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Divider Title: **G**

COMMODITY FUTURES TRADING COMMISSION

DESCRIPTION: CFTC furthers the economic utility of the futures markets by encouraging their efficiency, assuring their integrity, and protecting participants against abusive trade practices, fraud, and deceit. The object of commodity futures trading regulation is to enable the markets to better serve their designated functions of providing a price discovery mechanism and a means of offsetting price risk. By properly serving these functions, the futures markets serve the public interest by contributing toward better planning, more efficient distribution and consumption, and more economical marketing. Program areas include: Market Surveillance, Analysis, and Research; Enforcement; Proceedings; and other registration, audit, and review functions.

FY 1996 BUDGET PROPOSAL: Projected FY 1996 budget appropriation is $59.711 million, an increase of $10.567 million over FY 1995. Projected FY 1996 FTE is 629, an increase of 82 FTE from FY 1995.

AGENCY PROPOSAL: CFTC argues that it has a Federal role as a regulatory agency. According to the agency, because of FTE and budget reductions in FY 1993 and FY 1994, CFTC has implemented streamlining, automation, and regulatory reform initiatives. Regarding their regulatory scheme, CFTC is trying to work with the commodities trading industry to encourage self-regulation. Specifically, the agency envisions the exchanges and the National Futures Association conducting direct regulation of market participants while the CFTC oversees the overall regulatory program. While CFTC is working on issues in cooperation with states (and foreign governments), the agency does not believe its functions can be devolved to a lower level.

DECISION OPTIONS:

A. No change. Fund CFTC at FY 1996 levels.

B. Fund CFTC at FY 1996 levels, but encourage the agency to explore REGO Phase 2 regulatory reform proposals.

C. Fund CFTC at FY 1996 levels, but encourage the agency to explore REGO Phase 2 regulatory reform proposals as well as merger with the Securities and Exchange Commission (especially including co-location) and the devolution of certain CFTC oversight functions to self regulatory organizations, such as the National Futures Association.

D. Eliminate CFTC and rely on the private exchanges to regulate the securities markets.

ADVISORY GROUP RECOMMENDATION: C.

RATIONALE: CFTC has a Federal role. Option C encourages CFTC to seek cost savings and better results through additional regulatory reform. By continuing to work with the stakeholders to develop goals which have measurable results, CFTC could improve results while reducing costs both for the CFTC and for the industry. Merging the SEC and CFTC into one agency, as well as devolution of certain oversight functions to self regulating organizations, would produce a more efficient and effective regulatory apparatus with which to oversee today's increasing complex and intertwined financial markets.

STEERING COMMITTEE RECOMMENDATION:

Post-it™ brand fax transmittal memo
To Tony Nikolaus
Co. NPR
From D. Tendick
6 Pages

NPR II OPTIONS
COMMODITY FUTURES TRADING COMMISSION
February, 1995

Purpose of the CFTC

When the Commission was first established in 1975, the Congress recognized the need for an expert agency to help resolve new issues that emerge in the changing financial marketplace and to protect the important national interests that are served by commodity futures and options markets. Those markets today serve as the primary reference point in establishing prices for a wide range of agricultural products and financial instruments. They are indispensable to producers, processors, consumers, large multinational corporations, pension funds, and others in hedging against future price changes that otherwise could have a devastating effect. In addition, the participation of market professionals provides liquidity to the marketplace.

The futures markets are critical to the economic well-being of the country, and the oversight function performed by the CFTC is no less essential to the continued health and vitality of those markets. The Commission is responsible for assuring the financial integrity and qualifications of professionals who trade in the marketplace for themselves and others, including those professionals who manage increasingly important pools of investor funds. The Commission's rules and oversight assure the segregation and protection of the funds of customers who use these markets. We work to see that trading on exchanges is conducted in a competitive environment, free of manipulative forces, and that prices are transparently established and immediately disseminated. And we are working even more diligently to prosecute fraud and other wrongdoing in every market that we are charged with regulating.

The recognition that regulation of market participants, prevention on manipulation, accurate dissemination of information would contribute to the strength of the markets and the national economy were recognized in early futures legislation, such as the Grain Futures Trading Act of 1922. As the markets grew, the need for more significant regulatory authority to maintain the integrity of the markets grew as well, leading to the creation of the Commission as an independent regulatory agency in 1975.

All of the functions the Commission is responsible for are all the more important in light of the extraordinary growth of regulated markets since 1974. Since that time, trading of futures and options contracts on U.S. futures exchanges has increased more than 1500%. In 1994 alone, trading volume on U.S. futures exchanges increased 25% over 1993. Funds committed to professional management for futures trading also increased from 650 million dollars in 1980 to 25 billion dollars today.

The spectacular growth in the U.S. futures markets has been accompanied by extraordinary innovation in product development. In addition to agricultural, metals and energy products, futures and options are now offered on a vast array of financial instruments including foreign currencies, U.S. and foreign government securities, and U.S. and foreign stock indices. Banks, insurance companies, pension plans and other institutions have found that futures contracts on financial products, properly used, can be employed to hedge cash market price exposure and thereby stabilize revenue flows, as has long been the case for agricultural producers and processors using futures contracts on agricultural products.

At the same time, futures trading around the world also has increased dramatically, with the Commission's regulatory system serving as a model for similar overseas markets. This increase in global futures trading has created strong competitive pressures and regulatory challenges for the U.S. markets. Although volume on U.S. exchanges continues to grow substantially, futures trading on overseas markets now accounts for approximately one-half of global trading volume. The Commission is committed to assuring that U.S. markets remain strong and competitive in this changing environment.

FTE and Cost Reduction Through Streamlining

These developments -- dramatic increases in volume; proliferation of complex new products; and the internationalization of markets -- have all required that the Commission's policies and rules develop and evolve in order for it to maintain effective oversight. In addition, all of the marketplace developments have occurred without commensurate increases in Commission resources. Indeed, during the last three years, as exchange trading volume grew by more than 42% and over-the-counter ("OTC") derivatives proliferated, the CFTC's staff actually decreased by 8% percent; exchange volume is projected to grow a total of 60% from 1992 through the close of fiscal 1995, with no additional staff growth.

In order to maintain staffing at the highest possible levels while the Commission's funding level remained virtually flat, the operating accounts were targeted. Over $2,000,000 in controllable budget activities were either reduced or eliminated in the FY 1993 and FY 1994 operating budgets. Overall funding devoted to overhead has fallen from a high of 33% in FY 1990 to a level of approximately 25% in the current operating budget for FY 1995, with a full 75% of our appropriation earmarked for compensation and benefits. This is a lower overhead percentage than most other regulatory agencies. Specific cutbacks in operating expenses over the period included a 17% reduction in travel related expenses, an 18% cut in the cost of communications and utilities, a 33% tightening in the supply accounts, and a 45% reduction in the cost of obtaining transcription services which support our legal program areas.

The agency has been able to manage at these reduced levels through streamlining, automation and its unique regulatory scheme which relies on the industry to bear some of the burden of regulation. Because regulation on a national level is essential to the international competitiveness of U.S. futures trading, the Commodity Exchange Act grants exclusive jurisdiction to CFTC. However, the regulatory scheme also envisions that much of the direct regulation of market participants will be conducted by the exchanges and the National Futures Association, with oversight by CFTC. In addition, as described below, the CFTC has made a special effort to coordinate with the states, with other Federal agencies and with foreign regulators to strengthen enforcement and to minimize duplication. In that context, the agency reviewed its program options for meeting its mission.

Enforcement

Strong enforcement is essential to both the perception and the reality of the integrity of the futures and option markets. All market participants have an interest in ensuring that if fraud or abuse occurs, the perpetrators will be stopped, funds recovered if possible, and future abuses deterred.

The agency has a program to educate and assist states attorneys' offices in bringing cases against futures market participants that fall under state jurisdiction. The Enforcement division also has successfully coordinated its efforts with other Federal agencies, such as the Federal Bureau of Investigation, and, increasingly, with foreign governments. The industry also plays a role, with each exchange having responsibility for its members' compliance with exchange rules. Sanctions are also implemented with the assistance of the National Futures Association which ensures that those banned from trading on a temporary or permanent basis cannot register as market participants. The CFTC is actively reviewing the Enforcement program to determine if greater efficiency and effectiveness can be achieved.

In summary, the Enforcement program is essential to the agency's mission; the program cannot be done as well or better at the state or local level; introducing competition would not cut cost or improve performance; and, the agency is currently pursuing an internal evaluation of the Enforcement program.

Trading and Markets

Uniform regulation and oversight of areas including clearing and settlement, audit trail, sales practices, segregation of funds and capital requirements enhance the economic functions and the integrity of the futures markets. The CFTC has worked closely with its advisory groups to ensure that the requirements of the law and the needs of its constituents are balanced and considered.

For example, in 1992, the Commission completed an initiative to reexamine regulatory burdens and practices and to streamline its rulebook with input from both staff and market participants. Among other things, this initiative resulted in the simplification of regulatory requirements for commodity pool operators, changes in position limits in non-agricultural markets which promoted international competitiveness, reduction of reporting requirements for large traders, and an electronic filing initiative that resulted in a 77% reduction in paper filings with the Commission. This year, the Commission plans to initiate a series of roundtable discussions with market participant representatives to examine specific issues of concern.

The agency has also evaluated its regulatory scheme and looked for ways to delegate more responsibility to the industry. The agency delegated responsibility for registration and routine audit of market participants to the National Futures Association (NFA). The Commission retains responsibility for oversight of NFA and for conducting oversight and non-routine audits for futures firms. Delegation of oversight and regulatory responsibilities to state and local organizations would only increase the regulatory burden on the industry and would be counterproductive. However, the Commission does coordinate closely with other regulators, including the Federal Reserve, the SEC, and a number of foreign governments. The structure and operations of the Trading and Markets program are being evaluated as part of the agency's streamlining plan.

In summary, the Trading and Markets program is essential to the agency's mission; state or local regulation would only increase the costs and burdens to the industry and harm competitiveness; introducing additional competition would not cut cost or improve performance; and, the agency will continue to review the program as part of its streamlining plan.

Market Surveillance, Analysis and Research

The economic functions of risk shifting and price discovery are the essential value of the futures markets. Commission economists collect market data and conduct daily market surveillance in order to ensure that prices fairly and accurately reflect the underlying cash market conditions. In addition, the surveillance economists make recommendations to the Commission on setting speculative limits for each commodity, a function which can only be maintained at the Federal level. The Commission also reviews new contracts and significant rule changes in order to assure that the goals of risk shifting and price discovery will be met.

In recent years, the agency has streamlined both its regulations and its process for reviewing new contracts and rule changes. The staff emphasizes meetings with exchange officials and coordination with other Federal agencies, when necessary, to resolve issues quickly. A staff of only 11 reviewed 28 new futures and options contracts, many of them involving new and complex issues, and 93 major rule changes.

The CFTC has been a leader in using sophisticated automation systems to enhance its operations. For example, with the assistance of automation, between FY 1980 and FY 1994, the CFTC's Market Surveillance section reduced the number of people who receive and process market surveillance data from 45 to 20 and total surveillance staff fell from 79 to 60. During that same period, the number of markets covered by Market Surveillance grew from 83 to 188, trading volume increased dramatically, and the staff has spent a great deal of effort in evaluating the economic impact of derivative products. The Commission will continue to evaluate potential targets for increased efficiency in conjunction with its streamlining plan.

In summary, the Market Surveillance, Analysis and Research program is essential to the agency's mission; the program cannot be done as well or better at the state or local level; introducing competition would not cut cost or improve performance; and, the agency will continue to review the program as part of its streamlining plan.

Proceedings

The expertise of the ALJs and Judgment Officers hearing administrative enforcement and reparations actions in the Office of Proceedings is essential to the creation of consistent and accurate law governing the futures and options markets. The availability of judges with specific expertise in commodities law, an area not regularly dealt with by Federal or state court judges, provides efficiency in the judicial process.

As part of its streamlining plan, the agency revised the reparations rules (part of the Proceedings program). During that process, the Commission considered eliminating its voluntary decisional procedure, which provides an expedited, less formal forum for reparations complaints. Customers have, as options, going to NFA for arbitration or taking their case to Federal court. However, customers comments favored retention and the complaints are a good source of information about the industry. The Commission feels that these changes not only improve the reparations process, but allow the Commission to operate the program without any increase in resources.

In summary, the Proceedings program is essential to the agency's mission; the program cannot be done as well or better at the state or local level; competition already exists in the program; and, the agency has reviewed the program as part of its streamlining plan.

Summary

In summary, because of the nature of its regulatory scheme and because of the severe budget constraints the agency has faced, the CFTC has consistently evaluated how the self-regulatory organizations and the states can assist in meeting the agency's mission. We do not believe at this time that additional delegations would be fruitful. However, we intend to continue our reinvention efforts to make the agency's programs and operations as efficient and effective as possible.

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OFFICE OF
THE EXECUTIVE DIRECTOR

July 6, 1994

Mr. Chris Parker, Budget Examiner
Office of Management & Budget
New Executive Office Building
725 17th Street, N.W.
Room 9235
Washington, D.C. 20503

Dear Mr. Parker:

As requested in OMB memo M-94-19, enclosed is an updated copy of the Commodity Futures Trading Commission's Streamlining Plan.

Sincerely,

Donald L. Tendick
Acting Executive Director

cc: Tom Kingston, NPR
Madge Bolinger, CFTC, OBFO

STREAMLINING PLAN
COMMODITY FUTURES TRADING COMMISSION
Updated June, 1994

INTRODUCTION

The Congress established the CFTC in 1975 to provide strong, independent regulation of the commodity futures and options markets. The Commission's essential mission is to protect the integrity (including financial integrity) of these markets and to protect customers that transact in these markets and entrust funds to financial intermediaries. The agency has grown very little over the years in spite of increasing regulatory responsibilities and huge growth in the complexity and size of the markets it regulates.

For example, exchange trading volume was over 402 million futures and option contracts in FY 1993. This represents a twelve fold increase in trading volume since the Commission began its operations in 1975. During that same period, the Commission has gone through 4 reauthorizations before Congress, each time receiving new responsibilities.

For example, the Futures Trading Practices Act of 1992 ("FTPA") gave CFTC additional authority to detect and deter fraud and abuse of customer orders on U.S. futures exchanges. The 1992 changes in the law require registration and fitness checks on all traders, not just those who directly handle customer orders. In addition, the Commission has adopted new rules restricting dual trading, tightening the audit trail for futures transactions, enhancing recordkeeping requirements for oral orders, requiring registration of broker associations and requiring ethics training for industry professionals -- all in response to Congressional concerns about fraud and abuse in the markets. The CFTC also was given new responsibility to assure the propriety of emergency actions.

The FTPA also reflects a Congressional concern about the increasing sophistication, interdependence and internationalization of the futures and options markets by assigning the Commission other new authorities. For example, the FTPA gives the CFTC new authority to assist foreign futures regulators, to adopt and monitor rules concerning risk assessment of the activities of unregulated affiliates of regulated futures industry firms, and to review and exempt from regulatory requirements innovative financial derivative products. The Board of Governors of the Federal Reserve has delegated to the Commission new responsibility to oversee margins on stock index futures. Furthermore, the Congress has urged the Commission to enhance its already significant commitment to combatting telemarketing fraud. The twelve rulemakings mandated by the FTPA of 1992 required ten staff-years of effort plus approximately $10,000 in non-salary support costs. Ongoing resources are needed to monitor compliance with these new regulations, i.e., to review implementing rules submitted by the exchanges and to audit exchanges to ensure compliance.

In the FTPA of 1992, Congress also assigned the Commission five reports to be completed in the next two years. The Study of Swaps and Derivatives Trading was completed October 28, 1993. The Competitiveness Study was released May 6, 1994. The study on penalties is underway and the studies on audit trail and computer trading are in the planning stages. The estimated resource commitment to conduct all five of these studies is 26 full-time equivalent staff years plus approximately $54,000 in direct non-salary support costs, such as travel, printing and mail expenses.

The explosive growth of complex off-exchange derivative instruments is presenting new challenges for the agency. In light of growing concern about the potential risks posed by these markets, the Commission may be given additional responsibilities in this area.

Despite its increasing responsibilities, CFTC has been forced to reduce its FTE levels. Although the Commission was urged by Congress to increase staffing from FY 1990 to FY 1992, the approved level of our FY 1993 and FY 1994 budgets required the agency to implement a hiring freeze in July 1992. The freeze, which was partially lifted in December 1993, has resulted in a net loss of 50 permanent employees, and the requested FTE ceiling for FY 1995 is 545, down 12% from the level approved for FY 1992, when the hiring freeze was implemented.

In addition, the agency has drastically cut costs. Over the past five years operational costs were reduced from a high in FY 1990 of 33% of budget to a low in FY 1994 of 24% of budget. For example, from FY 1993 to FY 1994, travel expenses were cut by 29%. Program support costs related to training, transcription services, on-line research services, mail and supplies were all reduced 20% over previous operating levels. Over $2,000,000 in controllable budget activities were either reduced or eliminated in both FY 1993 and FY 1994 operating budgets. The FY 1995 budget request contains approximately 29% in operating expenses, but this figure includes some one-time outlays related to the relocation of CFTC's headquarters, the upgrade of the Commission's computer network, and transition from a stand alone mainframe configuration to a more distributed architecture. It should be noted that although CFTC's leased space costs are increasing, they continue to be below the comparable cost of GSA leased space. The Commission has been leasing its space less expensively than GSA since our charter in 1975.

The CFTC has been a leader in using sophisticated automation systems to enhance service and streamline operations. For example, between FY 1980 and FY 1994, the CFTC's Market

Surveillance section reduced the number of people who receive and process market surveillance data from 45 to 20 and total surveillance staff fell from 79 to 60. During that same period, the number of markets covered by Market Surveillance grew from 83 to 188. In addition, we have improved automation of our financial management system, integrating budgets, requisition processing, procurement, accounting, travel order and voucher processing, subscriptions, and monetary receipts into a single system linked to payroll, personnel and project cost accounting systems. We also decentralized processing for our automated payroll/personnel system. Almost every CFTC employee has a computer and the agency makes extensive use of electronic mail, both within each CFTC office and between regions.

Furthermore, in 1992 the Commission completed Excellence 2000, a major initiative to reexamine regulatory burdens and practices and to streamline its rulebook. Among other things, this initiative resulted in the simplification of regulatory requirements for commodity pool operators, changes in position limits in non-agricultural markets which promoted international competitiveness, reduction of reporting requirements for large traders, and an electronic filing initiative that resulted in a 77% reduction in paper filings with the Commission.

STREAMLINING PLAN

As the foregoing makes clear, the CFTC has been engaged in efforts to streamline, to cut costs, and to serve the public in the best way possible. With the assistance of a dedicated staff and ongoing efforts to streamline its regulations and operations, the CFTC has carried out its mission despite diminished resources and increased responsibilities. We feel that we cannot absorb additional cuts and still accomplish our mission. Nevertheless, as part of our commitment to conduct ongoing reviews of our efficiency and effectiveness, we propose to take the steps set forth below. We note, however, that because we are already operating under severe resource constraints, any savings achieved from these proposals may best be used in improving our ability to meet goals mandated by Congress. Some of these proposals may be controversial, others may require legislation, and final decisions on some may be affected by the appointment of a new Chairman.

The Commission has established an NPR Working Group, comprised of the agency's senior managers, which will undertake or oversee the following efforts:

PROGRAMMATIC REVIEW

o STRATEGIC PLANNING. Undertake a strategic planning effort which will evaluate the mission, structure and management of the agency.

STATUS: The Commission has been discussing strategic planning with other agencies through the Small Agency Council. We are in the early phase of discussing how we might approach a strategic planning effort.

o REGULATORY REVIEW. Undertake a further review of the regulatory requirements the CFTC places on the industry to determine whether there are additional regulations that can be eliminated or streamlined.

STATUS: We intend to include plans for regulatory review in our strategic planning.

o REPARATIONS PROGRAM. Propose raising the ceiling for reparations cases which can be decided by Judgment Officers rather than Administrative Law Judges from $10,000 to $30,000. In addition, assess whether the current filing fee for reparations can be raised, whether a ceiling should be placed on damages, and whether any other reparations procedures can be streamlined.

STATUS: The reparations rules have been revised in order to update and streamline Commission procedures. For example, the Commission considered and rejected a proposal to allow class actions in reparations cases. It concluded that, consistent with NPR, the addition of class actions would not improve service to customers and would result in unnecessary spending by the Commission and litigants. In addition, the Commission reduced the time allowed for response to a complaint from 45 to 25 days and reduced the time for serving discovery notices and requests from 40 to 30 days.

The Commission also considered eliminating its voluntary decisional procedure, which provides an expedited, less formal forum for reparations complaints. However, customers comments favored retention and the complaints are a good source of information about the industry. The Commission also raised its filings fees, expanded the use of telephonic hearings, and raised the threshold for summary procedure cases from claims of $10,000 to claims of $30,000.

The Commission feels that these changes not only improve the reparations process, but allow the Commission to operate the program without any increase in resources.

o DELEGATIONS TO INDUSTRY. Evaluate whether further delegations of responsibility can be made to the National Futures Association and the futures exchanges. Assess whether the additional oversight responsibility outweighs any potential savings in staff.

STATUS: The Commission will consider delegations to the industry as part of the strategic planning process.

o FIELD OFFICES. Assess the impact of closing field offices in Kansas City, Minneapolis and Los Angeles. In addition, ask each division and office with field locations to evaluate whether additional authority can be delegated to field office managers. In particular, the agency will explore whether certain market surveillance functions, such as data collection and large trader identification, can be centralized in one regional office, potentially resulting in the need for fewer staff.

STATUS: The Commission will assess the adequacy of the field office structure in the context of strategic planning. However, the Commission has already restructured some functions of the surveillance function to consolidate responsibility for similar markets in different locations. This allows the surveillance office to function at its current level of resources.

INTERNAL OPERATIONS

o INTERNAL PROCEDURES. Review our internal regulations and procedures for ways to eliminate or simplify them. In particular will evaluate whether the Employee Handbook and a forms book could replace our lengthier instructions.

STATUS: Review of internal regulations is underway. Recommendations are expected by September 30, 1994.

o INTERNAL REVIEW OF WORK. Explore ways to streamline internal review of work products which require the advice and effort of multiple staff members with different types of expertise (e.g., auditors, attorneys, economists).

STATUS: No action has been taken on this topic.

o SMALL PROCUREMENTS. Evaluate approval procedures for small purchases with a goal of delegating approval authority to the operating units. In addition, explore the use of credit cards for making small purchases.

STATUS: The Office of Budget and Fiscal Operations is in the initial stages of implementing changes in the way the agency handles small procurements.

o OFFICE SPACE. The CFTC is in the process of examining alternative locations for its headquarters offices. In this process, we will examine ways to reduce our space needs and achieve cost savings.

STATUS: The agency has chosen new space for the headquarters staff. The decision took into account cost per square foot, proximity to the Metro, the condition of the building systems, sophistication of security systems, and the size of each floor. The large floor size of the new space will contribute to the efficiency of the agency by allowing large divisions to occupy space on the same floor. The new space will be configured to make the most efficient use of offices within GSA standards.

