About Us

The Mountain Association for Community Economic Development (MACED) is a 35-year-old non-profit organization promoting sustainable development in eastern Kentucky and Central Appalachia. MACED works to create economic opportunity, strengthen democracy and support the sustainable use of natural resources. The organization employs three major strategies toward these goals: providing financial capital and expertise to individuals, businesses and communities; conducting research to support good public policy; and demonstrating effective community economic development efforts that make a difference. Visit MACED on the web at www.maced.org.

Report authored by Carrie Ray.
THE APPALACHIAN PLANNING AND DEVELOPMENT FUND: INVESTING IN THE ECONOMIC FUTURE OF EASTERN KENTUCKY

Eastern Kentucky has a critical need for a strategic economic development plan and for more resources to invest in smart development strategies. A well-structured planning and development body can oversee the formation of a strategic plan, and manage some of the financial resources necessary to implement it.

The need for economic diversification in eastern Kentucky has never been greater. Between June 2011 and June 2013, more than 5,700 coal jobs were lost in eastern Kentucky, a trend that shows no sign of reversing. Production is declining and is not expected to recover substantially as the region faces diminishing coal reserves and steep competition from natural gas and cheaper-to-mine coal from the western United States. Even in the boom days of the coal industry, eastern Kentucky faced high rates of poverty and unemployment. Now, the region faces the staggering — and likely permanent — decline of its primary industry.

Transitioning the region’s economy to pursue new opportunities will require resources for investment in a broad array of economic development strategies. The largest pool of public funding available in eastern Kentucky for economic development is the coal severance tax. However, coal severance money is not tied to a plan for economic diversification. About half of coal severance dollars go into the state’s General Fund. The other half has been spent on a wide assortment of regional programs and legislative earmarks; to shore up county budgets; and to build industrial parks, many of which have sat empty. Many severance tax expenditures are for important, pressing needs, including emergency services, but the value of others are more debatable. More importantly, there exists no larger plan for long-term economic development to guide spending of the funds.

The decline of coal in eastern Kentucky means less coal severance tax money at a time when it is increasingly vital. Many counties are already facing significant budget shortfalls due to severance tax declines, and not enough is being spent on economic diversification strategies that would have significant impact. In a previous brief, “Promoting Long-Term Investment in Appalachian Kentucky: A Permanent Coal Severance Tax Fund,” MACED proposed creation of a fund that would set aside some portion of severance tax revenues to be available for long-term investment long after the coal economy has dwindled. In addition to the importance of setting aside funds for the future, the current situation also underscores the need to spend our current severance tax dollars more wisely.
Now is a critical time for eastern Kentucky to develop a comprehensive plan to diversify the region’s economy and create a robust economic future. To generate the best ideas for economic transition, to promote coordination among efforts throughout the region and to ensure broad participation among the region’s people and communities, the state should develop a new body we are calling the Appalachian Planning and Development Fund (APDF). The APDF could be charged with developing a plan for economic diversification that would inform state, local and federal public officials, private donors and investors. And because a strategic plan is only as successful as the resources behind it, the APDF could also serve as a body that provides oversight of expenditures to advance the plan, including a new permanent severance tax endowment. If a percentage of annual coal severance taxes are invested in current strategic spending and in the permanent endowment, it is more likely that the strategies—and the region—will succeed.

Why Do We Need a Planning and Development Fund?

In order to ensure the most prudent, effective and efficient use of resources, a body like the APDF is essential. Such a body could craft and implement a strategic economic development plan, promote and promulgate best practices in economic development, and capture lessons learned from throughout the region. It could also utilize a portion of current severance tax expenditures to begin implementing the plan, as well as provide oversight and guidance to a permanent fund that would serve as an endowment for the region’s future.

For Strategic Planning
A region-wide strategic plan is critical to ensure that public dollars are spent on investments that will truly enhance the economic development of the region. Severance tax funds spent on one-time expenditures or on projects disconnected from other work in the region do little to promote long-term development. A new strategic plan for Appalachian Kentucky will build on the region’s numerous assets, help communities engage in their own planning and guide severance tax and other expenditures. While there may be many worthy projects, public dollars should support investments that connect to a larger development plan.

A strategic plan ensures that projects work in coordination with each other, rather than in competition or duplication. Piecemeal projects will never be as successful as those implemented in conjunction with a wider vision for how each piece works together. A single five-mile bike trail in one community will have far more impact if it can connect with other nearby trails, and those trails will become more attractive when there are other tourist activities nearby, along with places to stay, eat and shop. Severance tax and other development dollars are not unlimited; they must be spent wisely.

