

Strategies for Appalachian Transition



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Mountain Association for
Community Economic Development

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The Mountain Association for Community Economic Development (MACED) is a 38-year-old nonprofit 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.

Introduction

As the economic challenges facing eastern Kentucky continue to worsen, the public dialogue about the region's future must get broader, bolder and more specific. It's time to get ambitious and concrete about how we will begin building a new eastern Kentucky economy.

As that work moves forward, it's important to remember that there will be no one-size-fits-all solution to the challenges that face us. It's increasingly clear to many that attracting out-of-state companies alone will not be the answer to what ails eastern Kentucky. We need investments in a range of development strategies with potential.

A fair bit is already known about what works to grow a diverse and thriving economy that benefits people in need. Invest in people through education and leadership development. Support the foundations of entrepreneurship and small business development. Invest in physical and 21st century infrastructure like broadband. Grow economic opportunities tied to specific parts of the economy with potential, including local foods production, forestry or healthcare, to name a few.

Eastern Kentucky is blessed with assets and challenges that with the right solutions can be a critical part of a brighter future for the region. What if we acted on a vision of helping 5,000 small businesses to add one to two new employees? What if 50,000 households got energy efficiency upgrades? What if 20,000 school children ate locally grown food each day? How many dollars would these ideas save and jobs would they create?

Eastern Kentucky needs big ideas and practical strategies to implement in concrete ways.

Entrepreneurship support, energy efficiency, local foods and forestry are all examples of strategies and economic opportunities that are playing a real and growing role in the region. With the right amount of investment, those sectors could be instrumental in creating a stronger and more supportive economy. There are powerful examples today of local farmers, foresters, contractors and business owners all contributing to the economy we want and need.

Through late September and early October of 2014, we released five strategy briefs outlining ideas that people who care about the region can use to shape its future. These strategy briefs describe existing opportunities for entrepreneurship, energy efficiency, local foods, forestry

and investment in the region and what can be done to increase the impact of these development strategies. This booklet is a collection of the five strategy briefs.

We know the five strategies we've outlined in the following pages are not the only good ideas out there, but they are areas with opportunities to be had if we are ready to pursue them. Eastern Kentucky can shape a new road forward. While the situation is challenging, there are directions we can take with proven positive results.

MACED believes all development strategies employed in eastern Kentucky should be considered based on their ability to contribute to a better future. We believe incremental progress in the right direction requires having an ambitious vision. Our vision of that future includes:

- Good, diverse and stable jobs and income opportunities.
- Meaningful public participation and broad access to benefits.
- Protected and preserved natural resources and working landscapes—water, forests, land and air quality.
- An appreciation of our diverse assets.
- Our past, people and places are respected.

The vision and strategies we've outlined are just two pieces to the larger puzzle of what it will take to reach a brighter future in the region. To both address the short-term struggle facing those in need and to create longer-term opportunity in the region, we believe it will take engaging a broad base of people in a plan, supporting emerging and existing leaders, growing more effective economic development efforts, and increasing investments in the foundations of a strong economy.

We are seeing hopeful signs, especially a growing willingness to discuss the need for change and to ask people in the region what they think. Now we must build on that momentum with aggressive actions that begins making a real difference.

Transition Strategy: Support Entrepreneurs

Entrepreneurs and local enterprises of all kinds can help build a diverse Appalachian economy that is based on local ownership and that benefits a wider range of people. They can provide jobs, support the community, and be important examples to future innovators, leaders and others. Eastern Kentucky already has important pieces of a strong entrepreneurial support system. The system needs better coordination to address gaps in important services that entrepreneurs need. With more support and better organization, entrepreneurs and entrepreneurial support can be a critical part of growing a stronger economy in the region.