PERSONNEL MATTERS

o REDUCTION OF SUPERVISORS. Evaluate the supervisory and management positions in the agency and determine whether positions should be reclassified or eliminated. In addition, take advantage of buyouts and other incentives as our budget allows. As supervisors and managers leave through resignation or retirement, evaluate the continuing need for the vacated position.

STATUS: We are in the process of eliminating the management designation for approximately 60 CFTC employees. The CFTC has decided that it would not be advantageous to participate in buyouts or other incentive programs at this time. No new supervisory positions have been created. Supervisory positions are being evaluated as supervisors leave the agency.

o DELEGATION OF PERSONNEL AUTHORITY. As OPM rules change, seek direct hire authority for technical experts required for CFTC's mission. In addition, evaluate the pros and cons of delegating broader authority over hiring and promotion to managers.

STATUS: No action to date.

o FLEXITIME AND FLEXIPLACE. The agency will explore flexitime and flexiplace proposals and evaluate whether they would result in cost savings and an increase in efficiency and employee morale.

STATUS: A working group of employees from various occupations, offices and regions has been established to evaluate flexitime and flexiplace alternatives for CFTC. The group has submitted a draft flexitime plan which is being reviewed. A flexiplace plan is still under consideration by the committee.

AUTOMATION

o AUTOMATION OF ADMINISTRATIVE SYSTEMS. Work with other agencies to develop an automated Personnel Action system, which will facilitate delegation of personnel authority. In addition, make use of other automated systems as they are developed externally, such as a training request system, travel system, and a more decentralized procurement system. The use of these systems would further decentralize these functions, delegate responsibility to a lower level of staff, and reduce costs.

STATUS: The Commission's Office of Administrative Services and Office of Information Resources Management (OIRM) have worked together to develop a system for using bar codes and scanners to label and inventory fixed assets in headquarters and regional offices of the Commission. This system will eliminate reduce the time and physical labor required to inventory the Commission;'s fixed assets.

The Office of Personnel is participating in the interagency effort to develop an automated Personnel Action system.

The Office of Budget and Fiscal Operations (OBFO) has eliminated payroll check delivery at all CFTC offices. Over 96% of the Commission's salary checks are now issued by direct deposit, and the remainder are mailed to the employees' residences. As recently as five years ago, the direct deposit rate for CFTC was 65%. In addition, by the end of FY 1994, the Commission will no longer deliver travel reimbursement checks or travel advances to the office. Travel payments will be sent to the employee's home. OIRM and OBFO are exploring software which would allow travel checks to be deposited directly to the employee's bank account.

OBFO and OIRM are also evaluating ways to improve on-line access by each Division to information on travel and training expenditures. The Division of Enforcement has been given the capability to directly access information and reports from the agency's financial management system. The Division's experience will provide a framework for offering access to all division's in the future. OBFO is also reviewing new financial management software to seek ways to improve the agency's financial management capabilities.

o COMPUTER SUPPORT. Review computer support for Commission programs to determine how productivity or effectiveness could be improved and further cost savings could be achieved. Automation support will be particularly important as the Commission takes on new programs, such as margin oversight, without the addition of staff resources.

STATUS: The Commission developed a five year strategic plan for automation and telecommunications in 1986 and updated the plan in 1987 and 1989. All projects in those plans have been completed and a new long range plan is being developed.

In addition, the Commission has several computer support projects underway. An integrated system for tracking reparations cases will replace six existing systems and eliminate redundant data entry. A system is being developed to improve tracking and processing of forms from firms reporting the nature of their futures and options business. Programs that process options positions are being reviewed for possible modification to allow more frequent processing of data, which will in turn provide a more current look at option positions. Staff will work with the industry to improve acceptance of exchange data and data on large trader positions. New capability is being developed to allow analysis by Commission staff of positions of traders by groups.

FEES AND FUNDING

o FEES FOR SERVICES. CFTC currently collects fees for contract market designations, exchange rule enforcement audits, FOIA requests, and some publications. Evaluate whether additional fees can be charged for services. For example, should the Commission charge a fee for consultation with foreign governments, for Commission training programs, or for publications?

STATUS: A proposal to allow the Commission to recoup the costs of educational seminars by having funds reimbursed to the Commission for reuse on other activities was deleted by Congress from the agency's FY 1995 appropriation. Collection of fees in other areas has been discussed, but would require legislation.

o OTHER FUNDING FOR SERVICES. Determine whether some of the costs pertaining to foreign consultation and coordination in developing markets should be supported by the Agency for International Development or other institutions, rather than by CFTC.

STATUS: The FTPA of 1992, Section 12(f), authorizes the Commission to seek payment or reimbursement from foreign futures authorities for the costs related to providing assistance to foreign authorities. The costs of the services is reimbursed to the Commission's appropriated funds. The first such arrangement for the secondment of a CFTC professional to the Australian Securities Commission will take place this summer. All expenses related to this three month temporary duty will be reimbursed to the Commission by the Australian government. In addition, the Commission recently agreed to a secondment with Spain, with all expenses reimbursed.

EMPLOYEE EMPOWERMENT

o EMPLOYEE BRIEFINGS. Hold briefings on NPR and seek employee input on ways to improve services and operations and to cut costs.

STATUS: In December, 1993, and January, 1994, briefings were held in Washington, DC, Chicago, New York, Kansas City and Los Angeles for all employees. Following these briefings, which covered both the budget and NPR, over 160 suggestions for improvement were received. As a result of the suggestions, six groups have been formed:

o Flexitime/Flexiplace. The group is evaluating flexitime and flexiplace options for the Commission.

o Transit Subsidies. The group is reviewing how the Commission might offer transit subsidies.

o Information Sharing. This group is evaluating both technical (e.g., Electronic Bulletin Board) and non-technical ways that the Commission can more effectively share information with employees, between divisions and between regions.

o Internal Procedures. This group is coordinating the efforts of each division to review and reduce their internal operating procedures.

o Job Rotation. The purpose of this group is to evaluate whether the Commission would benefit from a job rotation program, either within or between divisions, or to private industry.

o Support Staff Group. A group has been formed to identify and resolve issues of concern to support staff in a work environment which has been drastically changed by technology.

o INCENTIVES PROGRAM. Establish incentives and awards for employee NPR suggestions which are actually implemented and result in cost savings.

STATUS: One monetary award has been given for an NPR suggestion.

26.0	Supplies and materials	23	15	20
31.0	Equipment	11	10	20
	Total obligations	1,670	1,682	1,800

Personnel Summary

Identification code 95–2000–0–1–505		1994 actual	1995 est.	1996 est.
1001	Total compensable workyears: Full-time equivalent employment	18	18	18

COMMODITY FUTURES TRADING COMMISSION

Federal Funds

General and special funds:

COMMODITY FUTURES TRADING COMMISSION

For necessary expenses to carry out the provisions of the Commodity Exchange Act, as amended (7 U.S.C. 1 et seq.), including the purchase and hire of passenger motor vehicles; the rental of space (to include multiple year leases) in the District of Columbia and elsewhere; and not to exceed $25,000 for employment under 5 U.S.C. 3109; [$49,144,000] *$59,711,000*, including not to exceed $1,000 for official reception and representation expenses: *Provided*, That the Commission is authorized to charge reasonable fees to attendees of Commission sponsored educational events and symposia to cover the Commission's costs of providing those events and symposia, and notwithstanding 31 U.S.C. 3302, said fees shall be credited to this account, to be available without further appropriation. *If, prior to enactment of this Act, legislation amending the Commodity Exchange Act to establish a fee system beginning in fiscal year 1996 for the purpose of funding the Commission is enacted, $59,711,000 from fees and annual charges received in fiscal year 1996 shall be credited to this appropriation as offsetting collections and be available until expended* [illegible] *necessary expenses under this head: Provided further, That the* [illegible] *herein appropriated from the General Fund shall be reduced* [illegible] *such fees are deposited to this appropriation so as to result in a final total fiscal year 1996 appropriation from the General Fund estimated at not more than $0.* (*Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1995.*)

Program and Financing (in thousands of dollars)

Identification code 95–1400–0–1–376		1994 actual	1995 est.	1996 est.
	Program by activities:			
	Direct program:			
00.01	Market surveillance, analysis, and research	11,161	11,026	12,313
00.02	Enforcement	18,139	19,220	24,410
00.03	Contract markets and registered futures associations, regulatory development and registration and audit and review	15,495	16,187	19,658
00.04	Proceedings	2,661	2,711	3,330
00.91	Total direct program	47,456	49,144	59,711
01.01	Reimbursable program	42	48	48
10.00	Total obligations	47,498	49,192	59,759
	Financing:			
25.00	Unobligated balance expiring	29		
39.00	Budget authority (gross)	47,527	49,192	59,759
	Budget authority:			
	Current:			
40.00	Appropriation	47,485	49,144	59,711
	Permanent:			
68.00	Spending authority from offsetting collections	42	48	48
	Relation of obligations to outlays:			
[illegible]00	Total obligations	47,498	49,192	59,759
	Obligated balance, start of year: Unpaid obligations: Treasury balance	6,207	6,534	6,740
	Obligated balance, end of year: Unpaid obligations: Treasury balance	-6,534	-6,740	-8,050
77.00	Adjustments in expired accounts	-332		
87.00	Outlays (gross)	46,839	48,986	58,449
	Adjustments to gross budget authority and outlays:			
88.00	Offsetting collections from: Federal sources	-42	-48	-48
89.00	Budget authority (net)	47,485	49,144	59,711
90.00	Outlays (net)	46,797	48,938	58,401

Summary of Budget Authority and Outlays

(in thousands of dollars)

	1994 actual	*1995 est.*	*1996 est.*
Enacted/requested:			
Budget Authority	47,485	49,144	59,711
Outlays	46,797	48,938	58,401
Legislative proposal, not subject to PAYGO:			
Budget Authority			-59,711
Outlays			-59,711
Total:			
Budget Authority	47,485	49,144	
Outlays	46,797	48,938	-1,310

The Commodity Futures Trading Commission (CFTC) administers the Commodity Exchange Act of 1936, as amended. The purpose of the CFTC is to further the economic utility of the futures markets by encouraging their efficiency, assuring their integrity, and protecting participants against abusive trade practices, fraud, and deceit. The object of commodity futures trading regulation is to enable the markets to better serve their designated functions of providing a price discovery mechanism and a means of offsetting price risk. By properly serving these functions, the futures markets serve the public interest by contributing toward better planning, more efficient distribution and consumption, and more economical marketing. The commodity futures and options markets represent one of America's most innovative and competitive contributions to the international financial services industry.

Authorizing legislation will be proposed to establish a transaction fee on commodity futures and option contracts traded on futures exchanges to cover the cost of the Commission's regulatory activities. The collection and use of this fee, once authorized, will be contingent on appropriation action. For 1996, the fee would be set at 10 cents per round turn transaction and would generate offsetting governmental collections of approximately $59 million. The authorizing legislation would in future years give appropriators the ability to adjust the fee in order to match the Commission's appropriated level. The enactment of such fee legislation would allow the Commission, the nation's principal exchange-traded derivatives marketplace regulator, to overcome past budget restraints without harming the competitive position of U.S. futures exchanges.

Market surveillance, analysis and research.—Responsibilities under this program include daily surveillance of the market activity of large individual traders and fundamental economic market factors to insure orderly markets. Contract terms and conditions are reviewed to insure conformity with current cash marketing conditions and adequate deliverable supplies. This program also systematically investigates the functioning of markets and market users and develops better tools to assist in detecting and preventing price distortions.

	1994 actual	*1995 est.*	*1996 est.*
Trader and broker reports analyzed (thousands)	863	933	989
Weekly surveillance sheets analyzed	2,877	2,900	3,100
Economic review of futures contract rule changes completed	81	82	83
Economic review of new futures contracts completed	14	15	16
Economic review of option rule changes completed	12	13	14
New options contract reviews completed	14	15	16

Enforcement.—The enforcement program is responsible for detecting, investigating, and litigating violations of the Act or regulations. These violations may include actual and attempted market manipulations, cheating and defrauding cus-

General and special funds—Continued

COMMODITY FUTURES TRADING COMMISSION—Continued

tomers, and abusive trading practices such as fictitious trading, wash trading, and pre-arranged trading. This program may seek remedies through the administrative process or by injunctive actions in the Federal Courts.

	1994 actual	1995 est.	1996 est.
Investigations:			
Opened	54	58	80
Closed	57	56	60
Cases:			
Opened	44	43	53
Closed	67	48	50

Contract markets and registered futures associations, regulatory development and registration and audit and review program.—This program is designed to protect customer funds, prevent and detect financial, sales practice and trading abuses, and to assure the financial integrity and fitness of firms holding customer funds. In this connection, this program monitors compliance activities of the designated contract markets and the National Futures Association to assure such self-regulatory organizations are meeting statutory requirements, conducts audits and reviews of registrants to assess the quality of the self-regulatory organizations' compliance programs and to ensure compliance with statutory requirements, and reviews self-regulatory organizations' rules and rule changes. The program also develops regulations pursuant to statutory requirements and coordinates with other domestic and international regulators relative to cross border financial services affecting futures and options products.

	1994 actual	1995 est.	1996 est.
Oversight audits of futures commission merchants	37	20	30
Oversight audits of commodity pool operators	30	20	30
Contract market rule reviews	1,152	1,200	1,290
Contract market rule enforcement reviews completed	4	5	6
Trade practice investigations completed	90	95	110
Self-Regulatory Organization: Financial rule enforcement reviews	3	2	3

Proceedings.—The proceedings program provides a forum for resolution of customer complaints against persons or firms registered under the Commodity Exchange Act.

	1994 actual	1995 est.	1996 est.
Reparations:			
Received and docketed	191	250	300
Dismissed	23	30	40
Referred for hearing	174	175	200
Pending	33	78	138

Object Classification (in thousands of dollars)

Identification code 95–1400–0–1–376		1994 actual	1995 est.	1996 est.
	Direct obligations:			
	Personnel compensation:			
11.1	Full-time permanent	27,088	28,371	34,114
11.3	Other than full-time permanent	1,591	1,192	1,230
11.5	Other personnel compensation	871	867	990
11.8	Special personal services payments	29	37	41
11.9	Total personnel compensation	29,579	30,467	36,375
12.1	Civilian personnel benefits	5,924	6,265	7,660
13.0	Benefits for former personnel	32	58	60
21.0	Travel and transportation of persons	677	742	899
22.0	Transportation of things	23	39	40
23.2	Rental payments to others	5,652	6,742	8,716
23.3	Communications, utilities, and miscellaneous charges	1,664	1,889	2,004
24.0	Printing and reproduction	157	234	230
25.1	Advisory and assistance services	25	25	25
25.2	Other services	1,403	1,635	2,249
26.0	Supplies and materials	531	596	705
31.0	Equipment	1,789	452	748
99.0	Subtotal, direct obligations	47,456	49,144	59,711
99.0	Reimbursable obligations	42	48	48
99.9	Total obligations	47,498	49,192	59,759

Personnel Summary

Identification code 95–1400–0–1–376		1994 actual	1995 est.	1996 est.
	Total compensable workyears:			
1001	Full-time equivalent employment	543	545	627
1005	Full-time equivalent of overtime and holiday hours	2	2	2

COMMODITY FUTURES TRADING COMMISSION

(Legislative proposal, not subject to PAYGO)

Program and Financing (in thousands of dollars)

Identification code 95–1400–2–1–376		1994 actual	1995 est.	1996 est.
	Financing:			
39.00	Budget authority (gross)			
	Budget authority:			
	Current:			
40.00	Appropriation			−59,711
	Permanent:			
68.00	Spending authority from offsetting collections			59,711
	Relation of obligations to outlays:			
71.00	Total obligations			
87.00	Outlays (gross)			
	Adjustments to gross budget authority and outlays:			
88.40	Offsetting collections from: Non-Federal sources			−59,711
89.00	Budget authority (net)			−59,711
90.00	Outlays (net)			−59,711

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

Federal Funds

General and special funds:

OFFICE OF INSPECTOR GENERAL

For necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, as amended, $350,000.

Program and Financing (in thousands of dollars)

Identification code 95–0701–0–1–451		1994 actual	1995 est.	1996 est.
	Program by activities:			
10.00	Total obligations			350
	Financing:			
40.00	Budget authority (appropriation)			350
	Relation of obligations to outlays:			
71.00	Total obligations			350
74.40	Obligated balance, end of year: Unpaid obligations: Treasury balance			−35
90.00	Outlays			315

The Riegle Community Development and Regulatory Improvement Act of 1994 established the Community Development Financial Institutions Fund and provided for a Presidentially-appointed, Senate-confirmed Inspector General. Inspector General activities will include audits and investigations, and the prevention and detection of fraud, waste, and mismanagement.

Object Classification (in thousands of dollars)

Identification code 95–0701–0–1–451		1994 actual	1995 est.	1996 est.
11.1	Personnel compensation: Full-time permanent			245
12.1	Civilian personnel benefits			44
21.0	Travel and transportation of persons			20

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Divider Title: **H**

APPALACHIAN REGIONAL COMMISSION

DESCRIPTION: The Appalachian Regional Commission (ARC) was established in 1965 as a Federal partnership with 13 States in the Appalachian Region to provide for economic development of Appalachia.

FY 1996 BUDGET PROPOSAL: The proposed $183M budget provides $90M for highway construction that will be distributed to the Department of Transportation. The ARC will distribute about $43M to 9 other Federal agencies to fund numerous community-based projects for basic infrastructure and human development programs. The ARC's remaining $50M will cover other matching allocations with the States and administrative costs to support 11FTE and 50% of the State and Federal staff costs ($3.6M).

AGENCY PROPOSAL: The ARC defends continued existence of the ARC to ensure regional problems are addressed, and pointed to their development of a strategic plan scheduled for completion in July '95 as their reinvention effort. They also expressed interest in developing legislation to redefine ARC to include additional regions of the country and allow them to "graduate out" those ARC counties no longer requiring special attention.

DECISION OPTIONS:

A. No change; follow FY 1996 Budget recommendation.

B. In coordination with the Department of Transportation, ensure the highway development plan has specific,priority goals scheduled to end commission's involvement at the soonest practical date. (Ending 50% of program.)

C. Eliminate direct Federal involvement in the commission. Continue Federal support of States' regional, performance-based goals through existing appropriate agencies.

ADVISORY GROUP RECOMMENDATION:

C

Recommend that the Federal role in the ARC be eliminated allowing the affected counties and States to set regional goals with continued Federal support through existing agencies.

NPR's RATIONALE: The ARC has existed for 30 years without any stated targets or measures for successful completion. The need for a Federal control over basic needs of these communities is unnecessary and should be handled by the communities, counties, and States involved.

STEERING COMMITTEE DECISION

Develop legislation to allow graduation of counties using performance based measures and study rolling into performance based Rural Development Agency.
EK check with Carol Rasco on concept.

Appalachian Regional Commission (ARC) NPR Option Paper

I. Background Information

As part of our evaluation, it is crucial to recognize that ARC is a unique true Federal-State partnership, not a traditional Federal agency. With the exception of the Federal Co-Chairman's Office staff (11 FTE), ARC employees are not Federal employees, but are Commission staff whose salaries are jointly paid by the Federal government (50%) and the 13 member States (50%). ARC was established in 1965 to bring nearly 400 counties in 13 States in the Appalachian Region into the mainstream of the American economy. Appalachia in 1965 was characterized by acute economic stagnation due largely to its isolation.

The Federal Co-Chairman -- appointed by the President and confirmed by the Senate -- has one-half of the votes on the Commission; and the 13 Governors have the other half. The 13 Governors elect a States' Co-Chairman from their number. No policy can be set nor any money spent unless the Federal Co-Chairman and a majority of the Governors reach agreement. Thus, the ARC model represents neither dictation of policy from Washington nor the abdication of policy to the States. Rather, our statute requires collaboration between the Federal and State partners. ARC's authorizing legislation allows great flexibility in providing resources to comprehensively address economic development problems across the Region. This recognizes that successful strategies for long-term self-sustaining economic development must be multifaceted and integrated.

ARC's proposed investments for FY 96 include programs for highway construction, physical development (e.g., water, sewer, housing), business development (e.g. enterprise development, telecommunications, export promotion, business networking), human development (e.g., education and training, child care, community service, leadership and civic infrastructure), and Local Development Districts (LDDs) and technical assistance. The LDDs work with member governments and citizens to determine local needs and priorities. They provide competent support staff to member governments to plan, initiate, and implement projects at the grassroots level.

This wide range of programs allows Governors and local officials to tailor Federal assistance to their individual needs. ARC funds are designed to be supplemental, not duplicative, of other Federal funds. ARC funds are typically the "glue money" that pulls together private, local, State and other Federal funds, and provides technical assistance for small local communities. ARC works closely with numerous Federal agencies who administer our funds in combination with their funds, and State, local and private funds. All projects are proposed by the Governors under our partnership.

II. Agency Programs and Functions and Evaluation

Our major functions are to serve as a forum for small local communities to address economic development problems on a regional basis, and to provide a mechanism for

Federal, State and local participation in regional economic development. Our programs can be placed into two major categories: development highway and access road construction, and non-highway economic development programs.

We have evaluated our current programs and functions relative to our mission. Our mandate is straight-forward: to address economic underdevelopment which is deeply-rooted in region-wide patterns of isolation, exploitation, outmigration, and commerce. We are specifically charged with developing regional solutions to pervasive economic problems which reach across State lines. Our goal is to equip the people and communities of Appalachia with the entrepreneurial skills and enterprise development resources they need to create self-sustaining local economies. The ARC Governors have extreme flexibility in choosing strategies that best address their particular development needs.

We have found that the functions and programs listed above are all critical to ARC's mission. To put it simply, our regional approach to economic development works. The best evidence of the success of our functions and programs is the marked effect ARC has had on economic development in our region. Study after study has shown that ARC investments in highways and non-highway programs have produced economic development in much of our region. Industries and businesses have grown along the highways, and communities and businesses not on the highways have benefited by their economic linkages to the growing corridor industries and businesses. A 1987 survey showed that between 1980 and 1986, 560,000 jobs were created in Appalachian counties with a major highway compared with 134,000 jobs created in counties without a major highway. A recent study funded by the National Science Foundation and conducted by professors at West Virginia University found that the ARC counties grew 48 percent faster in personal income and earnings, 5 percent faster in population, and 17 percent faster in per capita income than statistically identified "twin" counties outside of the Appalachian Region. We would be pleased to supply NPR personnel with copies of these and other studies.

Although we have made remarkable progress, Central Appalachia remains severely distressed, where the poverty rate is 27 percent, rural per capita income is only two-thirds of the national average, and unemployment remains much higher than the national average. The Appalachian Region had been neglected for generations. It is extremely difficult to estimate when our job will be completed. The Development Highway System, which is 69% completed, and 75% underway, could be completed by 2005, assuming continued FHWA funding under the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), in addition to ARC funding. The highway system is critical to development of the remaining isolated parts of the Region.

Our program does provide special attention to severely distressed counties -- we target 20% of area development funds for these areas, in addition to providing an increased match (80%, rather than 50%) to encourage States to focus their allocation on these areas. The distressed counties account for 115 of our 399 counties in nine States. The four States with no distressed counties receive none of this targeted funding. Distressed counties must have (1) per capita income no greater than two-thirds (67%) of the U.S. average; (2) three-year unemployment at least 150% of the U.S. average; and, (3) a poverty rate which is at least 150% of the U.S. average; or (4) at least twice the national poverty rate plus one other above economic indicator. We also restrict funding to counties which are competitive to U.S. economic averages.