To Promote Best Practices
There are as many ideas for economic diversification as there are communities who need them. Yet the history, culture, geography, demographics and economy of eastern Kentucky are unique. The history of well-intentioned, but ultimately unsuccessful, attempts at diversification in the region show that what works in one part of the country or state may not work as well in eastern Kentucky. Thoughtful research and knowledge of the region is needed. The APDF will provide a structure for exploring strategies that have worked elsewhere and those that are already working in the region, and promote those strategies to other communities in the region that might benefit. As strategies are put into practice, the APDF will evaluate efforts and identify how successes can be duplicated.
To Ensure Broad Input
When expenditure decisions are made without a plan and without broad public input, the dollars don’t necessarily go where they are needed. A recent example is the controversial decision to spend $2.5 million of coal severance money on the renovation of Rupp Arena in Lexington. The planning body’s decisions would be influenced by a diverse set of voices from eastern Kentucky. That will mean investments are driven less by politics and more by the needs of the community, which must be given the opportunity for input at multiple points in the process.

To Leverage Funding
A well-crafted strategic plan could better guide the spending of coal severance and other public dollars as well as the monies deposited in a new permanent fund. Moreover, a smart plan is more likely to attract additional investment from private, public and philanthropic sources than the current scattershot spending of coal severance tax dollars.

Other Successful Models
Planning bodies tied to the investment and spending of public dollars have worked both inside and outside Kentucky. Their structure and operation can provide important insights and lessons for the Appalachian Planning and Development Fund.

Big Sky Economic Development Trust Fund, Montana
The Big Sky Economic Development Trust Fund is funded by Montana’s coal severance tax. It is administered by the Department of Commerce and disburses funds for job creation projects. Three-quarters of the funds are distributed to local or tribal governments, and one-quarter goes to economic development organizations.

The Trust Fund is managed by the Department of Commerce. Grant decisions are made during public meetings where applicants have the opportunity to make presentations on their proposals. The Department of Commerce is advised in their grant-making by the Economic Development Advisory Council, which is comprised of 15 members appointed by the governor, and two state Senators and Representatives from each political party. The non-legislative members include the Director of the Department of Commerce, a representative from each geographical district of the state and one member from a Tribal economic development organization.

Coal severance taxes in Montana also fund state parks and investments in arts and culture, as well as the Treasure State Endowment Fund, which provides grants for infrastructure projects and is also administered through the Department of Commerce.

Island Coastal Economic Trust, British Columbia, Canada
The Island Coastal Economic Trust (ICET) was established in 2004 from a one-time grant of $50 million from the Canadian government. The geographical area covered by the ICET is rural and economically challenged, but contains numerous assets. The aim of the Trust is to develop a diverse and sustainable economy for the region. The Trust began with a two-day conference and strategy session to decide priorities for the region, and grants fall into two broad categories: economic infrastructure and economic development readiness. Between 2011 and 2012, the ICET distributed $9.5 million in funds and created an estimated 4.9 jobs for every $100,000 invested, according to their Annual Report.

The ICET is governed by a Board of Directors and two Regional Advisory Committees made up of the mayors of towns within the Trust’s purview. Eight board members are chosen from the Regional Advisory Committees and five are appointed by the Provincial Government. The Board of Directors makes final decisions on grant-making, with input from the Regional Advisory Councils and guided by a three-year strategic plan.
The two-day regional strategic planning conference examined key constraints and possible strategies for economic
development. Participants included the Board, the Regional Advisory Committees, economic development officials,
academics and leaders from key economic sectors. The plan and its subsequent updates are available on the Trust’s website,
along with detailed Annual Reports that show where the funds have been allocated.

**Foundation for a Healthy Kentucky⁵**

With funds from a settlement between the Kentucky Attorney General and Anthem Blue Cross/Blue Shield, the Foundation
for a Healthy Kentucky was established in 2001. The Foundation makes grants to non-profit organizations that engage in
statewide health policy and projects to meet the health needs of underserved Kentuckians, particularly children. It also hosts
educational forums and conferences, provides technical assistance and sponsors research about health- and health policy-
related topics.

The formation of the Foundation was governed by a large Community Advisory Committee (CAC), made up of a diverse
range of Kentuckians, which was charged with developing the Articles of Incorporation and nominating members of the
Board. The initial CAC was appointed from a list of nominees solicited by the Attorney General’s office and selected by the
Franklin County Circuit Court.

The Board has 15 members. Two are appointed by the governor; one by Anthem Insurance; seven elected members come
from each of the Kentucky Supreme Court districts; and five are at-large. Elected board members are selected by the CAC
from nominations from the general public.