The Opportunity

Small businesses are the engine of America's economy. Even in the midst of the recession, small businesses have created jobs at a faster pace than large companies.¹ Small businesses created 8.7 million jobs between March 2011 and March 2012, according to the U.S. Small Business Administration.² Small businesses are also the backbone of eastern Kentucky's economy. Of the nearly 20,000 businesses in the region, 94 percent employ less than 50 people, and 74 percent employ less than 10.³ Support aimed at helping these businesses add employees could have a large impact on the economy. Local businesses can plug leaks of money leaving local communities and bring new dollars into the region by exporting their products and services.

Appalachia has had limited success in creating long-term employment through industrial recruitment; however, supporting new and existing entrepreneurs has significant potential. A study of ten cities found that 48 percent of money spent at independent businesses recirculates in communities, as opposed to just 13.6 percent of money spent at national chains.⁴ This "multiplier effect" supports other local businesses, workers and community projects. Per capita income grows faster when there are more locally owned businesses in a community, rather than out-of-state, large businesses.⁵ Additionally, locally owned businesses are more likely to plant roots and stay in a community for the long-term. They contribute to the uniqueness and vibrancy of a town, making it more attractive to residents and visitors.

Locally owned businesses do not only have to serve the local community. Entrepreneurship is also about businesses that export their goods and services out of the state or country. Kentucky exported more than \$25 billion in goods in 2013.⁶ Businesses like Atlantic India Rubber in Johnson County or Highlands Diversified Services in London are successfully exporting products made in Appalachian Kentucky, creating local jobs and revenue. Establishing a smart system of entrepreneurial support will help our region to create confident, effective and successful businesspeople who can take advantage of opportunities that are local, national and international.



What's Happening Now?

Appalachian Kentucky has a broad range of entrepreneurial support resources that aim to create more entrepreneurs, increase their skills, and grow stronger, more productive and competitive enterprises. In addition to the important role that local and regional banks play by providing financing, another layer of resources exist to help entrepreneurs start new businesses or expand existing businesses when traditional resources are unable to help. Some of those resources at work in the region today include:

- Seven Small Business Development Centers in eastern Kentucky provide business planning assistance for new and existing entrepreneurs. These include business accelerators and incubators at Eastern Kentucky University, Morehead State University and the University of Pikeville.
- Four innovation centers based at regional universities provide hands-on technical assistance to technology-oriented companies. These centers are part of the broader Kentucky Innovation Network that connects resource providers across the state.
- Multiple community development financial institutions, like Kentucky Highlands Investment Corporation, the Mountain Association for Community Economic Development or Southeast Kentucky Economic Development provide loan capital and technical assistance to start new and expand existing businesses.
- Several entrepreneurial support partnerships and business plan competitions involving the region's private colleges, including Alice Lloyd College, Berea College and the University of Pikeville. The Governor's School of Entrepreneurship provides support to students with entrepreneurial energy.
- The recently-created Eastern Kentucky Technical Assistance Providers Network connects area entrepreneur support organizations to coordinate programming and access to services.

While many good programs exist, today's entrepreneurial support system has significant gaps that need to be filled before the real opportunities these strategies provide can be accessed. Growth in Kentucky's small business sector has lagged behind the rest of the country.⁷ In 2005, 79 percent of state economic development spending went toward industrial recruitment

“ Small businesses are also the backbone of eastern Kentucky's economy. Of the nearly 20,000 businesses in the region, 94 percent employ less than 50 people, and 74 percent employ less than 10.

and industrial parks, leaving “other important [economic development] strategies comparatively neglected.”⁸

One key challenge entrepreneurs face is the need for more one-on-one technical assistance. This assistance is proven to be the most successful form of support, often leading to the most tangible results in the business.

Another key finding is that entrepreneurial support is best done if regional providers work in clear and organized collaboration. While important collaboration between established providers exists, there are more opportunities to streamline referrals of entrepreneurs between providers to ensure entrepreneurs are matched with the right resources. Also, providers should work together to identify gaps in the system to ensure key needs are being met. More funding is needed to support organizations, fill these gaps and engage in effective collaboration.

Many of our region's needs can't be adequately solved through the private sector, but scarce public resources make it difficult for the state to fully step in. Public-private partnerships are one way to address community challenges that can also result in models for sustainable enterprises.