III. Evaluation of Program Termination or Shifting

This section addresses several basic questions concerning continuation of ARC functions and programs.

What would be the effect of ARC program termination? In the absence of ARC, we would expect much further decline in the distressed areas of Appalachia. These areas would become a larger drain on the national economy than they are already. This drain includes high transfer payments (welfare, food stamps, etc.), unemployment compensation, housing, education, lack of Federal tax revenues, depopulation, etc. The small communities which we place special efforts on would be particularly hard hit -- without a regional forum, their only voice would be through their state and local governments, which would likely not have the resources to address their problems. We also believe that the Clinton Administration's emphasis on human and business resource development and expansion of opportunities for all Americans would not support leaving these small poor communities to "fend for themselves."

Could the problems in Appalachia be solved by State efforts or providing block grants to the States? ARC is already a Federal-State partnership, with the States providing 50% of the costs for administrative expenses of the Commission. The major advantage of ARC is the ability to develop regional solutions to local communities' economic problems. It is far more efficient to have a regional structure to address economic development problems than to have each State address its problems individually. Our model requires the States to work together. Providing block grants to the States would result in the loss of this regional forum and local community voices. It would also not insure that Federal goals for economic development were met, or that resources were spent in the most distressed communities.

Is there a Federal role in developing the Appalachia region? We believe there is a Federal responsibility to see that all citizens benefit from the tremendous economic development that this country has had. Certainly, the Federal government would benefit from increased tax revenues and reduced transfer payments and depopulation if the Appalachian Region fully participated in the U.S. economy. Therefore, the Federal government and the Appalachian communities benefit from Federal involvement.

How do ARC customers feel about possible ARC elimination? We have received numerous letters of support from citizens in our communities who view ARC as their only hope to escape poverty. We are strongly-supported by numerous State and local planning agencies and local groups. Our customers recognize that there are continued efforts to eliminate ARC -- largely because we do not have a national constituency. However, the entire nation benefits when a depressed region can become economically self-sufficient. Our strategic planning initiative, as discussed below, describes how the public is involved in ARC's self-assessment.

Is there a way to restructure ARC so that its mission is accomplished better or at less cost? Our comprehensive strategic planning effort, which was initiated nearly a year comprehensively addresses ARC's mission. This effort is discussed in detail below.

IV. ARC Reinvention Efforts Underway

In addition to addressing current NPR study requirements, the Commission is currently conducting a comprehensive strategic planning process that was initiated in April 1994. The strategic plan, which should be completed by July, 1995, will chart ARC's future course and will define the full scope of managerial and front-line strategies needed to support excellence in ARC customer service. Our authorizing legislation foresaw the need for constant re-direction of ARC programs to keep pace with change. The Act also called for public participation in the realignment process and for the convening of regional forums to identify pressing needs and emerging issues. This management strategy, based on the principle of participatory democracy, is the same process that has emerged over the past decade in many public and private organizations. Major tasks in our strategic planning initiative include (1) a socioeconomic review of the region; (2) area development program and policy review; (3) consultations with experts, scholars, grantees, government officials and community groups to elicit information on internal operations, the effectiveness of the partnership, and policy direction; (4) field meetings/forums with the public; and (5) intergovernmental relations study. ARC would be pleased to involve NPR personnel in this process and would welcome any suggestions for additional tasks.

As part of our strategic planning initiative, ARC conducted a town meeting in Ironton, Ohio on January 24th. This location was chosen to allow maximum participation of citizens from the neighboring Ohio, Kentucky and West Virginia areas. This session provided citizens the opportunity to discuss the area's needs in education, health care, job development, and to help plan ARC's future programs. The session was attended by over 200 citizens and provided the Commission with valuable grassroots information. We are planning for two or three additional town meetings in other parts of our Region which will also allow multi-State participation. ARC will also be sponsoring seven or eight focus group meetings which will include private sector interests (banks, utilities, industries), local public sector leadership, labor leaders, health providers and clients, education community representatives, and community-based organizations.

Although our strategic planning exercise is not completed, we are already incorporating early findings into our processes. For example, the Commission's Policy Development Committee (which includes representatives from four States) is developing revised guidelines for project submissions, we are including benchmarking in our program development, and we have formed inter-disciplinary work teams to address the needs of the Commission and our customers. Our FY 97 OMB budget submission will reflect the results of our strategic planning efforts.

We feel strongly that our full partnership has significant advantages over the traditional Federal approach for providing assistance to local communities within a region which exhibit similar problems. Our process insures that State and local government interests are provided for since the projects are proposed by the Governors with the involvement of the Local Development Districts and the State and local government agencies. Our process also protects the Federal interest by requiring that projects meet certain criteria and that a portion of resources can be spent only in the most distressed areas. Our administrative costs as a percent of program costs are extremely low -- 1.62% in FY 1995. Counting the States' share, costs are only 2.25%. We are almost certain that other Federal agencies cannot match our low overhead costs.

We recommend that the ARC model be applied to other regions which exhibit severe structural economic distress, such as the Mississippi Delta and the U.S. border areas. We believe our model has distinct advantages over a traditional Federal agency for addressing regional economic problems. It maximizes State and local government participation. but does not leave all responsibility for decision-making to state and local governments. Our approach is also well-tested -- the history of providing block grants to States has not been one of uniform success. We have 30 years of experience in practicing the "new" federalism.

The Federal Co-Chairman's Office is interested in developing legislation which would redefine ARC to include other regions of the country which exhibit long-term economic problems similar to the Appalachian Region, while at the same time "graduating out" those counties of ARC which no longer require special attention. We expect that additional costs for addressing these other areas would be minimal compared to our FY 95 appropriation. Such a change would require Congressional action, since the Commission is prohibited by law from modifying its boundaries, or even proposing such legislation. The Federal Co-Chairman's Office would be pleased to discuss this proposal with NPR, OMB and other Administration officials.

The Economic Effects of the Appalachian Regional Commission: An Empirical Assessment of 27 Years of Regional Development Policy

by

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ABSTRACT: The Appalachian Regional Commission (ARC) was formed in 1965 to promote the region's economic development and "to develop comprehensive and coordinated plans and establish planning priorities for the region." For more than a quarter century, it has been a unique federal-state-local planning effort. Although it occupies a secure place in American regional planning history, its continued existence has been far less secure. From the beginning, its strategies and priorities were criticized widely on numerous, diverse grounds. Every year from 1981 through 1988, the Reagan administration attempted to close it. With the recent silver anniversary of the ARC came new books and articles that record its history and achievements. Missing in all this time, however, has been a careful empirical analysis of the extent to which the ARC has succeeded in stimulating the Appalachian economy. This paper presents such a study. Using new quasi-experimental control group methods developed by the authors, it measures the effects of ARC programs on the 397 counties within the region. The major finding is that Appalachia grew significantly faster than its control group in income, earnings, population, and per capita income. This result holds for all subregions, including Central Appalachia.

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The Economic Effects of the Appalachian Regional Commission: An Empirical Assessment of 27 Years of Regional Development Policy

INTRODUCTION

> Appalachia is a region apart – geographically and statistically. It is a mountain land boldly upthrust between the prosperous Eastern seaboard and the industrial Middle West – a highland region which sweeps diagonally across 10 states from northern Pennsylvania to northern Alabama. Its ridges and twisted spurs and valleys measure to 165,000 miles – an area 10 times the size of Switzerland.
>
> Appalachia has natural advantages which might normally have been the basis for a thriving industrial and commercial complex. Below its surface lie some of the Nation's richest mineral deposits including the seams which have provided almost two-thirds of the Nation's coal supply. ... More than three-fifths of the land is forested. Its mountains offer some of the most beautiful landscapes in eastern America, readily lending themselves to tourism and recreation.
>
> Yet this natural endowment has benefited too few of the 15.3 million people of Appalachia.
>
> (President's Appalachian Regional Commission 1964, p. xv-xviii)

With these words, the President's Appalachian Regional Commission (PARC) began its report to President Johnson. A year earlier President Kennedy had charged the Committee "to prepare a comprehensive action program for the economic development of the Appalachian region." Responding to the report, Congress passed the Appalachian Regional Development Act of 1965. Thus was born the Appalachian Regional Commission (ARC), a planning effort that now ranks with the Tennessee Valley Authority as one of America's only two sustained regional development programs.

Concluding that "regionwide development is feasible, desirable, and urgently needed," Congress passed the Act "to provide public works and economic development programs and the planning and coordination needed to assist in development of the Appalachian region." The political process defined the region. The Act names twelve states, although the President's Commission had recommended only ten. New York was added to the legislation "at the insistence of Senator Robert Kennedy" and South Carolina "as the result of local pressure on the state's congressional representatives" (Widner 1990, p. 293). In 1967 twenty counties in Mississippi joined. The boundaries did not change again until Congress added an Ohio county in 1990 and a Mississippi county the next year. Altogether official Appalachia now contains 399 counties in 13 states – all of West Virginia and parts of the other twelve. The region's 1991 population is 21 million, to which Pennsylvania contributes 6 million, Alabama 3 million, and Georgia, Tennessee, and West Virginia roughly 2 million each. The region's area exceeds California and West Virginia combined.

Official Appalachia is heterogeneous. Coal fields run down the center of the region, but the majority of counties are not coal producers. ARC first divided Appalachia into four subregions (ARC 1969) but later settled on three (ARC 1975). Northern Appalachia stretches from New York through most of West Virginia and is the most populated and urbanized portion. Central Appalachia includes portions of Kentucky, Tennessee, and West Virginia and is the smallest, poorest, and least populous. Southern Appalachia extends from Virginia to Mississippi. Each subregion was a textbook lagging area for different reasons. At the risk of simplifying, Northern Appalachia was an old rustbelt, heavy manufacturing area, Central Appalachia a mountainous, isolated coal area, and Southern Appalachia an exhausted agricultural area.

The official boundary shows some unevenness with respect to metropolitan areas. Appalachia has often been described as the backyard of several cities. The official boundary excludes Cleveland, Columbus, Cincinnati, Lexington, Nashville, Atlanta, and Charlotte but includes Pittsburgh, Scranton, Binghamton, Greenville (South Carolina), Knoxville, Birmingham, and Huntsville. The case of Roanoke, Virginia, illustrates again the political nature of the boundaries. Local political leaders objected to being characterized as Appalachian and fought successfully to be left out of the original Act; when Roanoke later petitioned to be added, the request was denied (Bradshaw 1992).

The political history of the ARC is told in numerous books and ARC documents (e.g., Bradshaw 1992; Hansen, Higgins, and Savoie 1990; ARC 1985; Derthick 1974; Newman 1972; Cumberland 1971; Rothblatt 1971; Hansen 1970). Bradshaw (1992) provides the most complete and up-to-date political analysis. A major part of that story is the continuing struggle for institutional survival. The initial Act terminated the ARC in 1971. The first real threat came with the election of President Nixon, who ultimately supported the ARC. President Reagan attempted to close the ARC each year of his presidency, but the ARC survived. It has done so because of its combination of federal, state, and local advocates. Some quotations illustrate the point:

> I assure the members of the subcommittee that I will devote my full energies to the continuation of the program, which has brought so many benefits to our state and our region. (Senator Jennings Randolph of West Virginia; quoted by Bradshaw 1992, p. 107)

> The nation owes the Commission and all of Appalachia a debt of gratitude for serving as a national laboratory to test an important innovation in federal, state, and local relationships which could prove to be a significant breakthrough in solving many of the problems we all encounter in making federal assistance programs more effective. (Harper 1970, p. 14; a Nixon advisor)

> The fact is that the ARC structure does a better job of new federalism than almost any structure I know about. There's a maximum of local decision-making, and the end result over 15 years has been effective use of scarce tax dollars. (Governor Lamar Alexander of Tennessee; quoted in ARC 1985, p. 103)

> I believe that the Appalachian Regional Development Program really works! To my mind, the only other federally funded program that rivals it in effectiveness and acceptance is the general revenue-sharing program. (Mayor Roy Trantham of Asheville; quoted in ARC 1985, p. 102)

> There is a sense of well-being in the area that has not been here before—it is not the same sense of desperation. (Tom Gish, editor of *Mountain Eagle*, Kentucky in ARC 1985, p. 103)

> It is a lot easier to get health professionals to settle in Knott County, now that, with the Mountain Parkway, Lexington is only three hours away. (Dr. Maureen Flannery; quoted in ARC 1985, p. 103)

> The level of federal appropriations to the regional program in recent years has barely been high enough to sustain a placebo, yet the localities call for its continuation because it gives them direct access to national and state forums in which problems can be addressed collectively. (Widner 1990, p. 312; former ARC executive director)

Many laud the ARC as a model for creative federalism. For instance, John Cumberland (1971, p. 102) concluded, "Among the greatest achievements of the Appalachia program are the innovations in federal-state-local planning for regional development." The ARC brings together federal stature and dollars, state governors, and local development districts. It supplies federal funds in coordination with state priorities, it helps to build local capacity, and it provides a forum for articulating state and local preferences on the national level. Bradshaw (1992), Hansen (1990), and Widner (1990) all argue that it can serve as a model for other programs.

This paper does not evaluate the ARC as a political innovation. Its main purpose is to determine statistically whether there is any evidence that the ARC programs have succeeded in spurring the economic development of the region. Has the ARC been meeting its Congressional mandate, or is it merely a political boondoggle as some critics charge? The paper has two main components. The first reviews the ARC development strategy and criticisms of that strategy. The second presents the method and empirical results of the evaluation study.

THE ARC ECONOMIC DEVELOPMENT STRATEGY

The Appalachian Regional Commission took a comprehensive approach toward regional development. The 1965 Act appropriated funds for highways, hospitals and treatment centers, land conservation and stabilization, mineland restoration, flood control and water resource management, vocational education facilities, and sewage treatment works. The basic strategy combined three notions, physical infrastructure, social programs, and regional coordination (or cement, people, and politics). First, citing the experience of underdeveloped countries, the PARC report argued that "investment in basic public facilities would have to be undertaken before economic development could occur (p. 26)." Second, noting that "the unmet needs of the people in Appalachia are primary – food, clothing, medical care, housing, basic education, skills, jobs, hope, dignity," it concluded that "programs must also be initiated which are focused more directly upon the people themselves (p. 48)." Third, it argued that "progress can only be realized through the coordinated effort of a regional development organization, working with State and local development units, with research and demonstration centers, and with multiple State and Federal agencies (p. 32)." Hence was born the unique approach to federalism that connected federal programs via state governors to local development districts.

Two aspects of the ARC strategy, the emphasis on highways and the use of growth center theory, proved particularly interesting to regional scientists.

Appalachian Highways

The issue of access was crucial. The PARC report is clear on that point:

> Developmental activity in Appalachia cannot proceed until the regional isolation has been overcome. Its cities and towns, its areas of natural wealth and its areas of

> recreation and industrial potential must be penetrated by a transportation network which provides access to and from the rest of the nation and within the region itself. ... The remoteness and isolation of the region, lying directly adjacent to the greatest concentrations of people and wealth in the country, is the very basis of the Appalachian lag. Its penetration by an adequate transportation network is the first requisite of its full participation in industrial America. (PARC 1964, 32)

The 1965 Act earmarked more than 85 percent of the appropriated funds for highways. It authorized an Appalachian Development Highway System of up to 2,350 miles to open "areas with a developmental potential where commerce and communication have been inhibited by lack of adequate access."

Highways remain a large part of the ARC agenda. The authorized mileage has increased to 3,025. ARC (1992) reported that 2,106 miles were completed and 111 miles were under construction and that in FY 1992 $173 million was spent on highways and $191 million on other ARC projects. Among the latter, the largest amounts were spent on community development, education, energy and enterprise development, research and technical assistance, and local development district planning and administration. The ARC continues to provide the dominant share of the highway funds (68 percent) and a smaller share of the others (29 percent). Cumulatively to 1992, counting state, local, ARC, and other federal funds, $14 billion had been spent, $8 billion for highways and $6 billion for other projects (ARC 1992).

ARC saw no dichotomy between infrastructure and social programs. It stated that "the primary goal of the regional development program is to provide every person in Appalachia with the health and skills he needs to compete for opportunities wherever he chooses to live (ARC 1968, p. 9)." Widner (1971, p. 19) has eloquently defended the highway investment as a crucial part of those health and education programs:

> If children cannot get to school for lack of decent transportation, if a pregnant mother cannot get to a hospital for lack of a decent road, if a breadwinner cannot get to a job because the job 30 miles away cannot be reached in a reasonable time, then is such an investment an investment in people or an investment in concrete?

In short, the highways have a dual role, both stated in the 1965 Act. They were to open areas with a developmental potential, and they were to improve local access to recreational, commercial, industrial, educational, and other facilities.

Growth Centers

The growth center strategy evolved in stages. First, the PARC report noted the linkage between urban centers and their hinterland. The Commission had debated "whether to concentrate its efforts on the hard core of Appalachian distress – the largely rural interior country of marginal farms, coal, and timber – or devote its attention to the entire region (p. xviii)." It concluded that:

> Economic growth has lagged throughout the region. Future growth in all of the Appalachian subregions must be interdependent. Prosperity in the urban centers cannot reach desired levels unless the hinterlands also prosper. Solutions must be devised to assist both. (p. xviii)

Second, the Act called for concentration of programs in certain areas:

> The public investments made in this region under this Act shall be concentrated in areas where there is a significant potential for future growth, and where the expected return on public dollars will be the greatest.

Third, the ARC made that requirement the basis for designating both growth centers in which investments would be made and "certain rural, isolated areas which would not qualify for investments (ARC 1985, p. 28)." The ARC process began with a consultant's report identifying potential growth centers (Litton Industries 1965) and culminated with the states identifying 125 growth centers (ARC 1968).

Early on ARC (1968, p. 12) defined the growth centers more in terms of central place theory and services to people than in terms of propulsive industries and integrated technologies:

> By a growth center or centers is meant a complex consisting of one or more communities or places which, taken together, provide or are likely to provide, a range of cultural, social, employment, trade, and service functions for itself and its associated rural hinterland. ... [It should] be readily identifiable as the logical location for many specialized services to people in the surrounding hinterland.

In the hinterland, investments would be primarily in health and education "where such services and facilities must be close to those they are designed to serve" so that "the labor force of the hinterland can be upgraded to more effectively participate in the growth opportunities occurring in the growth area of the district (p. 13)."

Several papers by Ralph Widner, executive director of ARC from 1965 to 1971, help in understanding the evolution and eventual demise of ARC's use of the growth center concept. Widner (1990) described its key early role:

> Joseph Califano, representing President Johnson's White House in negotiations over the legislation, took a dim view of what he thought might just amount to a federal handout program. To deflect that concern John L. Sweeney, PARC's executive director, seized upon the notion of growth centers from the literature of regional economics. He convinced Califano that the new program would not be a handout, but a rigorously managed initiative in which investments would be placed very carefully to achieve the greatest possible benefit. (p. 296)

Three years into the program, Widner (1968) reported that "by determining the probable employment and service centers of each of the 60 planning and development districts in Appalachia, it has been possible to place public facilities and services so that they will have the greatest impact on the area as a whole." Furthermore, over the first three years of the program "only 4.9 percent of the dollars for non-highway investments were located outside of areas of significant potential for future growth." Yet, three years later Widner (1971) failed to mention growth centers at all.

Clues to this deemphasis are found in Widner (1990). After repeating a PARC characterization of the Appalachian settlement pattern ("dense but narrow ribbons of bleak habitation wind along the valley roads and up the tributary hollows, threading among the wooded hills"), Widner pointed out that Central Appalachia has market towns and service centers of 5,000 to 7,000 people serving rural areas of 250,000 or more. This hinterland provided "sufficient critical mass to support urban-type services even though the towns in or near areas in which the services might be located hardly met the regional economists' traditional concept of a growth center." In time, he explained, "it was the logic of projects and services themselves that came to dictate appropriate locations rather than designations of areas with supposed potential for growth" and the "local and state plans became far less preoccupied with artificially mapping areas of growth (p. 296)."

The twentieth anniversary assessment by ARC (1985) candidly described what happened when growth center theory encountered the political process:

> The political pressure on elected officials at all levels from communities denied funds because they were not growth centers were formidable. ("I don't know exactly what a growth center is," said one politically astute public official, "but I know there is at least one in each congressional district.") There were some definitions of growth centers which disqualified major subregions in Appalachia – particularly Central Appalachia where the problems were most severe. Ultimately, however, negotiations among the different forces involved in the ARC process brought about pragmatic decisions balancing economic and political factors: while public facility investments would be limited to [growth] centers, health and other human services should be extended to people where they live. In addition there has been a combined attempt by ARC states to find development opportunities in even the more rural, isolated parts of the Region. As a result, ARC investments have never been concentrated as completely on growth opportunities as purists would have it. (p. 28)

Politics within the local development districts similarly led to a spread of funds among local jurisdictions. Local development staff characterized the growth center concept as irrelevant, inappropriate, and inapplicable (Bradshaw 1992, p. 82).

The advent of a distressed county program eroded any remaining emphasis on growth centers. In 1983 ARC received authorization to provide "special funds" to 60 of the most distressed counties. The program provides drinking water and waste disposal facilities plus human resource programs including literacy training (ARC 1992). ARC proved as unable to limit the counties in that program as it had been to focus on growth centers. By 1992 the number of participating counties had almost doubled, reaching 117.

CRITICISMS

From its beginning, the Appalachian Regional Commission attracted a diverse following of critics, including prominent regional scientists. As might be expected, the regional scientists focused on the highways, growth centers, and migration. Niles Hansen (1966) questioned the key assumptions of the 1965 Act that (1) the Appalachian economy could be transformed on the basis of its existing resource-based industries, (2) improved access would lead to the attraction of new industry in the absence of the external economies that the region could not provide, and (3) economic overhead capital (highways) should receive more emphasis and funding than social overhead capital (education and health programs). Later Hansen (1970, p. 76) argued that the bias toward public works reflected a political preference for investments that "cannot be moved to other regions as can investments embodied in human beings." John Friedmann (1966, p. 472) pointed out that "whenever the situation suggests that bringing people closer to their jobs is more efficient than a contrary strategy, migration should be actively encouraged." John Munro (1969) criticized the highway planning and route selection process, arguing that economic considerations had been sacrificed to political ones. John Cumberland (1971, p. 93) argued that "most of the costly, interstate roads constructed in Appalachia will primarily benefit those areas outside Appalachia, which are provided more efficient and rapid systems for passing through Appalachia without necessarily remaining to spend money in the region" and questioned "whether the major portion of a regional development program should be devoted to roads." On the other hand, Howard Gauthier (1973, p. 106), noting construction delays and the deferral of several sections of the system, expressed concern that "rather than constructing a regional highway network, the commission is obtaining an end product that is a patchwork of isolated highway segments which provide no basis for coordinated development." The apparent emphasis on improving local accessibility and easing local traffic congestion, he argued, contradicts the original objective of highways as "instruments for regional economic and social development." Raising other issues, William Miernyk (1967, p. 42) contended that the ARC programs would be inadequate "unless or until political and social inertia in the region are overcome," and Robert Britt (1971) noted that "the program contains little which gets to the basic problems of one of the region's important resources – coal."