The CAC is a larger body that nominates and advises the Board and provides on-the-ground information and expertise
to the Foundation. Of its 31 members, at least 12 must be senior officials in health-related organizations that provide for
underserved Kentuckians. New CAC members are chosen by a sub-committee of current CAC members from nominations
made by the general public.

**Agricultural Development Fund, Kentucky⁶**

The Agricultural Development Fund was established in 2000 using money from the tobacco settlement. The goal of the
Fund is to help Kentucky’s tobacco farmers diversify and enter into new agricultural markets. Grants fund projects like
on-farm energy generation, research, shared-use equipment and marketing projects. In fiscal year 2012, the Agricultural
Development Fund invested nearly $22 million throughout the state.

The Fund has a 15-member state board, and eight-member county boards, each with their own pool of money. County funds
are determined based on their level of tobacco dependency, though all counties now receive at least some funds regardless
of whether they grew tobacco in the past. The state board is comprised of the governor, the agriculture commissioner, the
secretary of the Cabinet for Economic Development and the director of Cooperative Extension. Eleven other members are
appointed by the governor and approved by the state legislature; seven must be active farmers (four of whom must be from
tobacco-impacted counties). Also appointed must be at least one representative each from Kentucky Farm Bureau and
the Kentucky Chamber of Commerce, one lawyer with a background in agriculture policy and farm experience and one
agricultural lender.

County boards are comprised of two representatives each from the county Farm Service Agency, the Soil Conservation
District and the County Extension, along with two young farmers between the ages of 21 and 40, who are chosen by the
other board members.
County boards create their own strategic plans, which are submitted to the state board. The state board is responsible for crafting a statewide strategic plan for agriculture using input from the county plans.

The Kentucky Appalachian Commission
The Kentucky Appalachian Commission is a critical model to examine because it is an example of how democratic strategic planning can work in eastern Kentucky. It began in 1993 under Governor Brereton Jones as the Kentucky Appalachian Task Force, and was charged with investigating the use of Appalachian Regional Commission funds in Kentucky. Members included many politicians from both parties, university presidents and other state leaders. During this process, an Advisory Council for citizen input, appointed by the governor, was created so a broad range of eastern Kentuckians would be included. The advisory body formed committees focused around specific aspects of life and economic development in the region: governance, education, health, social services, work force, culture, natural resources, economic development, justice, transportation, telecommunications and technology, and housing and infrastructure.

Importantly, the Task Force developed a vision for eastern Kentucky that helped guide their work and establish common ground among all parties involved. Part of that vision read:

Appalachian Kentuckians desire a future that provides opportunities for individual happiness and success within the context of meaningful relationships, stable families and sustainable communities. Such communities provide warm and affordable housing; meaningful work; freedom from crime; and access to education, health care, the judicial system, recreation and other human services for all citizens regardless of ability to pay.

These communities value their place and preserve the natural ecosystem for subsequent generations through sustainable and responsible use of the region’s natural resources. While cherishing their cultural heritage, these communities look to a future of cultural diversity and global integration. Above all, they are communities of hope, where rural life and rural people are not an anachronism but a blessing.

The Task Force eventually became the Kentucky Appalachian Commission, retaining its advisory boards and forming working groups around key issues. The Commission was comprised of the governor, cabinet secretaries, several task force members, and two members elected by an advisory council. These two members were elected by the public at annual meetings from nominations taken from meeting attendees. The Advisory Council itself was open to anyone who wanted to participate in its issue committees. It conducted four public meetings per year, and was a time of real dialogue about how to move eastern Kentucky forward. A detailed report of recommendations was created, called “Communities of Hope,” that included models of success already being achieved in the region. However, the Commission was defunded under Governor Ernie Fletcher.

Ideas for Moving Forward
For economic diversification and transition to happen successfully in eastern Kentucky, the region needs a long-term strategic plan created with broad public participation. An Appalachian Planning and Development Fund (APDF) could serve as a planning body to oversee the crafting and implementation of such a plan, all while incorporating a broad range of input and insight. Such a fund could also serve as the governing structure for dollars that support the strategic plan, including a portion of the current severance tax and a permanent severance tax endowment. The APDF must have a structure in place that ensures its decisions are informed by and connected to the interests, needs and expertise of communities and
community members in the region. Residents of eastern Kentucky must have the opportunity to participate in the planning and decisions of the APDF.

Such a fund should be guided by some key principles:

- Democracy. Eastern Kentuckians should be involved in the process of developing a plan and have a say in who governs a fund.
- Transparency. All decisions must be clear and information must be open and available to the public.
- Accountability. A planning body must be a good steward of public dollars it oversees, keep detailed financial records and have regular public meetings.
- Independence. The body cannot be beholden to one particular office or political party.
- Diversity. The body must represent the variety of perspectives and experiences in eastern Kentucky.

