and work in the Region**

Primary Objectives: Ensure the availability of quality, affordable basic infrastructure to meet the needs of the residents and businesses of Appalachia. Ensure that all Appalachians have access to quality and affordable telecommunications and broadband services. Support proactive efforts to adopt alternative energy strategies and bolster energy infrastructure. Complete the Appalachian Development Highway System (ADHS) and invest in innovative intermodal transportation systems to connect businesses and residents within the Region with global opportunities. Support construction of business development sites and public facilities and the adaptive reuse of obsolete and/or unsafe properties to stimulate economic and community development.

ARC Investment Goal 4: Building Regional Culture and Tourism– Strengthen Appalachia’s community and economic development potential by preserving and investing in the Region’s local cultural heritage and natural assets.

Primary Objective: Invest in the development of vibrant Appalachian downtowns and provide support for Appalachian placemaking. Invest in economic and community development initiatives that preserve and promote Appalachian communities’ vibrant arts, cultural, and heritage traditions. Preserve and expand Appalachia’s natural resources to increase outdoor recreation opportunities for residents and visitors and support sustainable economic growth.

ARC Investment Goal 5: Building Community Leaders and Capacity – Invest in the capacity of local leaders, organizations, and communities to address local challenges by providing technical assistance and support to access resources, engage partners, identify strategies and tactics, and conduct effective planning and project execution.

Primary objective: Develop, support, and empower community leaders that are representative of local communities, inclusive in their approach, and focused on long-term, innovative strategies and solutions. Build capacity of community organizations and local development districts (LDDs) to effectively access and manage funding, administer programs, and execute projects through implementation. Invest in developing the capacity of communities to build ecosystems where government, nonprofits, businesses, and philanthropic partners coalesce around a shared vision for economic and community prosperity and collaborate to implement that vision.

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, 7 are designated as distressed by ARC for FY 2022. 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.

Tennessee will target at least one distressed community in Appalachia to move off the distressed list in 2022. The resources of the Rural Development division as well as other state resources will be focused on the county to bring lasting economic development to the region. The county(ies) will be selected with input from the Governor's Rural Taskforce and an analysis of the data that is used to determine distress and additional data available including information on recent investment in the community by TNECD. TNECD will work with the Rural Taskforce and the Local Development District, ARC and other partners to determine how to move forward with providing targeted assistance to at least one distressed community.

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 job creation will be made in distressed counties. This will involve industrial recruitment efforts, assistance to existing industries, and helping to nurture high growth industries. The regional Jobs Base Camps support growth of businesses, economic development planning and the recruiting of new industry to the area. The Accelerators in the region provide mentoring, education, training, strategic support, technical support and assistance in identifying sources of capital for high growth potential companies in the region. These efforts will involve preferential treatment of distressed areas, including staff attention, tax credits, higher grant rates, lower interest rates on industrial loans, and other incentives designed to specifically help distressed counties reach economic parity with the rest of Tennessee.

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.

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 UDSA Rural Development, Community Development Block Grants and the State Revolving Loan fund.

4. Workforce Development

Inadequate education and training in many of Tennessee's rural areas represents a serious disadvantage to economic development. The Basic Education Program, funded by the Tennessee General Assembly, and administered by the Tennessee Department of Education, represents a major initiative to equalize access to education and training. Other opportunities to enhance the capabilities of the workforce in distressed counties will be sought.

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 and Community Development Block Grant program, will be targeted to rural, distressed communities with the goal of eliminating distressed counties.



Tennessee ARC Operating Policies

Ineligible Activities

There are certain types of projects which are inappropriate for federal funding. Except for very unusual circumstances, which will be fully documented and explained, 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, will be ineligible for ARC funding.

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. All of Tennessee's five Appalachian developments have at least one distressed county.

Maximum Grants

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

Exceptions Authorized

The above policies are reasonable, and the state fully intends to implement them 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.

Applications may be submitted at any time in which job creation is an outcome.

Notices

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

Development Districts

Local Development Districts (tennesseedevelopmentdistricts.org) 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
1225 South Willow Avenue
Cookeville, TN 38506
(931) 432-4111, ucdd.org

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

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 <http://tn.gov/e.cd/topic/appalachian-regional-commission>

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 be due in December. Notifications that full applications will be accepted and submitted to ARC generally occurs in the Spring. Full applications are due to ARC approximately six weeks after they are requested.

Applications are reviewed by the TNECD Rural Development staff 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.