A remarkable document, Hansen (1969), best shows the relationship between regional science thought and early ARC programs. It is a mimeographed report with a 100-page assessment of the ARC programs by Hansen and 48 pages of commentaries on that assessment by John Cumberland, Hugh Knox, William Miernyk, John Munro, Monroe Newman, Michael Piore, Donald Rothblatt, Robert Saunders, Ralph Widner, and others. The report even includes a letter by Widner to the editors of *Land Economics,* in which he sharply criticizes Munro (1969), and a response by Munro.

Other groups raised more fundamental issues than those in the regional science literature. A recent *Reader's Digest* article characterized the ARC programs as a pork-barrel giveaway whose $6.2 billion in expenditures "have not created significant, long-term employment (Van Atta 1993, p. 56)." It charged that the $26 million spent on the New River Gorge Bridge ("the world's longest arch steel-span bridge") has "not created any jobs for impoverished citizens of the coal counties further southwest," that poor counties have received the least ARC support, while wealthy counties continue to benefit (Huntsville receiving $1.5 million for its U.S. Space and Rocket Center tourist attraction and its airport), that the tourism projects include many "sure flops," and that vocational education provides training for jobs that do not exist in Appalachia and, thus, forces people to leave the region. The main thrust of the article is that "the longest gravy train in history" serves politicians more than the people of the region.

The Appalachian Studies literature, largely coming from within Appalachia, also argues that the programs have not benefited the Appalachian people. The Appalachian Studies response to the ARC focuses on the central role and history in the region of coal mining, external ownership, local politics, environmental degradation, and misguided, naive, self-interested, or malevolent outsiders. The PARC report touched on the subject of external ownership:

> Much of the wealth produced by coal and timber was seldom seen locally. It went downstream with the great hardwood logs; it rode out on rails with the coal cars; it was mailed between distant cities as royalty checks from nonresident operators to holding companies who had bought rights to the land for 50 cents or a dollar an acre. Even the

wages of miners returned to faraway stockholders via company houses and company stores.

Emphasizing external control of land, resources, and politics as the root of the Appalachian problem, "grassroots" groups concluded that the ARC diagnosis, programs, and organizational structure were all wide of the mark and ignored the source of the region's problems. A counter-proposal for a "People's ARC" illustrates the diagnosis. It called for immediate action:

> to tax all private coal and resource extraction and absentee-owned production profit, to assure that necessary services and economic security are available for all in the Appalachian heartland and that a decent living income maintenance is guaranteed for all. Total community control of the general environment (against strip mining, industrial air and water pollution), and worker control of the workplace environment (to prevent black lung, chemical toxic synergisms, nuclear radiation, and managerial speedups) must be guaranteed with strong regional standards and enforcement assistance. A keystone would be an enabling ARC framework for "Public Energy Utility Districts" that generate public revenues from local, publicly-owned (one person, one vote) economic energy development, based on natural resources – hydroelectric, mine-mouth, nuclear, and other forms – to be newly developed and recaptured. (Burlage (1972, p. 257)

A more prominent proposal was inspired by the successes of the early Tennessee Valley Authority and called for the formation of a Southern Mountain Authority (Caudill 1962).

Whisnant (1980, p. xxi) made probably the clearest statement of the Appalachian Studies critique of the ARC approach:

> The main Appalachian development agency since the mid-1960s has been ARC, a nearly unmitigated disaster in every respect. ARC is conventional, business-oriented, status quo, pork-barrel politics masquerading as creative federalism. Prohibited by its legislative charter from addressing the critical problem of natural resource development, ARC settled for a growth-center, trickle down, infrastructure approach. In practice this amounted to building roads and vocational schools to serve business and industry; hiring consultants to rationalize the importation of fugitive apparel plants; paying doctors to create themselves new hospitals; encouraging socially and culturally destructive, economically marginal tourist development; and cavalierly advising people in its administratively created hinterlands to move to town if they wanted jobs or services – or out of the region if they didn't like it.

The root confusion, Whisnant argued, lay in the PARC report's "mistaken assumption that Appalachia had problems because it was not integrated into the larger economy, when in fact its problems derived primarily (as early drafts acknowledged) from its integration into the national economy for a narrow set of purposes: the extraction of low-cost raw materials, power, and labor, and the provision of a profitable market for consumer goods and services (p. 129)." He questioned many of the ARC's premises in terms of their effect on the Appalachian people, arguing, for example, that the vocational education program "is a double disservice to the region's people: It locks them into the fickle job-demand system of the marginal industries and deprives them of the analytical skills needed to press for long-term reconstruction of the region (p. 158)."

Others argued along similar lines. John Gaventa (1980) approvingly quotes the *Courier*

Journal: the ARC has evaded "the whole question of economic colonialism – perhaps most serious since absentee ownership and control of Central Appalachia's one-industry coal economy is the tap root of the area's problems (p. 163)." More broadly, Gaventa concluded, there "has been a shift in concern from poverty, remedied through full participation of the poor, to development, achieved through planning by a professional elite." Furthermore, the planners worked with the local development district officials, whom ARC recognized as elected representatives of the people but whom their opponents saw as a business-dominated local elite that controlled the electoral process (Clavel 1983). Hence, Bingham (1983) argues that the ARC funds "were too limited to overcome the massive deficiencies of the region" and were "spent not really to alleviate the problem of poverty here, but rather for the benefit of the business concerns milking the region's human and physical resources."

THE CONTROL GROUP METHOD

Essays critical of the ARC's approach to economic development are far more common in the literature than attempts to measure the program's economic effects. The evaluation studies are of three types: interviews, on-site observation, and comparative statistics. Most of the evaluation studies have been undertaken by ARC itself and are found in its annual reports or its magazine *Appalachia*. The interviews with local officials and residents have produced sincere and enthusiastic testimonials to the success of the ARC programs, for instance, "There's no way anyone could look at these roads and think they did anything but improve the quality of life (ARC 1982, p. 17)." The on-site observations have ranged from driving trips that yielded conclusions such as "new homes have replaced the shacks and shanties that lined the road a quarter century ago (Widner 1990, p. 309)" to statistics collected by local development districts such as a study that revealed 801 new manufacturing plants located within 30 miles of the Appalachian highways (ARC 1982). Those plants, each with 50 or more employees, provided 182,600 jobs in 1981; the ARC concluded after estimating the number of jobs in smaller manufacturing plants plus the resultant multiplier effects that 430,000 new jobs had been created along or near the Appalachian corridors. The comparative statistics typically use one or more of the indicators found in the original PARC report and produce conclusions such as Appalachia has moved from 79.6 percent of U.S per capita income in 1969 to 83.0 percent in 1991.

The interviews, on-site observations, and comparative statistics, explicitly or implicitly, compare conditions before and after the ARC programs. For these studies to be valid as evaluations of the effects of the programs, there must be at least reasonable conviction that the changes would not have occurred without the programs. Take houses now, shacks before, as the example. That statement can stand as evidence that conditions have improved in Appalachia. Houses are better than shacks. Now to the key evaluation question, did the ARC programs lead to those changes? Similarly, did the ARC programs cause the 801 new plants to locate in the region? The problem with the before and after design is that processes other than the ARC programs were causing new houses and new factories to be built in Appalachia and throughout the nation. How many of those houses or factories would have been built without the ARC programs? The answer is not zero, so all the new houses and factories cannot be credited to the ARC programs.

A policy evaluation study must go one step beyond the comparison of before and after. That comparison provides data on the actual change. The necessary next step is to compare the actual change with the change that would have occurred without the ARC programs. The latter is the counter-factual, a hypothetical scenario that is a reasonable representation of what would have happened in Appalachia without the ARC.

The research presented in this paper is a marked departure from all previous efforts to assess Appalachian change. It constructs a counter-factual using a control group of counties outside Appalachia that are similar to the Appalachian counties. By matching the Appalachian counties to others with similar economic structures, growth patterns, and so on, the analysis controls for macroeconomic events, industrial restructuring, and other external factors in a way that a comparison to national indicators cannot do. The evaluation question becomes how did the Appalachia counties change compared to other lagging places that did not receive comparable federal attention?

This control group method rests on two major premises. The first is that there are counties outside Appalachia which are similar to the Appalachian counties. The second is that the growth and development of those counties can serve as the counter-factual for what would have happened in Appalachia had there been no ARC programs. Those premises at first glance might seem dubious. After all, ARC came into being and remains a singular organization arguably because Appalachia is unique within the United States. Yet, since most statistical evaluations of ARC simply compare Appalachian growth and development to national averages, the two premises can be restated in an uncontroversial fashion. A group of U.S. counties can be identified that is more like the Appalachian counties than is the U.S. as a whole and, consequently, that control group is a better yardstick for evaluating Appalachian development.

Selecting the Comparison Counties

Matching each county in Appalachia to its nearest twin outside Appalachia entails several steps and methodological decisions. First, the analyst must select the variables to measure similarity. Variables that reflect the programmatic concerns of the Appalachian redevelopment program, namely, spatial isolation, economic structure, poverty, and stagnation, are a reasonable choice for this research. The variables used here are listed in Table 1. In addition, to guarantee a degree of spatial independence (Isserman and Merrifield 1987; Isserman and Beaumont 1989) only counties whose population centroids are more than 60 miles from Appalachia are eligible to be matched. The matches are based on 1959 conditions and 1950-59 growth. Thus, similarity is measured several years before the beginning of the ARC programs. Second, the analyst must select a metric that combines the variables and identifies the nearest twin. The choice of metric is, in essence, the choice of the weight to assign each variable. The Mahalanobis metric used here has several desirable features. It creates a single summary index, it gives added weight to variables which have less variation in the data, and it measures similarity as a continuous variable. Third, the analyst must decide how to resolve matching conflicts. If a county is the nearest twin for two or more Appalachian counties, to which one should it be assigned? The procedure used here is called optimal matching (Rosenbaum 1989). It assigns matches so that the entire group of twins is as much like the entire group of Appalachian counties as possible. In other words, the sum of the Mahalanobis scores is minimized.

Figure 1 shows the location of the Appalachian counties and their twins. The latter virtually encircle Appalachia but range as far as Minnesota, Oklahoma, and eastern Texas. None

Table 1. Variables and metric used to match counties.

Spatial Structure
Population density, 1959
Distance from a city of 25,000, 1960
Distance from a city of 100,000, 1960
Distance from a city of 250,000, 1960
Presence of an interstate highway, 1987
Population within 60 miles, 1960
Population 60 to 500 miles, 1960
Residential adjustment (income %), 1959
Population size (logarithm), 1959

Economic Structure
Farming (income %), 1959
Manufacturing (income %), 1959
Retail trade (income %), 1959
Federal civilian (income %), 1959
Federal military (income %), 1959
State and local (income %), 1959
Other sectors (income %), 1959

Income
Per capita income, 1959
Dividends, interest, rent (income %), 1959
Transfer income (income %), 1959

Previous Growth
Population growth rate, 1950-59
Income growth rate, 1950-59

Spatial Independence Requirement
Matched county must be > 60 miles from Appalachia.

Mahalanobis Distance Metric

$$d(X_A, X_C) = (X_A - X_C)^T \Sigma^{-1} (X_A - X_C),$$

where **X** is the vector of selection variables,
A is the Appalachian county,
C is a possible control county,
d is the distance between the two vectors, and
Σ is the variance-covariance matrix of possible control counties.

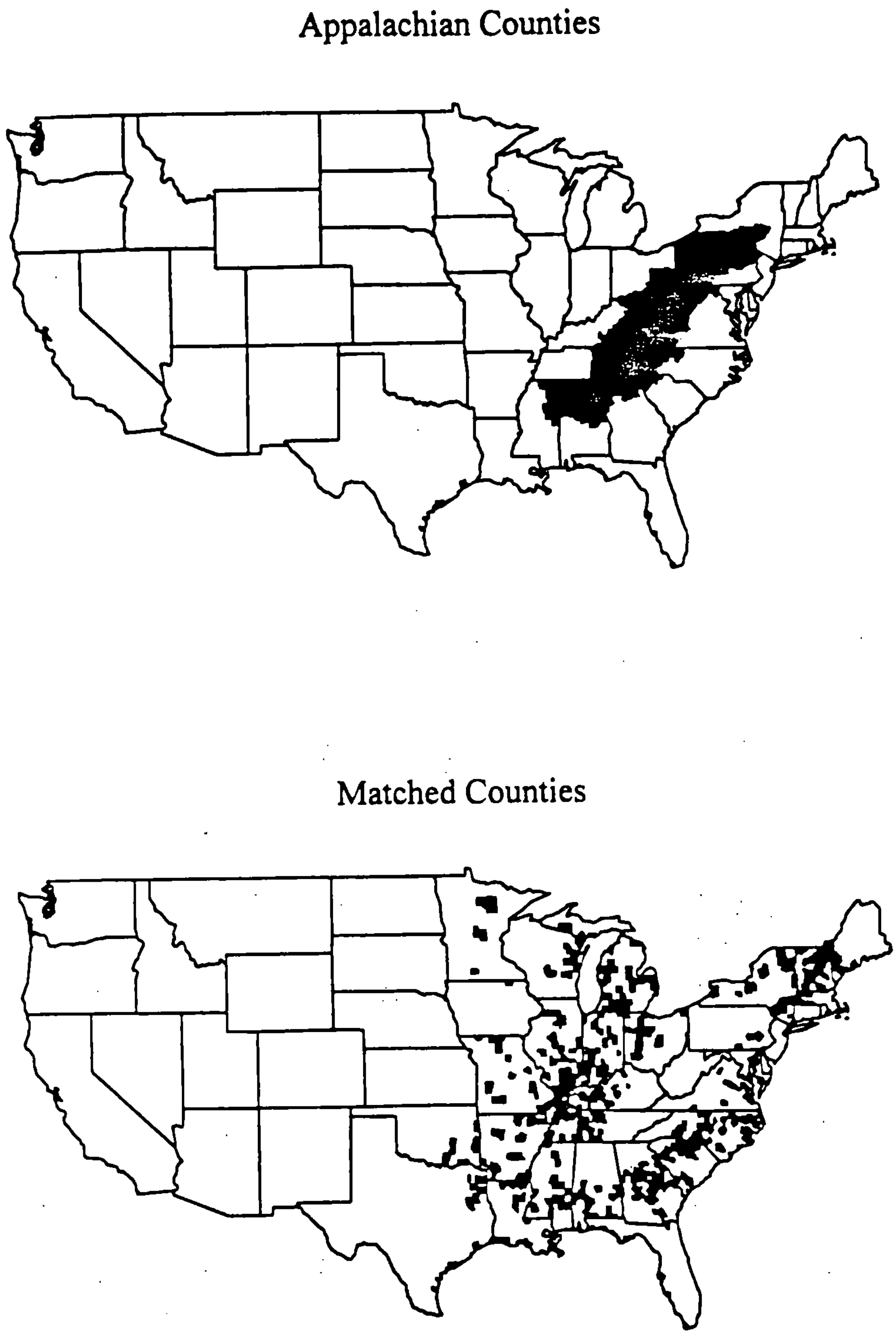


Figure 1. The Appalachian counties and their twins, 1959 matches.

are found in the West, probably because Appalachian and Western isolation are very different. Great distances separate places in the West, but Appalachian counties averaged only 68 miles from a city of 100,000 or more in 1960. Table 2 lists the twins of Appalachian counties in selected metropolitan areas likely to be known to readers. In a way, the table is a set of recipes. The twin in 1959 for the Greater Pittsburgh area consists of a combination of Buffalo, Gary, Reading, Boston, and St. Louis counties. Likewise, the Huntsville metropolitan area is a combination of Raleigh-Durham-Chapel Hill and Dayton. The entire list of 390 matches is available upon request from the authors. (Seven Appalachian counties were not matched because of suppressed data.)

Evaluating the Control Group

The information in Table 2 and Figure 1 suggests that the matched counties are a reasonable control group for the Appalachian counties, but a more rigorous statistical evaluation is possible. Recall that what happens to the control group is to be the counter-factual for what would have happened in Appalachia had there been no ARC programs. The ability of the control group to serve as that proxy can be tested directly. If the control group is to be a good proxy for the hypothetical Appalachian growth after 1965, it should also be a good proxy for Appalachian growth between 1959 and 1965. The control group was identified based on 1959 conditions and 1950-59 growth so that its potential as a control group could be tested over the period 1959-65. The basic concept of the selection test is shown in Figure 2.

The test consists of (1) calculating growth rates from 1959 to 1962 and 1965 for each Appalachian county and its twin, (2) subtracting the twin's growth rate from the Appalachian county's rate, and (3) testing the hypothesis that the mean difference of those rates for all pairs of counties is equal to zero. Ideally, there should be no statistically significant difference between the growth rates of the Appalachian counties and their twins in the period before the ARC programs began. Table 3 reports the results of this test. (The necessary data are not available for 1963 or 1964, or additional tests could be made.) For many variables the Appalachian counties grew significantly slower than their twins, indicating the presence of selection bias. That bias is a likely outcome in a situation such as this one in which the public program came into being precisely because Appalachia persistently lagged behind the rest of the nation. The presence of selection bias is not fatal here. The situation is Case 3 in Figure 2. It simply means that the counter-factual will overstate what would have happened in Appalachia without the ARC, and, consequently, will understate the effects of its programs.

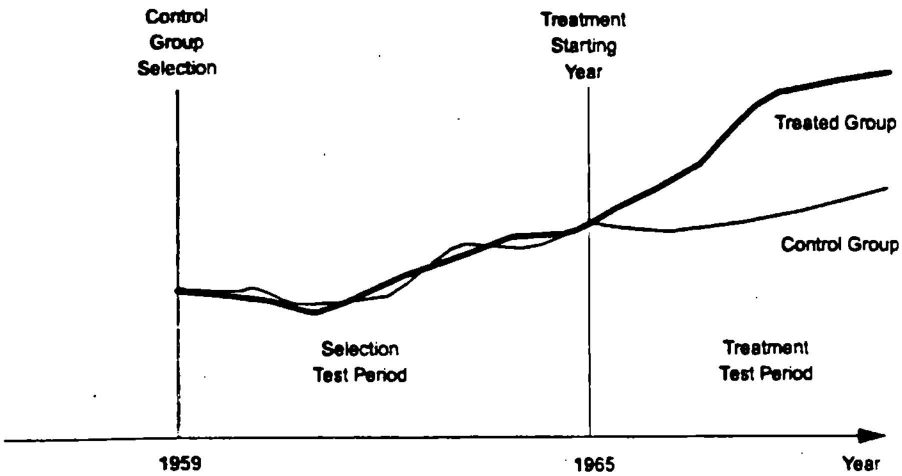
Measuring the Program Effects

Its twin's growth rates establish the counter-factual for each Appalachian county. If its twin grew 10 percent in population between 1965 and 1991, the Appalachian county presumably also would have grown 10 percent. Thus, the key assumption is that the Appalachian county would have grown in the same way as its twin in the absence of the ARC programs. For an individual county, this assumption is heroic and highly questionable because of the large random or unpredictable component of growth. That is why conventional control group research, and this study, are based on the comparisons of groups of treated subjects with groups of untreated subjects. The mean difference between the Appalachian and twin growth rates for all the Appalachian counties is the primary measure of program effects. The statistical test is the same

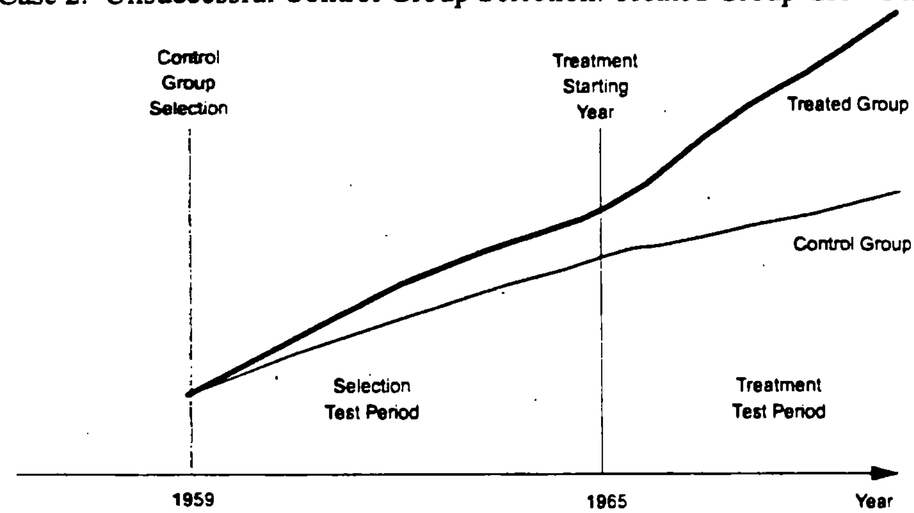
Table 2. Selected Appalachian metropolitan counties and their matches, 1959.

	Match	MSA of Match
BINGHAMTON MSA		
Broome NY	Kalamazoo MI	Kalamazoo-Battle Creek
Tioga NY	St. Joseph MI	Monmetropolitan
BIRMINGHAM MSA		
Blount AL	DeSoto MS	Memphis
Jefferson AL	Shelby TN	Memphis
St. Clair AL	Franklin MS	Nonmetropolitan
Shelby AL	Bleckley GA	Nonmetropolitan
CHATTANOOGA MSA		
Catoosa GA	Warren OH	Cincinnati
Dade GA	Brown IN	Nonmetropolitan
Hamilton TN	Vanderburgh IN	Evansville
Walker GA	Cass MI	Nonmetropolitan
HUNTINGTON MSA		
Boyd KY	Douglass IL	Nonmetropolitan
Cabell WV	Greene MO	Springfield
Greenup KY	Le Flore OK	Nonmetropolitan
Lawrence OH	Menominee MI	Nonmetropolitan
Wayne WV	Hamilton IN	Indianopolis
HUNTSVILLE MSA		
Limestone AL	Johnston NC	Raleigh-Durham-Chapel Hill
Madison AL	Greene OH	Dayton
KNOXVILLE MSA		
Anderson TN	Tazewell IL	Peoria
Blount TN	Rockingham NC	Nonmetropolitan
Knox TN	Davidson TN	Nashville
Loudon TN	Peach GA	Macon
Sevier TN	Dickson TN	Nashville
Union TN	Caswell NC	Nonmetropolitan
PITTSBURGH MSA		
Allegheny PA	Erie NY	Buffalo
Beaver PA	Lake ID	Gary
Butler PA	Hillsborough NH	Boston
Fayette PA	Franklin NY	Nonmetropolitan
Washington PA	St. Clair IL	St. Louis
Westmoreland PA	Berks PA	Reading
WHEELING MSA		
Belmont OH	St. Clair MI	Detroit
Ohio WV	Windham VT	Nonmetropolitan
Marshall WV	Fayette IN	Nonmetropolitan

Case 1: Successful Control Group Selection: No Difference in Growth during Test Period.



Case 2. Unsuccessful Control Group Selection: Treated Group Grew Faster during Test Period.



Case 3. Successful Control Group but Selection Bias: Treated Grew Slower during Test Period.