Governance
Many successful planning bodies have two components: a board of directors that makes high-level decisions and oversees fiscal decisions, and a large community advisory council that provides the board with a broad range of on-the-ground knowledge and expertise. The Kentucky Appalachian Commission, Foundation for a Healthy Kentucky and the Agricultural Development Boards all operated or operate in this way. That type of structure would allow a new fund to meet many of the above principles.

Board of Directors
Ensuring that the board of directors remains independent and representative is important. It is likely the governor and/or legislature must approve board membership. At the same time, it is possible to establish certain geographic, institutional, organizational and demographic representation on the board in the bylaws or by statute as one way to ensure that board members come from a broad range of expertise and interest. University and community colleges, community foundations, governmental agencies, non-profits and other institutions could be required to be part of the board. Many similar bodies already work this way, including the agricultural development boards and the Foundation for a Healthy Kentucky. In addition, some seats on the board should be reserved for members of the community advisory council, which is discussed below.

Board members should be diverse and capable of broad-view, high-level thinking, be accountable to the long-term interests of the region, and be able to work across political, sectoral and geographic boundaries.

Community Advisory Council
A community advisory council serves multiple purposes. It provides mechanisms for resident input into the workings and decisions of the APDF, particularly if some council members serve on the board of directors. This, in turn, can make the APDF more responsive and democratic, as well as create more public buy-in of the APDF itself. This is important because the APDF must have broad ownership in order to be successful in the long-term; the Kentucky
Appalachian Commission was playing an important role until its termination. The community advisory council may help build public ownership of the effort that would help prevent such challenges from happening in the future. Ensuring broad public support will also make it more difficult for coal severance tax and other dollars to be allocated in ways that do not advance the economic development of the region.

Furthermore, if appointed or elected in a democratic fashion, the community council can offer an additional layer of accountability between the general public and the APDF. Community advisory councils can serve as agents for transparency, accountability and democracy, keeping the media and general public apprised of board actions, and can relay public concerns to the board. Council members could be nominated and elected in a number of ways:

- Nominated by the general public and then selected by existing council members—as with the Foundation for a Healthy Kentucky
- Voluntary membership—as with the Kentucky Appalachian Commission
- Selection through local bodies such as community action councils or area development districts

In many of these scenarios, council membership could also be established statutorily, with requirements for representation from geographic areas, interest groups, economic sectors or institutions. Broad public participation in this process, as in the entire planning process, is instrumental to the success of the APDF.

Resources

Though coal severance dollars are declining, they remain the largest source of economic development funds for the region. While pressing needs must continue to be met, it is crucial that we begin spending current severance dollars according to a strategic plan, and to set aside funds for the future. To that end, one option is for 25 percent of eastern Kentucky coal severance tax funds — after the split between the General Fund and the coal-producing counties — be placed into the APDF. A portion of that would be spent annually to begin implementing the region’s strategic plan for economic development, with the rest going towards a permanent endowment. After a period of time, the portion to be spent immediately can decline as the resources in the permanent endowment grow and become available to invest in development strategies. Under this scenario, the bulk of severance funds can continue to be spent on other immediate regional needs, such as helping local governments transition from their reliance on these dollars.

At the same time, the APDF must also look to other resources beyond the coal severance tax. Monies from other severance taxes like natural gas, new federal and state investments in the region, private philanthropy and other sources can also support the work of the APDF and the economic development of the region.

Conclusion

Eastern Kentucky needs the kind of long-term regional strategic planning that is essential to the future of Appalachia’s economic recovery, and an adequate pool of public dollars to invest in such a plan. Action is particularly important now in a time of serious economic insecurity in Appalachian Kentucky. A recent study by the Federal Reserve Bank of Boston found that the most important key to a struggling city’s revitalization was not geography or industry mix, but instead is broad, innovative leadership and collaboration. Eastern Kentucky needs its new and emerging leaders to rise to this challenge. There are many ways a planning and development body for Appalachian Kentucky can be structured and can operate — a few options are identified in this report. The key is to establish such a body before the region’s economic decline creates even deeper challenges that will be more difficult to address.
End Notes

1 While this brief focuses on eastern Kentucky, the western Kentucky coalfields can and should undertake a similar process.


3 See the Island Coastal Economic Trust “About Us” website: http://www.islandcoastaltrust.ca/node/5


5 See the Foundation for a Healthy Kentucky “About Us” website: http://www.healthy-ky.org/about-us

6 See the Governor’s Office of Agriculture Policy “Agriculture Development Board” website: http://agpolicy.ky.gov/board/Pages/default.aspx