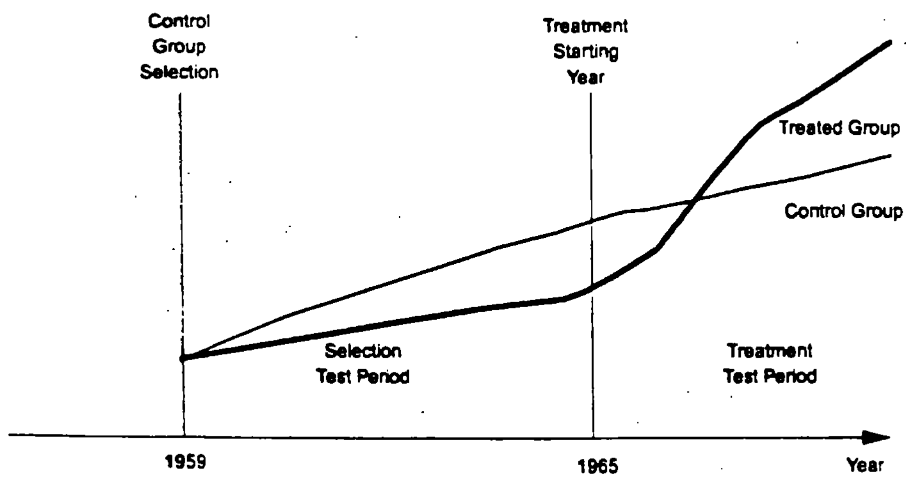


Figure 2. Schematic overview of control group selection test.

Table 3. Mean growth rate differentials (percent of 1959 levels).

	From 1959 to: 1962	1965
TOTAL PERSONAL INCOME	**-1.9**	**-3.5**
POPULATION	**-1.0**	-0.1
PER CAPITA PERSONAL INCOME	**-0.8**	**-3.4**
EARNINGS BY PLACE OF WORK	**-2.8**	**-4.4**
RESIDENCE ADJUSTMENT	0.1	0.5
DIVIDENDS, INTEREST, RENT	0.8	**-6.3**
TRANSFER PAYMENTS	**0.9**	0.3
FARMING	**-18.5**	**-29.2**
AG. SERV., FORESTRY, FISHERIES	0.9	12.2
MINING	**-5.4**	-10.7
CONSTRUCTION	**-1.4**	**-3.1**
MANUFACTURING	0.5	-1.6
TRANSPORTATION, UTILITIES	1.1	4.8
WHOLESALE TRADE	**-1.8**	**-4.6**
RETAIL TRADE	**-1.5**	**-2.4**
FINANCE, INSURANCE, REAL EST.	**-1.5**	-0.9
SERVICES	**-2.1**	2.9
FEDERAL CIVILIAN GOVERNMENT	-3.2	-2.7
FEDERAL MILITARY	-3.8	-7.2
STATE AND LOCAL GOVERNMENT	0.4	**3.5**

BOLDFACE indicates significant at the 10 percent level.

as that used to evaluate the control group. If the mean growth rate differences are positive and statistically significant, the analysis provides evidence that the treatment, the ARC programs, has been successful.

In short, the primary statistical question is whether the Appalachian counties grew faster than their twins. If so, the inference is that the ARC programs helped them to do so. The evidence in control group studies is not perfect. A leap of faith is always necessary. Higher incidence of lung cancer among smokers does not prove cigarettes are the cause, but it a reasonable inference. Likewise, if the Appalachian counties start to grow faster than the twins they once lagged, a reasonable inference is that the ARC programs are responsible.

RESULTS

This section presents three empirical analyses. The first compares the Appalachian and control county growth rates. The main finding is that the Appalachian counties grew significantly faster than their twins. The second examines the spatial pattern of those growth rate differences. The conclusion is that the overall result does not stem from southern growth or some other geographical pattern and that all parts of Appalachia generally grew faster than their twins. The third examines the variance in the growth rate differences. The main finding is that the growth rate differentials do not vary importantly with metropolitan status, growth center designation, Appalachian highway presence, distressed county status, subregion, coal county, and other variables. Thus, the observed Appalachian growth effect is not the result of only certain kinds of counties having large growth differentials.

Appalachian Counties Grew Faster

This analysis covers the period 1965-1991. The underlying data are from the Regional Economic Information System of the Bureau of Economic Analysis (BEA) and cover population and income on the division level. Two annual time series are used, one covering 1965-84 and one covering 1969-91. The two series differ sufficiently in their underlying procedures and definitions that the BEA recommends against combining them to create a series from 1965 through 1991. Accordingly, this research proceeded in two stages. The first entailed using the older data set to measure Appalachian effects over the 1965-69 period. Only the Finance, Insurance, and Real Estate sector showed any significant, positive effect. The second stage entailed using the newer data set to measure effects over the 1969-91 period. In essence, 1969 became the base year instead of 1965 to be able to continue the analysis through 1991. Since the first stage showed negligible effects through 1969 in all but one sector, this adjustment causes no problems. Had there been positive growth effects prior to 1969, use of 1969 as the base year would have biased the Appalachian effects downward.

This analysis covered 22 years and 20 variables. For each year after 1969, the growth rate from 1969 to that year was calculated for each Appalachian county and its twin. Table 4 shows the mean growth rate difference for each variable for each year. The differences that are significantly different from zero at the 90% confidence level are shown in boldface. The Appalachian counties grew faster than their twins in all 20 variables. Total personal income and earnings grew 48 percent faster on average in the Appalachian counties than in their twins between 1969 and 1991. Population grew 5 percent faster, and per capita income 17 percent faster. Figure 3 shows the differences over time for selected variables with significant

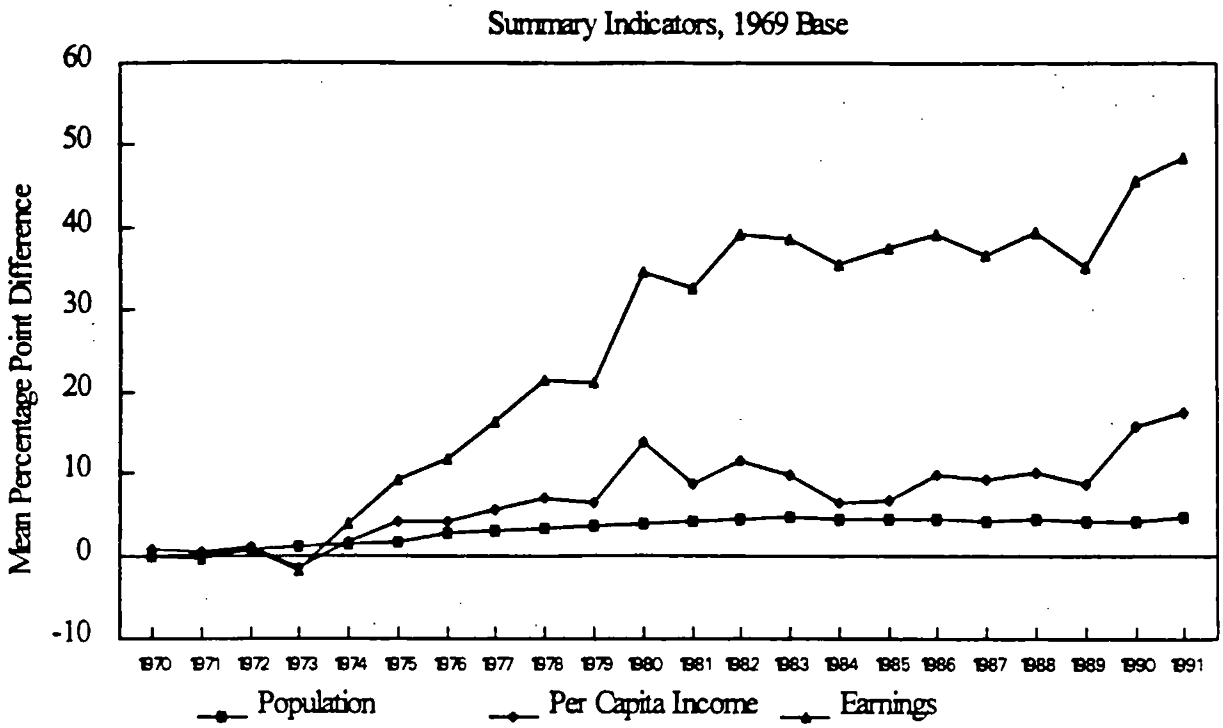
Table 4. Mean growth rate differentials (percent of 1969 levels).

	From 1969 to: 1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
TOTAL PERSONAL INCOME	**0.9**	**1.0**	**2.2**	0.4	**4.3**	**8.1**	**10.3**	**13.6**	**16.7**	**18.0**	**28.1**
POPULATION	-0.1	0.4	**0.8**	**1.2**	**1.4**	**1.8**	**2.7**	**3.2**	**3.3**	**3.6**	**4.0**
PER CAPITA PERSONAL INCOME	0.9	0.5	1.1	-1.5	1.7	**4.2**	**4.2**	**5.5**	**7.0**	**6.5**	**13.8**
EARNINGS BY PLACE OF WORK	0.0	-0.2	0.9	-1.8	4.0	**9.3**	**11.8**	**16.3**	**21.5**	**21.1**	**34.7**
RESIDENCE ADJUSTMENT	**1.1**	1.2	0.9	0.8	0.5	-0.2	-0.1	-1.0	-1.7	-1.8	**-4.9**
DIVIDENDS, INTEREST, RENT	**2.2**	**3.6**	**5.0**	**9.0**	**13.5**	**16.2**	**18.0**	**19.2**	**23.7**	**28.4**	**41.2**
TRANSFER PAYMENTS	**2.2**	**3.6**	**5.5**	**7.2**	**6.6**	**8.1**	**11.3**	**12.6**	**13.7**	**21.3**	**19.6**
FARMING	**-6.6**	**-20.4**	**-14.8**	**-54.9**	**-50.7**	**-46.1**	**-23.8**	**-35.9**	**-26.3**	**-41.4**	**31.8**
AG. SERV., FORESTRY, FISHERIES	-0.8	0.2	-2.0	-1.4	-9.3	-9.7	-6.3	-3.6	-4.1	-8.1	-7.3
MINING	**14.2**	**32.0**	**26.3**	**36.9**	**88.6**	**166.2**	**163.5**	**227.2**	**287.1**	**274.1**	322.3
CONSTRUCTION	-0.2	**15.4**	**23.2**	**34.5**	25.6	14.2	-4.8	12.1	27.0	6.4	-77.1
MANUFACTURING	-2.1	-1.6	-2.4	3.2	2.3	7.6	10.1	12.6	14.0	17.2	27.5
TRANSPORTATION, UTILITIES	0.1	8.1	13.6	20.8	20.8	**20.6**	**21.6**	**25.5**	**33.8**	**34.8**	**30.7**
WHOLESALE TRADE	2.7	4.0	2.6	3.2	-0.1	-12.9	-19.5	-24.5	-35.0	-36.7	-53.1
RETAIL TRADE	0.2	**1.9**	**3.6**	**5.3**	**4.4**	**7.7**	**10.6**	**11.1**	**15.1**	**17.8**	**19.9**
FINANCE, INSURANCE, REAL EST.	-0.2	**3.8**	**5.0**	**11.0**	**14.5**	**20.6**	**27.8**	**31.3**	**40.0**	**44.5**	**48.1**
SERVICES	0.2	0.3	1.9	**3.7**	**4.2**	**8.9**	**11.4**	**12.2**	**17.0**	**23.0**	**26.8**
FEDERAL CIVILIAN GOVERNMENT	-0.7	-1.0	2.6	6.0	7.5	10.8	-10.3	-91.0	-141.6	-162.4	-162.9
FEDERAL MILITARY	1.3	-0.5	**3.7**	2.9	-1.0	0.4	0.6	1.0	1.2	0.4	2.3
STATE AND LOCAL GOVERNMENT	**-0.8**	**-2.4**	**-2.6**	-1.5	-1.2	-0.3	2.0	4.8	**7.5**	**8.6**	9.2

	From 1969 to: 1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
TOTAL PERSONAL INCOME	**24.7**	**28.9**	**28.6**	**26.6**	**27.7**	**31.9**	**32.1**	**35.0**	**34.1**	**43.0**	**48.0**
POPULATION	**4.4**	**4.5**	**4.8**	**4.6**	**4.5**	**4.4**	**4.4**	**4.4**	**4.3**	**4.3**	**4.7**
PER CAPITA PERSONAL INCOME	**8.7**	**11.5**	**9.8**	**6.4**	**6.8**	**10.0**	**9.4**	**10.3**	**8.7**	**15.8**	**17.4**
EARNINGS BY PLACE OF WORK	**32.8**	**39.2**	**38.5**	**35.5**	**37.4**	**39.1**	**36.7**	**39.4**	**35.1**	**45.6**	**48.3**
RESIDENCE ADJUSTMENT	**-5.0**	**-5.7**	**-7.5**	**-4.9**	**-5.6**	**-4.4**	**-4.4**	**-4.8**	-3.6	**-4.3**	**-5.0**
DIVIDENDS, INTEREST, RENT	**54.9**	**76.8**	**81.4**	**100.3**	**113.5**	**134.9**	**141.4**	**162.8**	**183.8**	**208.5**	**218.1**
TRANSFER PAYMENTS	**21.5**	**25.0**	**32.7**	**33.7**	**35.2**	**40.3**	**41.3**	**43.2**	**44.2**	**51.2**	**60.5**
FARMING	-21.0	1.3	**48.6**	19.3	-5.2	26.1	7.3	8.3	**-44.7**	8.1	11.1
AG. SERV., FORESTRY, FISHERIES	13.1	32.4	**54.3**	59.4	61.8	28.7	5.1	26.9	40.8	61.9	81.3
MINING	325.2	350.0	218.1	219.5	234.4	313.1	156.8	112.2	121.8	236.6	115.1
CONSTRUCTION	-103.3	-114.2	-153.9	-168.7	-116.2	-20.4	4.9	20.0	13.9	39.3	37.7
MANUFACTURING	25.4	17.9	19.0	19.1	32.2	35.6	58.3	**79.3**	**84.3**	**89.1**	87.3
TRANSPORTATION, UTILITIES	22.1	**29.6**	26.6	18.4	18.7	29.7	22.6	19.4	15.2	11.1	14.1
WHOLESALE TRADE	-57.9	-60.5	-54.1	-40.0	-50.5	-23.1	-2.8	36.9	62.3	119.2	126.0
RETAIL TRADE	**22.2**	**25.0**	**27.7**	**35.5**	**39.5**	**47.4**	**48.3**	**56.3**	**63.5**	**65.2**	**67.2**
FINANCE, INSURANCE, REAL EST.	**48.3**	**51.4**	**56.7**	**70.6**	**72.3**	**84.7**	**110.4**	**117.0**	**125.6**	**137.3**	**135.2**
SERVICES	**34.1**	**40.4**	**44.7**	**58.2**	**66.4**	**75.4**	**87.2**	**96.2**	**108.5**	**117.9**	**137.7**
FEDERAL CIVILIAN GOVERNMENT	-153.5	-31.9	13.5	13.6	17.2	11.6	14.6	14.7	7.1	18.8	19.8
FEDERAL MILITARY	5.0	9.0	**13.9**	**20.9**	**25.1**	**24.9**	20.2	17.8	23.1	**26.2**	**31.2**
STATE AND LOCAL GOVERNMENT	10.7	7.2	5.0	6.6	9.6	**8.3**	8.5	5.1	2.0	2.7	8.4

BOLDFACE indicates significant at the 10 percent level.

Appalachian Counties Grew Faster than Their Twins



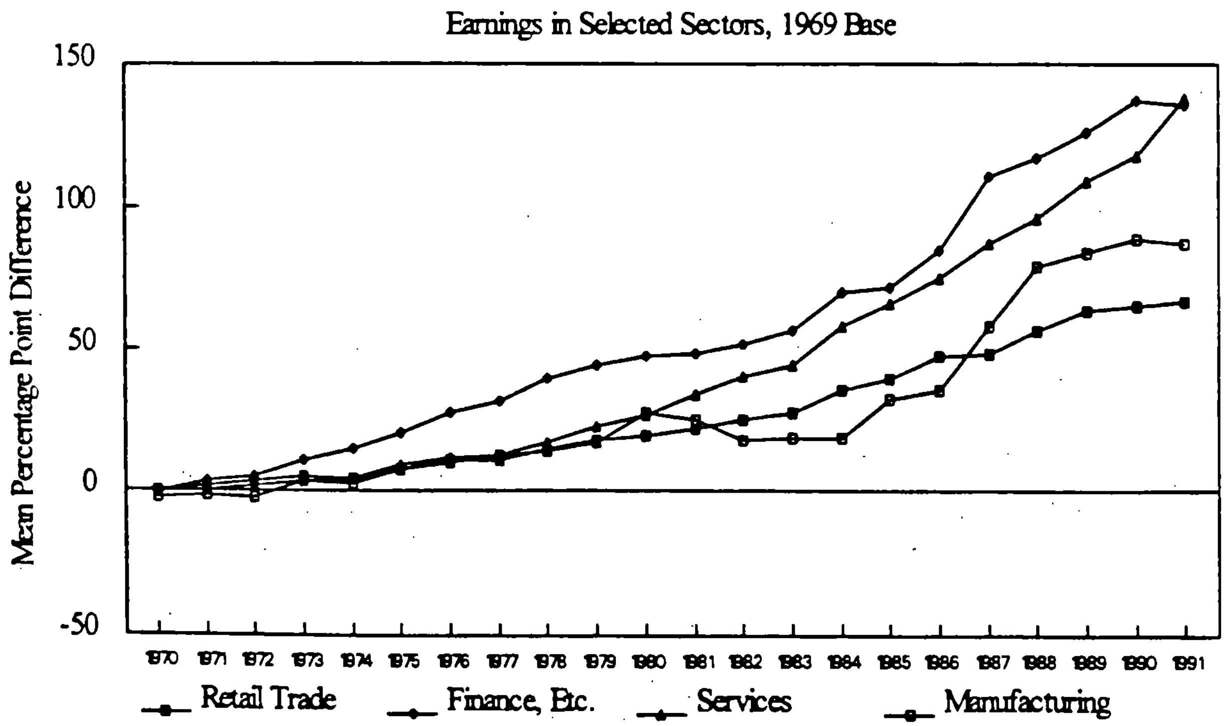


Figure 3. Selected mean growth rate differentials, 1969-91.

differences. Several sectors, including farming and mining, had positive growth rate differences that were not statistically significant.

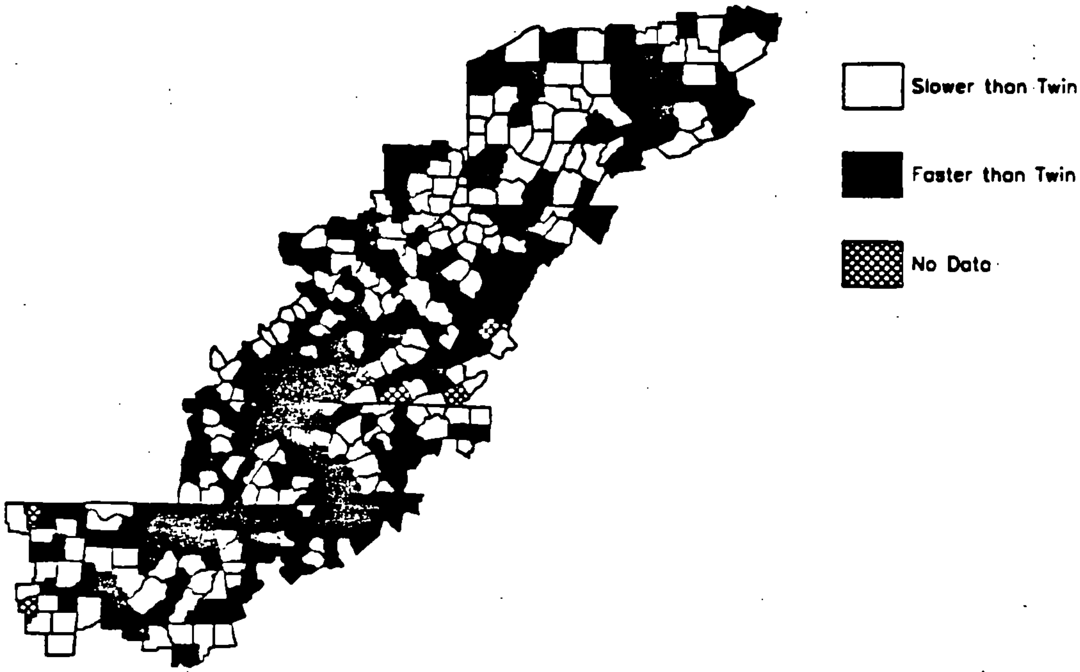
All Subregions Grew Faster

A reasonable hypothesis is that the cause of the results in Table 4 might be Southern Appalachia growth alone. Perhaps the Sun Belt-Snow Belt phenomenon playing itself out within Appalachia with sufficient strength that growth in Tennessee, North Carolina, South Carolina, Alabama, Mississippi, and Georgia caused the positive effects for all Appalachia. This result is unlikely if the control group method worked properly. Indeed, many of the twins are also in the Sun Belt and even in the states listed. A set of maps, however, makes it possible to examine the Southern hypothesis as well as explore other spatial aspects of the control group results. Figures 4, 5, and 6 show that counties with positive 1969-91 growth rate differentials are spread throughout Appalachia.

The regression equations reported in Table 5 explore this variation more systematically. The dependent variable in each equation is the 1969-91 growth rate differential. The independent variables include several variables used to select the twins (but updated to 1965) plus MAHAL, the Mahalanobis score for the county and its twin, METRO, the metropolitan status of the county in 1991 (=1 if the county is in a metropolitan area), and six dummy variables related to ARC programs. SOUTH and CENTRAL are the official subregions of the ARC, COALPRO indicates a coal producing county, APPROAD indicates a county with at least five miles of Appalachian highway, GROWTH indicates a county that was part of a growth center that received substantial funding early in the ARC program (Hansen 1969), and DISTRESS indicates one of the 117 distressed county program participants.

Few of the variables consistently showed significant association with the growth rate differentials. Southern Appalachian counties did not have higher growth rate differentials, nor did counties on the Appalachian highway system or the official growth centers. The coal producing counties, often considered the locus of the hard core Appalachian problem, had larger differentials for income, earnings, and per capita income, as did the Central Appalachian counties for manufacturing growth and the metropolitan counties for income, population, and services growth. Counties further from a large city and manufacturing counties had smaller differentials for several variables. The distressed counties identified in 1993 had smaller differentials only for per capita income, one of the defining variables of distress. The most consistent effect among the equations was for prior growth. Counties that had grown faster before 1969 tended to have larger differentials. In all, the variables explained less than 15 percent of the variation in the growth rate differentials. These results support the conclusion that the faster growth of the Appalachian counties was widespread and did not result primarily from metropolitan growth, Southern growth, highways, growth centers, or any other simple categorization of counties.

Earnings Growth, 1969-91



Per Capita Income Growth, 1969-91

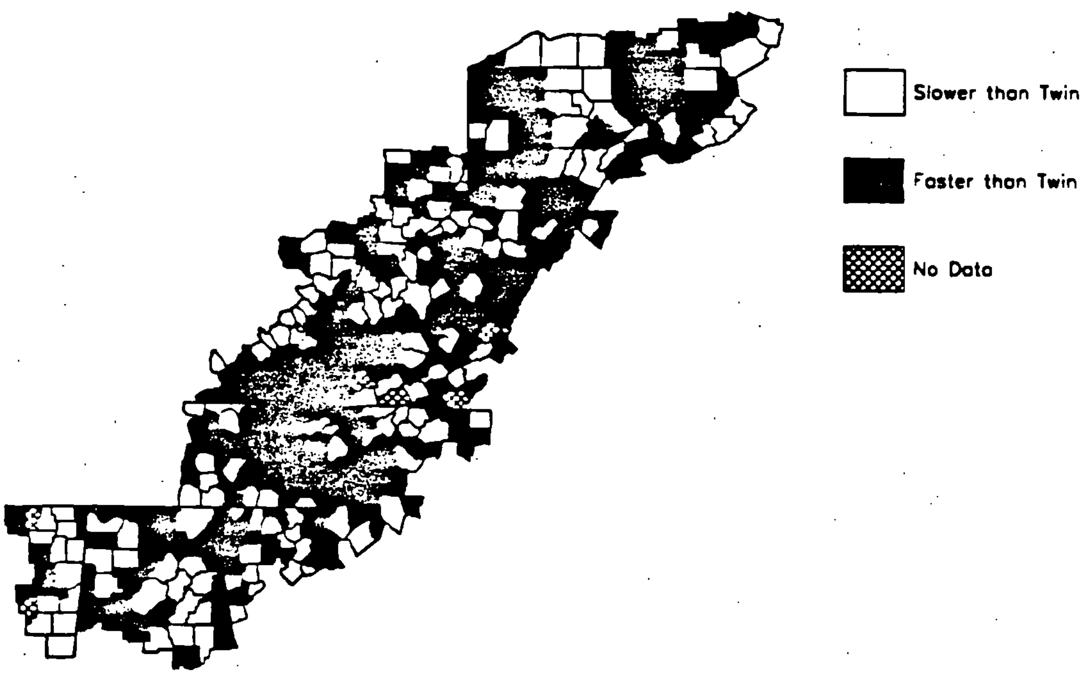
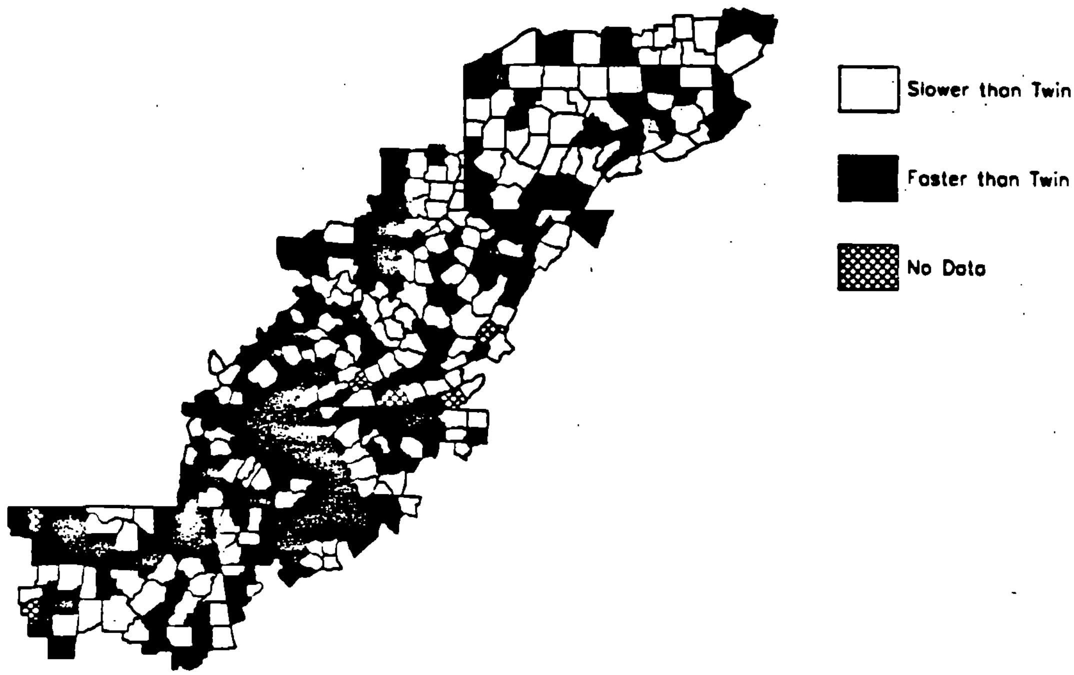


Figure 4. Growth rate differentials for earnings and per capita income growth.

Population Growth, 1969-91



Services Earnings Growth, 1969-91

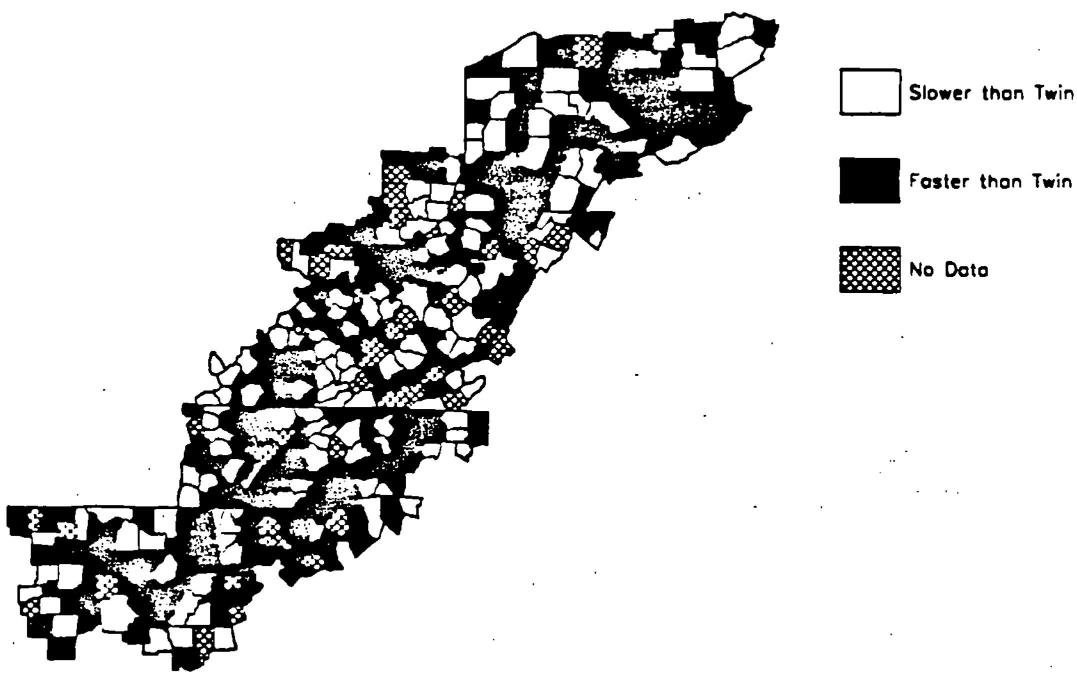
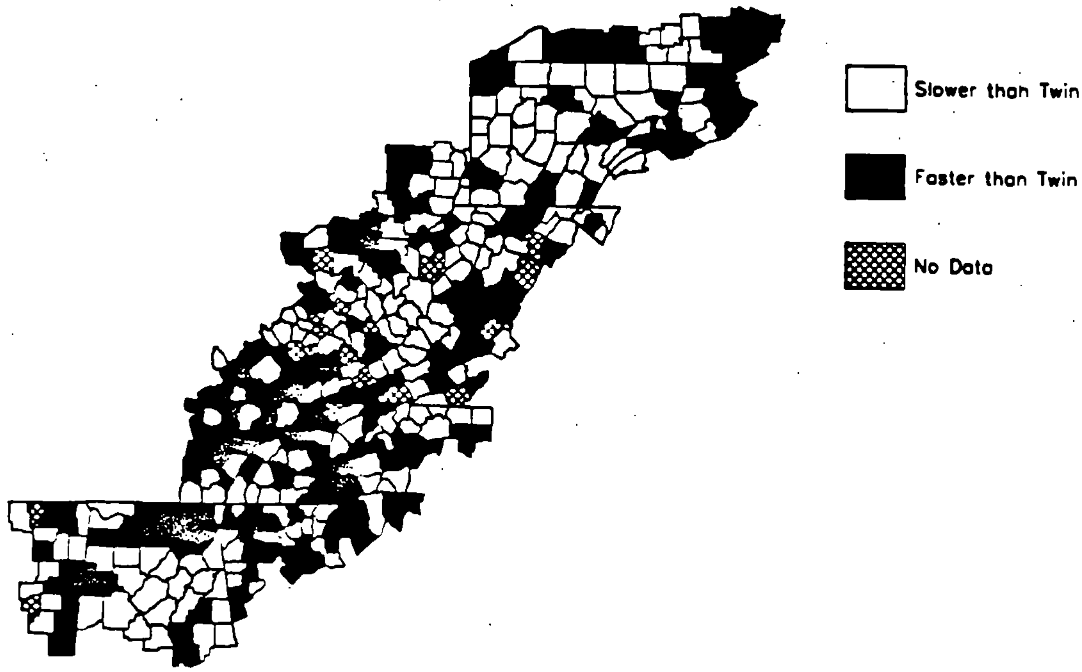


Figure 5. Growth rate differentials for population and service earnings growth.

Manufacturing Earnings Growth, 1969-91



Retail Earnings Growth, 1969-91

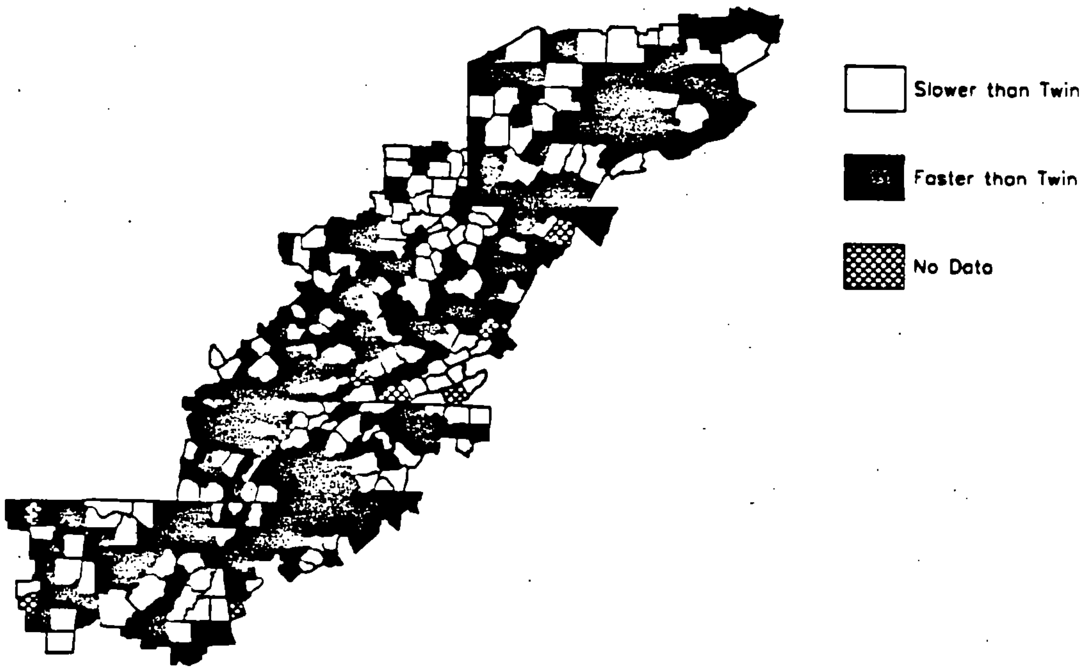


Figure 6. Growth rate differentials for manufacturing and retail earnings.

Table 5. Multivariate regression analysis of growth rate differentials, 1969-91.

	Income	Earnings	Population	Per Capita Income	Manu-facturing	Retail Trade	Services
INTERCEPT	2.2073	-1.5042	0.1426	1.0102	4.0414	0.2560	-1.0054
METRO	**0.8352**	0.0655	**0.1192**	0.0763	0.3261	0.5799	**1.9388**
APPROAD	0.2402	0.1814	0.0325	0.0622	0.6637	0.2217	0.1350
SOUTH	-0.3141	0.1139	-0.0345	-0.0328	-1.6598	-0.4857	0.1940
CENTRAL	0.0798	0.6711	0.0221	0.0237	**3.0883**	-0.1156	0.4767
COALPRO	**0.5141**	**0.7611**	0.0348	**0.2791**	0.2233	0.3197	0.0246
DISTRESS	-0.2595	-0.1427	0.0171	**-0.2993**	0.5107	-0.0767	-0.0290
GROWTH	-0.3977	-0.2470	-0.0550	-0.0320	0.3851	-0.3180	**-1.6994**
MAHAL	0.0018	0.0169	-0.0025	0.0102	0.0107	0.0074	0.0103
PDN65	-0.0000	0.0009	-0.0001	**0.0007**	0.0031	0.0002	0.0008
PCI65	**-0.0012**	-0.0002	-0.0001	**-0.0006**	-0.0027	-0.0009	-0.0005
CITY25	0.0073	0.0133	0.0015	0.0007	0.0338	0.0096	0.0225
CITY100	**-0.0083**	-0.0036	**-0.0017**	0.0010	-0.0237	0.0013	0.0025
CITY250	-0.0029	-0.0028	**-0.0008**	0.0013	0.0009	-0.0037	**-0.0175**
PRES65	**-1.5905**	**1.3007**	**-0.1607**	**-0.4518**	3.6258	-0.9227	0.8257
PMFG65	**-2.7751**	-1.0773	**-0.3935**	-0.5357	-1.0285	-1.8890	-1.7581
PRTL65	-0.3828	0.6261	-0.0441	0.1981	-31.4002	5.7427	-3.0267
PFED65	-4.0806	-2.4404	-0.3984	-0.2236	1.7533	**-9.0633**	-14.4273
PMIL65	-0.2682	-1.0257	1.7224	**-11.0749**	16.4823	9.6278	-1.6018
PSTL65	0.8152	5.1712	-0.1050	1.1504	2.5039	-2.3927	10.8331
RPOP	**7.9304**	**10.2692**	**1.1275**	**1.7448**	**15.0833**	**9.1563**	**10.4749**
RTOT	**3.6215**	**2.5771**	**0.6065**	-0.2416	3.7615	**4.9992**	**8.0177**
INTVAR	0.0558	0.0279	-0.0161	0.1247	**1.8493**	0.1385	0.4824
Adj R-square	0.14	0.12	0.14	0.15	0.06	0.08	0.08

BOLDFACE indicates significant at the 10 percent level.

CONCLUSION

Between 1969 and 1991 the counties of Appalachia grew faster than their twins. They averaged 48 percent more growth in income, 5 percent in population, and 17 percent in per capita income. These findings suggest that the Appalachian region has done well since the Appalachian Regional Commission commenced its programs. Translated to dollar terms, the income growth differentials between Appalachian counties and their twins mean $8.4 billion more income in Appalachia in 1991.

Are the ARC programs responsible for this progress? Did the $13 billion dollars in cumulative expenditures on ARC programs from 1965 through 1992 succeed in producing a return of $8.4 billion in Appalachian income in 1991 alone? As already mentioned, control group research ultimately requires a leap of faith. The questions cannot be answered yes with certainty. Some skeptics still insist that cigarette smoking has not been proven to cause higher incidence of lung cancer. Some unknown factor, perhaps a gene, might cause people both to smoke and to be more susceptible to lung cancer. If a skeptic has an hypothesis other than the ARC to explain the findings here, the control group selection process should be repeated to evaluate that hypothesis.

Research strives to make that leap in faith as small as possible by systematically eliminating other potential causes. The key methodological issue is to make sure that the control group selection process considers the right variables. In other words, does it control for the important factors that could have caused the study result? Here is an actual example. An astute observer suggested that the positive Appalachian finding might have been caused by ignoring race. If predominantly white Appalachian counties were matched to predominantly black southern counties and those southern counties grew slower because of their racial composition, then the faster Appalachian growth might have been caused by racial composition, not by the ARC. Several reasons exist for racial composition to affect county growth rates, for instance, the historical legacy of segregated school systems, firms' biases against locating in places with large African-American populations, and an unequal distribution of public infrastructure, including roads and sewage facilities. If this hypothesis is correct and the predominantly white Appalachian counties do not suffer from similar legacies, biases, and unequal distributions, ignoring race would cause this study to find larger Appalachian growth differentials.

The racial hypothesis can be tested by adding percent black to the variables used to make county matches. The effect is to replace some original twins with new ones whose racial composition better matches that of the Appalachian counties. Consequently, fewer twins are from Mississippi, Alabama, Georgia, and South Carolina. The results contradict the racial hypothesis, however. The Appalachian counties outgrew their new twins even more than their original ones. Racial composition did not cause the results reported here. In this manner, control group research narrows the leap in faith by considering and eliminating competing explanations.

The control group method used here is new. This study is the second to apply it (the other is found in Rephann and Isserman 1993). Each new study entails learning more about the method and its properties, as well as about the subject of inquiry. The method seems very promising, and the results are provocative. Comments on either are most welcome.

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STATEMENT OF HONORABLE BRERETON C. JONES

GOVERNOR OF KENTUCKY and ARC STATES' CO-CHAIRMAN

to

HOUSE SUBCOMMITTEE ON PUBLIC BUILDINGS AND ECONOMIC DEVELOPMENT

HONORABLE WAYNE T. GILCHREST, CHAIRMAN

February 28, 1995

IN THIS ERA OF SCARCE RESOURCES AT ALL LEVELS OF GOVERNMENT. WE ARE ALL SEEKING WAYS TO STREAMLINE, SO THAT WE CAN GIVE OUR TAXPAYERS THE ABSOLUTE MOST FOR HIS OR HER TAX DOLLAR.

A SPIRIT OF COOPERATION BETWEEN THE FEDERAL GOVERNMENT AND EACH STATE BRINGS EFFICIENT GOVERNMENT CLOSER TO THE PEOPLE.

IN THE A-R-C, WE FIND THE PERFECT MODEL.

IT HAS HELPED ONE OF THE MOST ISOLATED AND POVERTY STRICKEN REGIONS OF OUR COUNTRY OVERCOME THE ISOLATION AND PROMOTE ECONOMIC DEVELOPMENT.

THE A-R-C HAS BEEN SUCCESSFUL IN DOING THIS. NOT BY FULLY FUNDING ANY PROGRAMS BUT BY PROVIDING A PORTION OF THE COST AND THUS LEVERAGING FEDERAL, STATE AND PRIVATE FUNDS.

FORTY-NINE COUNTIES IN KENTUCKY ARE LOCATED WITHIN THE BOUNDARIES OF A-R-C.

THIRTY-EIGHT OF THESE COUNTIES ARE OFFICIALLY LISTED AS DISTRESSED COUNTIES -- HIGH UNEMPLOYMENT AND LOW PER CAPITA INCOME.

THERE ARE 150 SUCH COUNTIES IN THE 13 STATE APPALACHIAN REGIONAL COMMISSION BOUNDARY.

MANY STATISTICS HAVE BEEN PRESENTED TO THIS COMMITTEE ON THE A-R-C AND ITS EFFECTIVENESS.

THE MOST CONVINCING EVIDENCE, HOWEVER, IS TO TRAVEL THROUGH THE AREA AND SEE THE DIFFERENCES IN PEOPLE'S LIVES.

I ALWAYS ENJOY BEING IN EASTERN KENTUCKY AND AS CONGRESSMAN ROGERS KNOWS, THE NATURAL BEAUTY AND THE WARMTH OF THE PEOPLE MAKE IT A SPECIAL PLACE.

THE MOUNTAINS, HOWEVER, PRESENT CHALLENGES IN BUILDING ROADS, INSTALLING WATER AND SEWERS, PROVIDING ACCESS TO HEALTH CARE, AND MAKING NEEDED COMMUNITY IMPROVEMENTS.

ALL OF THESE THINGS COST SIGNIFICANTLY MORE IN MOUNTAINOUS TERRAIN, AND WHEN YOU ADD IN THE DISTRESSED ECONOMIC FACTORS, YOU IMMEDIATELY INCREASE THE ODDS AGAINST THESE AREAS KEEPING PACE WITH THE REST OF THE COUNTY.

A-R-C'S ROLE HAS BEEN TO BETTER THOSE ODDS FOR APPALACHIAN COMMUNITIES.

THERE IS STILL A LOT TO DO. BUT YOU DON'T HAVE TO GO FAR IN ANY DIRECTION IN EASTERN KENTUCKY BEFORE SEEING THE BENEFITS OF THE A-R-C PROGRAM -- IN HOUSING. IN CLEAN WATER, ROADS, HEALTH CLINICS, EDUCATIONAL PROGRAMS, AND SMALL BUSINESSES WHICH GOT A CHANCE DUE TO REVOLVING LOAN FUNDS.

THESE ARE REAL DIFFERENCES WHICH PEOPLE EXPERIENCE IN THEIR DAILY LIVES.

LET ME GIVE YOU SOME EXAMPLES OF PROJECTS PROPOSED FOR KENTUCKY THIS YEAR.

IN AN AREA WHERE RESIDENTS NOW DEPEND ON WELLS, CISTERNS OR HAULED WATER, WATER SERVICE CAN BE PROVIDED FOR 170 NEW CUSTOMERS AND AN ELEMENTARY SCHOOL FOR A TOTAL PROJECT COST OF $1.3 MILLION.

THE A-R-C GRANT FOR THIS PROJECT IS $250,000 WHICH THEN ALLOWS THE COMMUNITY TO COMBINE SOME LOCAL FUNDS WITH A FARMERS HOME ADMINISTRATION LOAN AND GRANT TO MAKE THIS WATER PROJECT A REALITY.

IN ANOTHER INSTANCE, A-R-C IS WORKING WITH A SIX-STATE CONSORTIUM TO PRODUCE A BETTER TRAINED WORKFORCE IN THE MOST ECONOMICALLY DISADVANTAGED COUNTIES IN APPALACHIA.

A-R-C AND THE CONSORTIUM ARE DEVELOPING A PROPOSAL TO THE NATIONAL SCIENCE FOUNDATION TO PROVIDE SCHOOLS AND COMMUNITIES IN THESE COUNTIES ACCESS TO THE INFORMATION SUPERHIGHWAY.

THE ACCESS WILL BE USED TO IMPROVE STUDENT PERFORMANCE IN MATH AND SCIENCE AND TO DEVELOP NEW BUSINESSES IN THE COMMUNITIES.

THE FEDERATION OF APPALACHIAN HOUSING ENTERPRISES IS AN ASSOCIATION OF 20 COMMUNITY BASED NON-PROFIT HOUSING PROVIDERS IN KENTUCKY, TENNESSEE, VIRGINIA, AND WEST VIRGINIA.

ITS MISSION IS TO MAKE DECENT HOUSING AFFORDABLE AND AVAILABLE TO LOW AND VERY LOW INCOME FAMILIES IN CENTRAL APPALACHIA.

A-R-C FUNDING HAS LEVERAGED MILLIONS OF DOLLARS FROM OTHER SOURCES AND HAS RESULTED IN THE CONSTRUCTION OR REHABILITATION OF NEARLY 17,000 HOUSING UNITS.

THE KENTUCKY HIGHLANDS INVESTMENT CORPORATION IS A GRASSROOTS ORGANIZATION WHICH HAS RECEIVED A-R-C ASSISTANCE TO HELP FINANCE NEW SMALL BUSINESSES THROUGH EQUITY INVESTMENTS OR LOANS.

ITS CURRENT INVESTMENTS EMPLOY MORE THAN 3,500 PEOPLE, 60% OF WHOM HAD PREVIOUSLY BEEN ON PUBLIC ASSISTANCE.

THE COST OF PROVIDING PUBLIC ASSISTANCE TO THESE PEOPLE TODAY WOULD BE ABOUT $38 MILLION PER YEAR.

INSTEAD, THESE MEN AND WOMEN ARE WORKING AND PAYING $9 MILLION PER YEAR IN TAXES.

THAT'S A TURNAROUND FOR THE GOVERNMENT OF 47 MILLION DOLLARS A YEAR!

SIMILAR STORIES CAN BE TOLD BY GOVERNORS FROM OTHER A-R-C STATES, AS WELL.

ONE REASON FOR THIS SUCCESS IS BECAUSE IT IS NOT A FEDERAL PROGRAM, BUT RATHER A PARTNERSHIP OF THE FEDERAL GOVERNMENT AND THE GOVERNORS OF 13 APPALACHIAN STATES.

AND YET, WE RECOGNIZE THAT IT IS IMPORTANT ALWAYS TO BE LOOKING AT WAYS TO IMPROVE OURSELVES, TO "RE-INVENT" WHAT WE DO SO THAT WE ARE ALWAYS OPERATING AT THE HIGHEST POSSIBLE LEVEL OF EFFICIENCY.

THE A-R-C HAS UNDERTAKEN SUCH AN EFFORT WITH ITS STRATEGIC PLANNING PROCESS, WHICH WILL CULMINATE IN A MAJOR CONFERENCE IN LEXINGTON, KENTUCKY IN JULY

IN KENTUCKY, WE UNDERTOOK THIS EFFORT OVER A YEAR AGO WHEN I CREATED THE KENTUCKY APPALACHIAN TASK FORCE TO REVIEW HOW THE PROGRAM HAS OPERATED IN EASTERN KENTUCKY AND HOW IT CAN OPERATE EVEN MORE EFFECTIVELY.

MORE THAN 500 PEOPLE PARTICIPATED AND THE RESULT IS THIS REPORT, WHICH WE'VE ENTITLED COMMUNITIES OF HOPE.

IN IT ARE TASK FORCE COMMITTEE RECOMMENDATION ON, AMONG OTHER THINGS, EDUCATION, HEALTH, ECONOMIC DEVELOPMENT, JUSTICE, TRANSPORTATION, TELECOMMUNICATIONS, HOUSING AND GOVERNANCE.

IT IS A PEOPLE'S REPORT , AND WITH THE HELP OF THE A-R-C, WE WILL ADDRESS THESE RECOMMENDATIONS IN THE COMING DAYS AND MONTHS.

THE BOTTOM LINE, MR. CHAIRMAN, IS THAT MY FELLOW GOVERNORS AND I BELIEVE IT IS CRUCIAL FOR THIS PROGRAM TO CONTINUE.

AND FURTHERMORE, I BELIEVE WE OUGHT TO LOOK BEYOND THE MISSION OF THE A-R-C TO EXPLORE WHETHER THE WAY WE OPERATE, THE CONCEPT OF THE FEDERAL-STATE PARTNERSHIP, MAY BE A WAY TO OPERATE OTHER GOVERNMENT PROGRAMS.

THAT IS WHY ALL 13 APPALACHIAN GOVERNORS, RECOGNIZING THE NEED FOR GOVERNMENT TO OPERATE IN THE MOST COST-EFFECTIVE MANNER POSSIBLE, REMAIN COMMITTED TO THE CONTINUATION OF THE APPALACHIAN REGIONAL COMMISSION.

STATE OF ALABAMA
GOVERNOR'S OFFICE
MONTGOMERY 36130

FOB JAMES, JR.
GOVERNOR

February 24, 1995

The Honorable Wayne Gilchrest, Chairman
House Public Buildings and Economic
Development Subcommittee
Washington, D. C.

Dear Chairman Gilchrest:

The Appalachian Regional Commission (ARC) program has been very instrumental in the development of Alabama's Appalachian region. ARC is unique in that it is a shared partnership of federal, state, and local governments. As such, ARC provides flexibility to address the needs of the people, and allows the governors and local governments to set priorities. ARC funds can be used in so many areas, such as education excellence, community development, economic development, basic services, work force development and youth leadership, to name a few. This is not true of so many grant programs.

Recently, we had an emergency situation in Alabama as a result of a tornado that struck in three of our Appalachian counties. An elementary school and a Headstart program facility were completely destroyed. The Appalachian Regional Commission came through quickly to restore education opportunities for the children. We sincerely appreciate this, and it makes us once again thankful we do have an ARC program. It is one of the few programs that is responsive to local and state needs. We not only request that this program be retained, but hope that other programs will be modeled after this one.

Sincerely,

Fob James, Jr.
Governor

STATE OF GEORGIA
OFFICE OF THE GOVERNOR
ATLANTA 30334-0900

Zell Miller
GOVERNOR

STATEMENT TO THE HOUSE SUBCOMMITTEE ON PUBLIC BUILDINGS AND ECONOMIC DEVELOPMENT
GOVERNOR ZELL MILLER - GEORGIA

February 22, 1995

I appreciate the opportunity to submit this statement on behalf of the Appalachian Regional Commission.

Loretta Lynn wrote a song some years back that said, "When you're looking at me--you're looking at country." I can honestly say that when you are looking at me, you're looking at Appalachia.

I was born, grew up, and make my home in the Appalachian mountains of Georgia. My wife is from the same area in Western North Carolina. and I am intimately familiar with this region's history and heritage.

When I was a baby during the Great Depression, my mother cleared a rocky, broomsedge field and waded a cold mountain creek to get rock to build a house while my six year old sister looked after me on the creek bank.

When that house was built, we raised chickens with a brooder in the living room. My family did not own a car until I had finished college.

In the Great Depression, the difference between Appalachia and the rest of rural America was one of degree--we were somewhat poorer, somewhat more isolated, and somewhat more deprived of basic services than our flatland cousins.

The reason we have an Appalachian Regional Commission is because Appalachia did not share in equal measure in the postwar prosperity that lifted much of rural America into a new era.

While Appalachia has made great progress in the last thirty years, you can still clearly see the marks of its past today--in the physical isolation that is gradually being overcome by the Appalachian highway system--in the unusually high rate of adult illiteracy--and in the poverty rates that are often among the highest in the country.

As the region's helpmate in overcoming this legacy, the ARC is a program with several highly distinctive features.

First, ARC is a true federal-state partnership, perhaps more than any other federal program.

The thirteen Governors of the Appalachian states play an equal role with the federal co-chair in making all key decisions on the Commission.

Second, ARC constantly encourages the kind of federal inter-agency partnership that many in Congress are urging on Washington.

All our brick and mortar projects are conducted in conjunction with another basic federal agency, with the Farmers Home Administration, HUD and EDA notably involved.

Third, ARC leverages non-federal funds to an extraordinary degree. In the non-highway segment of our program, ARC on average supplies 28% of total project costs, which means that every dollar we spend leverages $2.70 in other funds.

Fourth, and perhaps most importantly, ARC is a flexible program that can respond to the critical needs of each Appalachian state, with short- and long-term job creation being the most significant criteria.

To give you just one example of the creative use of ARC funds, we invested a mere $54,000 in Dalton, Georgia, the carpet-making capital of the world, and managed to develop an apprenticeship program which has received national recognition.

While leveraging $255,000 in local private funds, ARC efforts in Dalton have dramatically reduced high school drop-out rates, dramatically increased the number of GED graduates, and above all, provided new hope in a community where there were previously few employment options.

ARC stands willing to work with this subcommittee and with others in Congress to keep ARC up to date with our region's most pressing needs--and in synch with the overall federal-state strategy for addressing those needs.

As an example of this willingness to evaluate our work and to change when change is called for, I want to bring to your attention a remarkable study conducted by the Regional Research Institute of West Virginia University and funded, not by the ARC, but by the National Science Foundation.

Using a control group methodology that matched the 397 counties in the Appalachian region with similar counties elsewhere, the study examined the region's progress since the creation of ARC in 1969.

The study concluded that Appalachian counties grew significantly faster than the control group in income, earnings, population and per capita income, and that ARC had helped them do so.

ARC is ready to be tested, and ready to adjust to the needs of our region. We take seriously our responsibility to insure that every dollar we spend is spent as effectively as possible. We will continue to do so. Thank you.

STATE OF MISSISSIPPI
OFFICE OF THE GOVERNOR

KIRK FORDICE
GOVERNOR

February 16, 1995

Mr. Chairman and Distinguished Members of the Committee:

I regret that I am unable to appear before you personally at this time. Nonetheless, I want to share with you my views concerning the Appalachian Regional Commission (ARC).

It is no secret that I am not a proponent of federal big-spending programs. I believe that the federal government is too big, spends too much of our money, and makes too many decisions in Washington, D.C., that should be made by local or state officials who understand the problems and challenges we face.

However, the Appalachian Regional Commission is different. The ARC is a partnership between the federal government, the 13 Appalachian states, and local officials. The federal government cannot make rules or regulations, establish guidelines, or fund any projects without the agreement of a majority of the ARC Governors.

The Appalachian Regional Commission is not an oversized bureaucracy: it has a staff of approximately 50 people, spends less than 3% of its budget on administrative expenses, and the ARC states pay 50% of the administrative costs. In fact, if one were to use one federal agency as a model for reorganizing other federal agencies, I would strongly suggest the Appalachian Regional Commission as worthy of imitation.

Sincerely,

Kirk Fordice

KIRK FORDICE
Governor

POST OFFICE BOX 139 • JACKSON, M SIPPI 39205 • TEL (601) 3150 • FAX I) 3741

STATE OF NEW YORK

GEORGE E. PATAKI
GOVERNOR

February 28, 1995

Dear Mr. Gilchrest:

I would like to express my full support for the re-authorization of the Appalachian Regional Commission. This program is vital to the economic progress and human resource development of the 14 counties in the Appalachian region of New York State.

The Appalachian Regional Commission has provided resources that have made a difference. This program is a cooperative effort between the private and public sectors to identify the best projects, and to assure that their funding will result in the creation and retention of jobs that are crucial in moving this region to an economic parity with the rest of the State.

We are currently pursuing an initiative to provide this region with a telecommunications system. This initiative began in 1993 and is moving ahead in several areas stimulated by the resources provided by ARC. These funds are leveraging private and public investment in a coordinated program to provide access for educational, health, and economic development purposes. New York was the first ARC State to complete an overall plan coordinating investments in this complex area.

We recently approved several telecommunications projects for funding to continue this significant effort. Included are the following:

- <u>The Otsego, Northern Catskills BOCES Telecommunications Net</u> -- This establishes a fully-interactive network connecting the BOCES center with 8 school districts and the State University at Oneonta;

- <u>The Distance Learning Network Linkage</u> -- Funding to connect 18 school districts to an ARC-supported network in BOCES facilities at three sites;

- The Rural New York Health Networking Project -- Equip and connect several rural hospitals in four counties with each other and the larger network hospitals of the Buffalo region; and,

- The Finger Lakes Information Infrastructure -- Link four educational providers with Schuyler hospital to provide enhanced access for educational opportunities and health programs.

These examples are in just one functional area. The ARC program has the flexibility to provide investments in a wide range of areas where local needs are greatest. This fiscal year we expect to fund almost 40 projects, in addition to the continued work in the highway program area related to the completion of the Southern Tier Expressway. This program should be a model for all other Federal-related grant efforts. For these reasons, I urge the Congress to enact the legislation necessary for this region to continue its progress.

Very truly yours,

Honorable Wayne Gilchrest
Chairman
Public Buildings and Economic
Development Subcommittee
U. S. House of Representatives
Washington, D. C. 20515

STATE OF NORTH CAROLINA
OFFICE OF THE GOVERNOR
RALEIGH 27603-8001

JAMES B. HUNT JR.
GOVERNOR

February 22, 1995

STATEMENT of THE HONORABLE JAMES B. HUNT JR.
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON PUBLIC BUILDINGS AND ECONOMIC DEVELOPMENT
U. S. HOUSE OF REPRESENTATIVES

I am glad to have the opportunity to address the Public Buildings and Economic Development Subcommittee and to offer some evidence that the Appalachian Regional Commission, a unique partnership between the federal and state governments, really works.

You can ride through our state's ARC counties and see the legacy our predecessors in this partnership have provided for the people of western North Carolina, but what you do not see is the way our partnership with local leaders has empowered this region.

In our Appalachian area, communities work together as in no other part of our state. They decide what they want to do, what is best for them, how they want to do it, who needs to be on board, and how they will pay for it. Then the communities set out to make it happen--whether their goal is building the water and sewer capacity they need to attract and keep good jobs or pulling together the resources to give all their children a good start in life. The ARC partnership is about more than providing the last dollars these communities need to reach their goal. Our partnership says local priorities really matter and we can work together to make a difference.

The Appalachian program provides governors with the flexibility to work with the private sector on our economic development efforts. Working with our ARC partners, we have averaged $23 million per year in additional private investment in our Appalachian counties and our partners in the private sector have created 2,000 new jobs a year for the people of western North Carolina.

I hope the members of this subcommittee will join with the Appalachian governors and the people of our Appalachian region to support the continuation of this partnership. We need this partnership if our Appalachian region is to attain and maintain a competitive position in the global economy.

Statement From:

GEORGE V. VOINOVICH

GOVERNOR

State of Ohio

To:

U. S. House of Representatives

Sub–Committee on Public Buildings

and

Economic Development

Representative Wayne Gilchrest, Chairman

February 28, 1995

GEORGE V. VOINOVICH
GOVERNOR

STATE OF OHIO
OFFICE OF THE GOVERNOR
COLUMBUS 43266-0601

February 27, 1995

Mr. Chairman:

Thank you for this opportunity to provide a written statement before the U.S. House of Representatives' Public Buildings and Economic Development Subcommittee concerning the Appalachian Regional Commission (ARC). I would briefly like to discuss the merits of this program and inform the committee of the important role ARC has played in helping to improve the quality of life in the 29-county region of southern and eastern Ohio that is federally designated as a part of Appalachia.

During my tenure as governor (since 1991), ARC has funded over 90 projects in Ohio covering a wide array of activities ranging from infrastructure development (water, wastewater and roads) that promotes job creation to educational/training support for schools to the improvement of health care service delivery. These projects have provided approximately $13 million in ARC funding which have helped to leverage over $44 million in other public and private funds. It is fair to say that many of these projects would not have been possible (or at best further taxed limited state resources) without ARC funding.

The above statements reflect why I strongly support continued federal funding of the ARC. The program offers extreme flexibility for states to target their funds on projects and activities which best meet the needs and priorities of their communities. Furthermore, the ARC is a unique intergovernmental partnership that works. It is driven from the "bottom up" in an efficient and effective manner with input from local governments through Local Development Districts (LDDs). This coupled with a limited federal bureaucracy that provides for shared leadership with the states makes the ARC a model for the provision of economic and community development services to communities.

In closing, I would ask that you look at the attached distressed counties map of Ohio. While the state (as a whole) is experiencing significant economic growth, many of the Appalachian counties continue to lag behind with high unemployment and poverty rates. Of the 25 counties that are classified as distressed, 23 are located within the Appalachian region of Ohio. Without the ARC funding, these counties would have even higher levels of distress and greater needs. The ARC has been an investment in the people of Ohio Appalachia that has proven to be successful and should be continued to help foster a better economic and social climate for this region.

George V. Voinovich

GEORGE V. VOINOVICH
Governor

DISTRESSED AREAS:

CITIES OVER 25,000 AND ALL COUNTIES

County — City

- High Distress — ●
- Distressed — •
- Not Distressed

Cities of 50,000+ population and counties:

High Distress	- meets all three of the following criteria.
Distressed	- meets two of the following criteria.
Not Distressed	- does not meet at least two of the following criteria.

1) 125% or greater of the most recent U.S. 5-year average unemployment rate.
2) at or below 80% of U.S. per capita income.
3) Poverty – 20% or greater of persons below the poverty level, in intercensal years for counties a ratio of transfer payment income to total county income equal to or greater than .25

Cities between 25,000 and 50,000 population identified as Labor Surplus Areas by U.S. Dept. of Labor are classified as DISTRESSED.

- ARC distressed areas

Criteria – 150% of U.S. unemployment rate, 150% of U.S. poverty rate, and 67% or less of U.S. per capita income

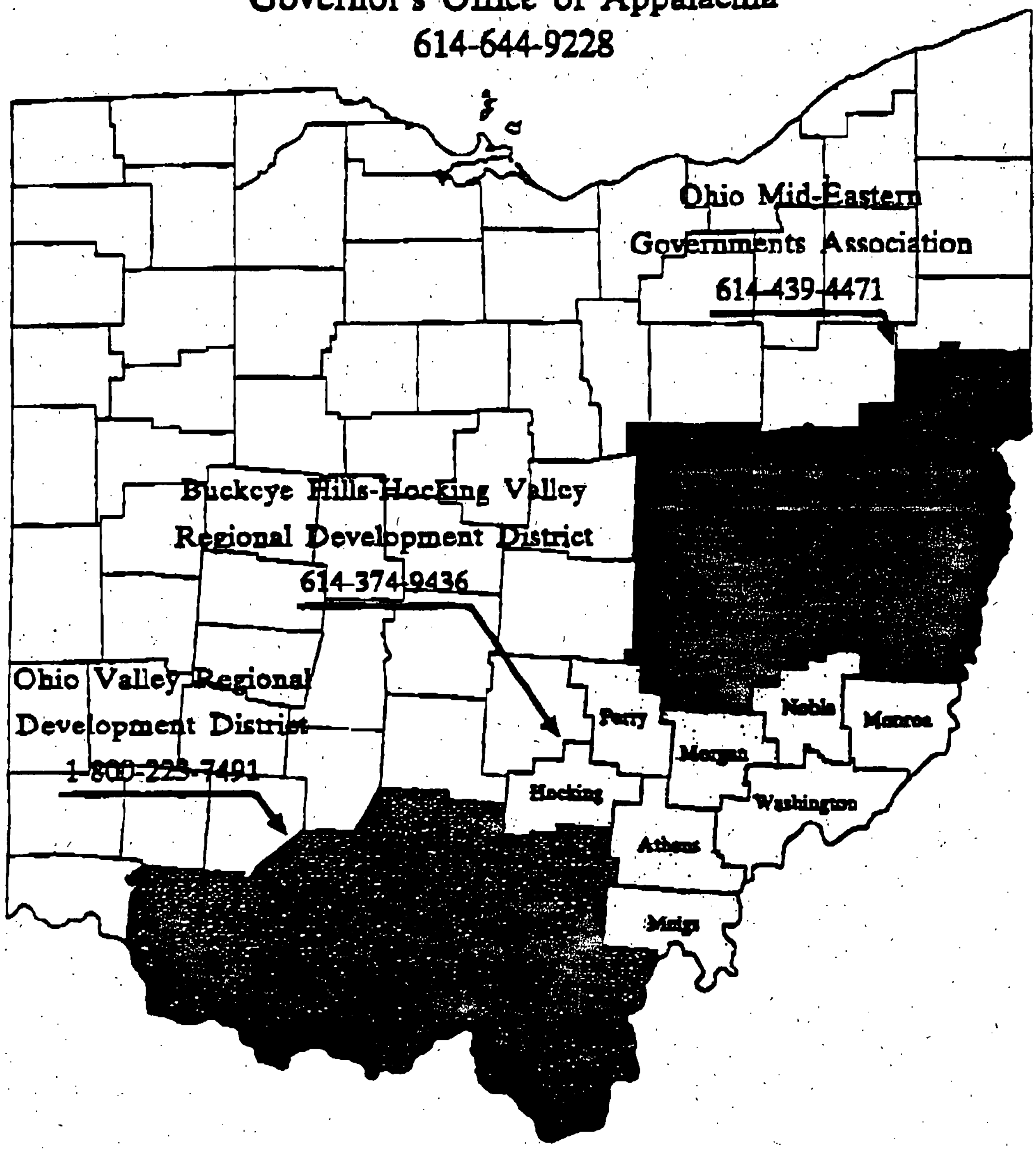
Prepared by: Ohio Department of Development

11/94

Appalachian Ohio

Regional Offices

Governor's Office of Appalachia
614-644-9228



Prepared by: Ohio Department of Development. 3/93

COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

February 27, 1995

The Honorable Bud Shuster
Chairman
House Committee on Transportation
and Infrastructure
2188 Rayburn House Office Building
Washington, D.C. 20515

Dear Bud:

I am writing to you regarding the Commonwealth of Pennsylvania's support for the reauthorization of both the Economic Development Administration and the Appalachian Regional Commission.

Both of these programs have been of significant benefit to Pennsylvania over the years. Through the funding received, new jobs have been created and innovative economic development programs have been given life. In addition, the governing structure of the Appalachian Regional Commission -- in which both the federal government and the state members of the Commission jointly set the policy and program parameters -- serves as a significant model for how the national and state governments can work together in the administration of federal funding programs.

As the House Committee on Transportation and Infrastructure which you chair continues to investigate the nature of reauthorization for these two programs, I ask that you keep in mind the importance that each of these programs has played in Pennsylvania, and the lessons that can be gleaned from them for application in other areas.

With best personal regards,

Sincerely,

Tom Ridge

Tom Ridge
Governor

State of South Carolina

Office of the Governor

DAVID M. BEASLEY
GOVERNOR

POST OFFICE BOX 11369
COLUMBIA 29211

February 27, 1995

The Honorable Wayne Gilcrest
United States House of Representatives
Chairman, House Public Buildings
and Economic Development Sub-Committee
332 Cannon House Office Building
Washington, DC 20515

Dear Mr. Chairman:

Since the mid 1960's the Appalachian Regional Commission program has played a major role in the development of the Appalachian Region of South Carolina.

The unique federal/state partnership has allowed South Carolina to utilize limited Appalachian funds to leverage local, private and other federal funding to empower the great people of Appalachia. In the 30 years this program has been assisting South Carolinians, the funds have been primarily utilized in the creation of jobs through various programs in workforce training, education, tourism development and infrastructure improvements. The Appalachian Regional Commission funds have played an intricate role in the development of the regions telecommunications network and have also assisted in the reduction of infant mortality rates.

Thirty years have past and many of the regions characteristics have changed. As the budget crisis fuels future changes of many federal programs, it is important to remember the programs which have a proven track record. Although all programs must cut their fair share, to my knowledge, there is no other federal program driven by local community needs which allows the state and the federal government to have an equal say in the future of local development. This type of program is a model of the kind of federalism congress has been pursuing. On behalf of citizens of South Carolina I support the continuation of this very worthwhile program.

Please do not hesitate to call me if I can be of any additional assistance to you.

Sincerely,

David M. Beasley

David M. Beasley
Governor

STATE OF TENNESSEE

DON SUNDQUIST
GOVERNOR

February 28, 1995

Honorable Wayne T. Gilchrest
Chairman
Subcommittee on Public Buildings
and Economic Development
Committee on Transportation and
Infrastructure
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Gilchrest:

I am writing to indicate my strong support for the continuation of the Appalachian Regional Commission (ARC). As a member of Congress, I was always concerned about wasteful federal spending, and the proliferation of programs which were designed and implemented by the federal government distant from the people they were designed to serve. As a Governor, I have come to appreciate the strengths of the ARC program which focus on building the capacity for future growth while providing a meaningful role for states in determining the goals, objectives, and implementing regulations.

The bulk of ARC funding in Tennessee, and the other Appalachian states, is invested in infrastructure projects that build the capacity for economic growth, and enable people to live in conditions that are healthy, safe, and which offer the promise of a higher quality of life. There are thousands of people in Tennessee who have jobs as a result of ARC assistance, and who are now contributing members of the state's economy.

Other federal programs contribute to economic development. What makes the ARC different is that it is administered closer to the people it serves. The shared decision-making which is the hallmark of ARC involves equal participation by the federal government and the 13 state governments.

Because nothing happens in the ARC program that does not have the support of the states, the result is less federal control, more state and local direction, and lower administrative costs. Priorities, regulations, and spending decisions are made by the users which ensure more effective use of the funding that is provided.

State Capitol, Nashville, Tennessee 37243-0001
Telephone No. (615) 741-2001

Only the Congress can determine the level of spending the nation can afford for economic development programs. I do, however, feel that ARC should be maintained, and that the ARC process should be evaluated as a method of administering other federal programs. I believe ARC represents an appropriate balance of federal and state interests while maintaining the federal accountability that is required.

The emphasis is now on block grants. ARC has functioned largely like a block grant program since its inception in 1965, but with greater flexibility. With block grant programs, unlike ARC, the users do not participate in promulgating the regulations, they only administer what is given them by the lead agency. The fact that ARC is regional in scope should not detract from the strengths of its institutional structure.

Thank you very much for your consideration. If I can provide additional information I will be most pleased to do so.

Sincerely,

Don Sundquist

Don Sundquist

DS/mmt

COMMONWEALTH of VIRGINIA

Office of the Governor

George Allen
Governor

February 27, 1995

The Honorable Wayne Gilchrist
Chairman
Subcommittee on Public Buildings
and Economic Development
Committee on Transportation and Infrastructure
332 Cannon House Office Building
Washington, D. C. 20515

Dear Wayne:

As you know, I am a strong proponent of downsizing government -- government at all levels has simply become too big and too intrusive. I applaud the efforts of the current Congress both to put its fiscal house in order and to allow Americans to have more control over their lives. You are on the right track in seeking to combine myriad categorical programs into streamlined block grants and to giving flexibility to the States regarding implementation.

In the context of this new partnership, I would like to commend the Appalachian Regional Commission (ARC) as a model of an effective working relationship between the federal government and the thirteen states that comprise its membership. It is a program that operates with a minimum of red tape and bureaucracy and a maximum of local and state flexibility.

In the year that I have been Governor, the ARC has helped us in southwestern Virginia on various projects, such as water and sewer lines that serve industrial sites. While recognizing that budget cuts will be necessary to bring the federal budget into balance, I hope you will reflect favorably on this unique federal-state partnership and the benefits it is providing in one of our country's poorest regions.

With kind personal regards, I remain,

Sincerely,

George

George Allen

STATE OF WEST VIRGINIA
OFFICE OF THE GOVERNOR
CHARLESTON 25305

GASTON CAPERTON
Governor

TESTIMONY OF THE HONORABLE GASTON CAPERTON
GOVERNOR STATE OF WEST VIRGINIA

to

HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON PUBLIC BUILDINGS AND ECONOMIC DEVELOPMENT
THE HONORABLE WAYNE GILCHREST, CHAIRMAN

February 22, 1995

Mr. Chairman, Distinguished Representatives, Ladies and Gentlemen. I regret not being with you to testify in person today on behalf of the Appalachian Regional Commission. The West Virginia Legislature is in session considering a number of vital issues, and as Governor, my presence is needed in Charleston.

As one of 13 Appalachian governors, I am deeply aware of the value of the ARC's unique fiscal partnership with local, state, and federal participation. It is exactly this partnership that has allowed the Commission to construct a program of great flexibility, permitting each state to address its own needs and goals, while developing strong inter-regional cooperation.

As Governor of West Virginia, I have seen first-hand the dramatic effect the ARC has had on the lives of West Virginians during the last 30 years.

In 1965, the Appalachian region was struggling. Our life expectancy and high school graduation rates were far below the national average, while our infant mortality rate greatly exceeded the national average. Unemployment in the region was 40 percent higher than the national level. Now, life expectancy and high school graduation rates have increased dramatically, while infant mortality rates and unemployment have dropped sharply. I am proud to say West Virginia now has the lowest unemployment in the last 12 years. These figures have improved, in part, due to an investment of the Appalachian Regional Commission.

Since its creation, the ARC has invested over $1.1 billion in West Virginia. This has allowed us to leverage funding from other sources for a total investment of nearly $2.3 billion for education, health care, vocational training and our basic infrastructure.

West Virginia now boasts a highly-skilled and motivated workforce, educated and trained in part with ARC assistance. Programs such as our ARC funded Customized Industrial Training Initiative have allowed hundreds of West Virginians to receive training and skill enhancement that has increased our business and industrial competitiveness.

By developing 300 miles of Appalachian Corridor roads, we have opened vast areas for economic development and our tourism market. Completion of this system is of critical importance to my state for future growth.

With ARC assistance, we have been able to provide much needed water and sanitation service to thousands of West Virginians. But, safe, reliable water and sanitary service are still critical needs. Our citizens recently approved a $300 million infrastructure bond issue to further address these concerns. We are depending on ARC funding to assist us in financing future projects so that more West Virginians may have safe, clean water. This same funding will also help us develop marketable industrial and business sites.

Mr. Chairman, we have made significant progress in West Virginia and throughout the Appalachian region. Our employment is up, our education system is one of the best in the country, and our road and infrastructure systems have better linked us to the nation and the world. However, much work remains to be done. It is crucial that the Appalachian region be allowed to continue this growth as we approach the next century. With the help of the ARC and your commitment to support the work of the Commission we can build on our success for the people of West Virginia and the rest of the Appalachian region.

Purchase of flowers.—Private citizens contribute funds for the purchase of flowers to decorate graves and tablets of the missing at the cemeteries and memorials administered by the Commission.

Repair of non-Federal war memorials.—When requested to do so and upon receipt of the necessary funds, the Commission arranges for and oversees the repair of war memorials to U.S. Forces erected in foreign countries by American citizens, States, municipalities, or associations.

World War II Memorial.—Public Law 103–32 authorized the American Battle Monuments Commission to collect private contributions to fund construction of a memorial in the District of Columbia to honor members of the Armed Forces of the United States who served in World War II.

Object Classification (in thousands of dollars)

Identification code 74–8569–0–7–705		1994 actual	1995 est.	1996 est.
25.2	Other services	26	26	26
26.0	Supplies and materials	41	45	45
32.0	Land and structures	6,215	4,686	575
99.9	Total obligations	6,282	4,757	646

APPALACHIAN REGIONAL COMMISSION

Federal Funds

General and special funds:

Appalachian Regional Commission

For expenses necessary to carry out the programs authorized by the Appalachian Regional Development Act of 1965, as amended, notwithstanding section 405 of said Act, and for necessary expenses for the Federal Co-Chairman and the alternate on the Appalachian Regional Commission and for payment of the Federal share of the administrative expenses of the Commission, including services as authorized by section 3109 of title 5, United States Code, and hire of passenger motor vehicles, to remain available until expended, [$282,000,000] ***$183,000,000.*** *(Energy and Water Development Appropriations Act, 1995.)*

Program and Financing (in thousands of dollars)

Identification code 46–0200–0–1–452		1994 actual	1995 est.	1996 est.
	Program by activities:			
	Direct program:			
	Appalachian regional development programs:			
01.01	Appalachian development highway system	141,788	236,879	90,000
01.02	Physical development program	48,698	100,370	37,625
01.03	Human development program	10,876	23,845	26,380
01.04	Business development program	8,943	9,535	20,050
01.05	Local development district and technical assistance program	4,960	6,531	5,300
01.91	Total Appalachian regional development programs	215,265	377,160	179,355
	Salaries and expenses:			
02.01	Federal Co-chairman and staff	893	1,488	1,245
02.02	Administrative expenses	2,282	2,400	2,400
02.91	Total salaries and expenses	3,175	3,888	3,645
10.00	Total obligations	218,440	381,048	183,000
	Financing:			
17.00	Recovery of prior year obligations	–5,495		
21.40	Unobligated balance available, start of year: Treasury balance	–62,993	–99,048	
24.40	Unobligated balance available, end of year: Treasury balance	99,048		
40.00	Budget authority (appropriation)	249,000	282,000	183,000
	Relation of obligations to outlays:			
71.00	Total obligations	218,440	381,048	183,000
72.40	Obligated balance, start of year: Unpaid obligations: Treasury balance	344,846	370,587	587,740
74.40	Obligated balance, end of year: Unpaid obligations: Treasury balance	–370,587	–587,740	–568,505
78.00	Adjustments in unexpired accounts	–5,495		
90.00	Outlays	187,204	163,895	202,235

Status of Direct Loans (in thousands of dollars)

Identification code 46–0200–0–1–452		1994 actual	1995 est.	1996 est.
	Cumulative balance of direct loans outstanding:			
1210	Outstanding, start of year	2		
1263	Write-offs for default: Direct loans	–2		
1290	Outstanding, end of year			

This appropriation establishes a framework for joint Federal and State efforts to provide for economic development of Appalachia. Program investments are made in the Appalachian Region for wide-ranging assistance including development highways and other physical infrastructure, business development, and human resource development. The States, acting through the Appalachian Regional Commission, are responsible for recommending local and State projects within their borders for assistance under this program. Special targeting to distressed counties is a part of the State allocation formula.

1. *Appalachian development highway system.*—The Appalachian development highway system, including local access roads, is designed to improve the accessibility of Appalachia; to reduce highway transportation costs to and within Appalachia; and to provide the highway transportation facilities necessary to accelerate the overall development of Appalachia. The budget for 1996 provides $90 million for highway construction.

The cumulative status of the system of roads, including mileage prefinanced by the States, follows:

	1994 actual	*1995 est.*	*1996 est.*
Development systems miles (Prefinanced miles included) (cumulative):			
Miles contracted	2,276	2,300	2,325
Miles completed	2,107	2,180	2,200
Access Roads (cumulative):			
Miles contracted	891	910	915
Miles completed	873	880	890
Funds committed (cumulative-in thousands of dollars):			
Development highway	3,851,354	4,037,572	4,126,572
Access roads	215,637	218,000	219,000
Administration and other	37,791	39,391	40,991
Totals	4,104,782	4,294,963	4,386,563
Prefinanced by States	212,570	207,400	214,900
Annual obligations (thousands)	141,788	236,879	90,000

Area development program.—Area development funds are provided to each of the Appalachian States by allocation. This funding is used to help the regional economy become more competitive, while continuing to provide special assistance to the Region's most distressed and underdeveloped counties.

There are three sets of activities in the area development program: physical development, human resource development, and business development. Complementing these activities are the Commission's regional initiatives, which are targeted programs that address new opportunities in Appalachia. Past initiatives have included telecommunications, tourism, adult literacy, industrial competitiveness, and strategic planning. The Commission is currently developing a comprehensive strategic plan to determine program needs for 1996 and beyond. The budget for 1996 provides $89.4 million for area development. Funding by category is shown below.

2. *Physical development program.*—A funding level of $37.6 million will provide for a wide array of community-based projects, including basic infrastructure, local government assistance, community improvement, and housing development. Public works projects must either directly relate to job creation or retention, or be key to implementation of an adopted

General and special funds—Continued

APPALACHIAN REGIONAL COMMISSION—Continued

strategic plan. Exceptions are made for basic services in designated distressed counties. The 1996 funds are expected to provide water and wastewater improvements in about 80 small communities; provide about 25 community improvement and redevelopment projects; assist approximately 900 low- and moderate-income housing units; and provide assistance to all thirteen States to improve the delivery of State and local government services. The approximate approved workload follows:

	1994 actual	1995 est.	1996 est.
Physical Development Projects	219	450	169

3. *Human development program.*—A funding level of $26.4 million for 1996 will enhance the Commission's effort to tackle some of the Region's most intractable problems through programs in education, training, child care, community service, health care, and telecommunications/distance learning. Upgrading the skills of the workforce as an investment in long-term economic growth remains a priority of ARC's program. Increases in the education level of the workforce and in the advancement of technology, which is achieved through education, can be directly correlated to gains in national income. Specific program strategies will include assisting the Region's poorest areas, where educational opportunities are most limited, and promoting projects in such areas as math and science education, mentoring, school-to-work transition, and upgrading curricula with telecommunications technology. The approximate approved workload follows:

	1994 actual	1995 est.	1996 est.
Human development projects	120	261	289

4. *Business development program.*—The 1996 budget provides $20.1 million for business and enterprise development. This will fund a broad range of programs tailored to the needs of the various sub-regions within Appalachia, as well as Region-wide initiatives in export and competitiveness strategies for new and existing industries; tourism development; enterprise education; and, the development of local small- and medium-sized businesses. The approximate approved workload follows:

	1994 actual	1995 est.	1996 est.
Business development projects	54	55	120

5. *Local development districts and technical assistance programs.*—The multi-county local development districts (LDDs) are the mechanism for ensuring that the local governments in Appalachia plan and work together on a regional basis. They provide competent support staff to member governments to plan, initiate, and implement projects at the grassroots level. Technical assistance serves to strengthen the LDDs, their staff and operations, and their member units of government. The 1996 budget provides $4.4 million for the LDDs and $900 thousand for technical assistance, with the approximate approved workload as follows:

	1994 actual	1995 est.	1996 est.
Planning districts aided	69	69	69
Technical assistance projects	6	20	9

6. *Salaries and expenses.*—The Federal Co-Chairman represents the Federal Government on the Commission and leads in the coordination of the Appalachian program with Federal agencies. Since 1989, the Office of the Federal Co-Chairman includes an Inspector General.

The Federal Government contributes 50 percent of the expenses of a professional staff which works with the States and the Federal staff in operating the program. The staff members are not Federal employees but are employees of the jointly-supported Commission. The budget for 1996 provides $3.6 million for salaries and expenses.

Object Classification (in thousands of dollars)

Identification code 46–0200–0–1–452		1994 actual	1995 est.	1996 est.
	APPALACHIAN REGIONAL COMMISSION			
	Direct obligations:			
	Personnel compensation:			
11.1	Full-time permanent	583	793	798
11.5	Other personnel compensation	211	216	79
11.9	Total personnel compensation	794	1,009	877
12.1	Civilian personnel benefits	124	157	142
21.0	Travel and transportation of persons	87	151	103
23.2	Rental payments to others	27	33	34
23.3	Communications, utilities, and miscellaneous charges	2		2
24.0	Printing and reproduction	25	40	
25.1	Advisory and assistance services	83	120	124
25.2	Other services	206	1,041	55
26.0	Supplies and materials	10	25	
31.0	Equipment	79	30	33
41.0	Grants, subsidies, and contributions	27,667	48,427	48,750
99.0	Subtotal, Appalachian Regional Commission	29,104	51,033	50,120
	ALLOCATION ACCOUNTS			
	Allocation Acct—Direct Obligations:			
	Personnel compensation:			
11.1	Full-time permanent	1,277	1,295	1,326
11.5	Other personnel compensation	20	22	22
11.9	Total personnel compensation	1,297	1,317	1,348
12.1	Civilian personnel benefits	213	217	223
21.0	Travel and transportation of persons	120	146	143
23.1	Rental payments to GSA	15	16	17
23.3	Communications, utilities, and miscellaneous charges	2	2	2
25.2	Other services	416	400	400
26.0	Supplies and materials	1	3	?
41.0	Grants, subsidies, and contributions	187,272	327,914	130,745
99.0	Subtotal, allocation acct—direct obligations	189,336	330,015	132,880
99.9	Total obligations	218,440	381,048	183,000

Obligations are distributed as follows:	1994 actual	1995 est.	1996 est.
Appalachian Regional Commission	29,104	51,033	50,120
Department of Agriculture	31,740	50,357	16,150
Department of Commerce	2,983	15,820	8,375
Department of Defense	17	16	
Department of Education	4,890	5,137	5,140
Department of Energy	143		
Department of Health and Human Services	719	918	240
Department of Housing and Urban Development	4,214	14,761	9,000
Department of Interior	45	188	
Department of Transportation	142,233	237,124	89,875
Environmental Protection Agency	241	2,594	1,000
Tennessee Valley Authority	2,111	3,100	3,100

Personnel Summary

Identification code 46–0200–0–1–452		1994 actual	1995 est.	1996 est.
1001	Total compensable workyears: Full-time equivalent employment	7	11	11

Trust Funds

MISCELLANEOUS TRUST FUNDS

Program and Financing (in thousands of dollars)

Identification code 46–9971–0–7–452		1994 actual	1995 est.	1996 est.
	Program by activities:			
10.00	Total obligations	4,587	5,139	5,275
	Financing:			
21.40	Unobligated balance available, start of year: Treasury balance	−1,030	−1,007	−668
24.40	Unobligated balance available, end of year: Treasury balance	1,007	668	193
39.00	Budget authority (gross)	4,564	4,800	4,800
	Budget authority:			
60.27	Appropriation (trust fund, indefinite)	3,233	4,800	4

[illegible]	Spending authority from offsetting collections	1,331	....	....
	[illegible]ion of obligations to outlays:			
[illegible]	[illegible]otal obligations	4,587	5,139	5,275
72.40	Obligated balance, start of year: Unpaid obligations: Treasury balance	974	1,077	1,077
74.40	Obligated balance, end of year: Unpaid obligations: Treasury balance	−1,077	−1,077	−1,077
87.00	Outlays (gross)	4,484	5,139	5,275
	Adjustments to gross budget authority and outlays.			
	Offsetting collections from:			
88.00	Federal sources	−570	....	....
88.40	Non-Federal sources	−761	....	....
88.90	Total, offsetting collections	−1,331	....	....
89.00	Budget authority (net)	3,233	4,800	4,800
90.00	Outlays (net)	3,153	5,139	5,275

As authorized in the Appalachian Regional Development Act, the 13 Appalachian States share with the Federal Government the administrative expenses of the Appalachian Regional Commission.

Object Classification (in thousands of dollars)

Identification code 46–9971–0–7–452		1994 actual	1995 est.	1996 est.
11.8	Personnel compensation: Special personal services payments	2,433	3,029	3,057
12.1	Civilian personnel benefits	572	605	702
21.0	Travel and transportation of persons	95	105	115
23.2	Rental payments to others	573	660	645
23.3	Communications, utilities, and miscellaneous charges	92	165	115
24.0	Printing and reproduction	112	160	172
25.2	Other services	619	295	327
26.0	Supplies and materials	71	90	92
	Equipment	20	30	50
	Total obligations	4,587	5,139	5,275

ARCHITECTURAL AND TRANSPORTATION BARRIERS COMPLIANCE BOARD

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For expenses necessary for the Architectural and Transportation Barriers Compliance Board, as authorized by section 502 of the Rehabilitation Act of 1973, as amended, [$3,350,000] *$3,656,000*: *Provided*, That, notwithstanding any other provision of law, there may be credited to this appropriation funds received for publications and training expenses. *(Department of Transportation and Related Agencies Appropriations Act, 1995.)*

Program and Financing (in thousands of dollars)

Identification code 95–3200–0–1–751		1994 actual	1995 est.	1996 est.
	Program by activities:			
10.00	Total obligations	3,293	3,350	3,656
	Financing:			
25.00	Unobligated balance expiring	55	....	....
40.00	Budget authority (appropriation)	3,348	3,350	3,656
	Relation of obligations to outlays:			
71.00	Total obligations	3,293	3,350	3,656
72.40	Obligated balance, start of year: Unpaid obligations: Treasury balance	793	679	335
74.40	Obligated balance, end of year: Unpaid obligations: Treasury balance	−679	−335	−366
[illegible]00	Adjustments in expired accounts	−33	....	....
90.00	Outlays	3,374	3,694	3,625

The Architectural and Transportation Barriers Compliance Board was established by section 502 of the Rehabilitation Act of 1973 to ensure compliance with the Architectural Barriers Act of 1968. Its primary role is to carry out a compliance program to ensure accessibility and usability of most Federal and federally funded buildings by people with disabilities. In 1995, the Board will continue to process, investigate, and resolve complaints of noncompliance. Emphasis is on voluntary, amicable resolution of access issues.

The Board also develops Federal minimum accessibility guidelines and requirements for the standards under the Architectural Barriers Act, and provides technical assistance to public and private organizations affected by Federal accessibility regulations.

The Americans With Disabilities Act (P.L. 101–336) expanded the Board's responsibilities to include (1) developing accessibility guidelines for transportation vehicles and facilities, public accommodations, outdoor recreation, and communications; (2) implementing technical assistance programs in the areas of transportation and public accommodations; (3) developing and publishing technical assistance manuals for entities covered under Titles II and III of the Act; and (4) assisting the Department of Justice in certifying State and local building codes to be used to comply with the ADA.

In 1996, $150,000 is for a one-time expenditure to allow the Board to purchase and install a new accounting system.

Object Classification (in thousands of dollars)

Identification code 95–3200–0–1–751		1994 actual	1995 est.	1996 est.
	Personnel compensation:			
11.1	Full-time permanent	1,446	1,605	1,626
11.3	Other than full-time permanent	247	157	163
11.5	Other personnel compensation	30	20	30
11.9	Total personnel compensation	1,723	1,782	1,819
12.1	Civilian personnel benefits	396	422	427
21.0	Travel and transportation of persons	134	146	145
23.1	Rental payments to GSA	251	271	278
23.3	Communications, utilities, and miscellaneous charges	111	94	94
24.0	Printing and reproduction	108	142	202
25.1	Advisory and assistance services	351	280	300
25.2	Other services	107	113	208
25.3	Purchases of goods and services from Government accounts	66	66	68
26.0	Supplies and materials	28	29	100
31.0	Equipment	18	5	15
99.9	Total obligations	3,293	3,350	3,656

Personnel Summary

Identification code 95–3200–0–1–751		1994 actual	1995 est.	1996 est.
1001	Total compensable workyears: Full-time equivalent employment	35	36	36

ARMS CONTROL AND DISARMAMENT AGENCY

Federal Funds

General and special funds:

ARMS CONTROL AND DISARMAMENT ACTIVITIES

For necessary expenses not otherwise provided, for arms control, *nonproliferation*, and disarmament activities, [$54,500,000] *$76,300,000*, of which not less than [$9,500,000] *$17,000,000* is available until expended only for activities related to the implementation of the Chemical Weapons Convention, and of which not to exceed $100,000 shall be for official reception and representation expenses as authorized by the Act of September 26, 1961, as amended (22 U.S.C. 2551 et seq.)[: *Provided*, That of the budgetary resources available in fiscal year 1995 in this account, $122,000 are permanently canceled: *Provided further*, That amounts available for procurement and procurement-related expenses in this account are reduced by such amount: *Provided further*, That as used herein, "procurement" includes all stages of the process of acquiring property or services, beginning with the process of determining a need for a product or services and ending with contract completion and close-