Finally, the region's many nonprofit organizations provide thousands of jobs and important services like childcare, healthcare, economic development support and other social services. The growing field of social entrepreneurship, which combines nonprofit missions and for-profit business models, offers promising opportunities for the region, but many new challenges for leaders. Few of the existing entrepreneurial support providers in the region bring targeted experience or resources to assist nonprofit organizations or social entrepreneurs.

Entrepreneurship is getting more attention across the region and the state. Taking advantage of this momentum to create a strong, effective and collaborative entrepreneurial support system is critical to growing a strong economy that works better for people and communities.

What Needs to Be Done?

Both community-based and smart state government action can make a real difference. The following are actions that will help build momentum for entrepreneurship in the region.

- Starting “buy local” campaigns to increase support for local entrepreneurs.
- Hosting local celebrations to acknowledge the contributions of local entrepreneurs and businesses.
- Mapping local and regional entrepreneurial support resources to better connect local entrepreneurs to existing resources.
- Developing relationships with the closest entrepreneurial support providers to ensure they are aware of opportunities in each community.
- Encouraging and supporting elected leadership to focus more on entrepreneurship and enterprise development as a viable economic engine.
- Engaging elementary and high schools, four-year colleges and community colleges in classroom-based training, technical support and mentorship programs to make entrepreneurship a meaningful career option. The E-Discovery Program is one example.
- Creating space for conversation about and support for innovative, risk-taking entrepreneurs, both in the for-profit and nonprofit sectors. West Virginia’s Entrepreneurs’ Café is one example.

State government plays an important role in advancing this strategy, though it can and should expand its efforts. Some of those actions include:

- Convening all actors in the entrepreneurial support system to build trust and develop shared work plans and common goals.
- Advocating for entrepreneurship as a critical strategy by commissioning research, hosting an annual summit on entrepreneurship and convening key actors across state government to identify ways to contribute to the strategy.
- Increasing direct state support for entrepreneurial support organizations and community development financial institutions through a competitive funding process.

- Encouraging the Office of Entrepreneurship Development to grow its focus, strategy, funding and storytelling on rural Kentucky, particularly eastern Kentucky.
- Reinstating, strengthening and better funding online entrepreneurial support platforms, like www.kybizinfo.com, that help entrepreneurs navigate all available resources, including accurate technical assistance provider listings, networking, smart coordination and referral mechanisms.
- Promoting a culture that accepts risk as an integral part of entrepreneurship and small business development.
- Creating an “Entrepreneur-Ready Community” program, modeled after the “Work-Ready Community” program, that certifies an area’s system of entrepreneurship support.
- Focus on key sectors with real potential and opportunity, including local foods, health care, energy efficiency and tourism.

Resources

This is a brief list of organizations, agencies and institutions that support entrepreneurship in eastern Kentucky.

- ECU Center for Economic Development, Entrepreneurship and Technology, www.cedet.eku.edu
- Kentucky Center for Agriculture and Rural Development, www.kcard.info
- Kentucky Highlands Investment Corporation, www.khic.org
- Kentucky Innovation Network, www.thinkkentucky.com/Entrepreneurship/InnNetwork.aspx
- Kentucky Innovation and Commercialization Center, www.kyinnovation.com
- Kentucky Small Business Development Center, www.ksbdc.org
- Mountain Association for Community Economic Development, www.maced.org
- Southeast Kentucky Economic Development, www.southeastkentucky.com

Transition Strategy: Energy Efficiency

As rapid changes in the energy sector lead to rising electricity prices, it's important to pursue opportunities that can save money and energy while creating employment. Kentucky ranks tenth in the nation for per-capita energy use, and fifth in residential energy use. Despite low utility rates (though those are rising significantly), too many eastern Kentuckians cannot afford their electric bills due to highly inefficient houses. Energy efficiency is the most affordable form of energy provision, offering wide potential across the region to save customers money, create jobs and reduce demand.

The Opportunity

A changing energy economy is creating urgent needs and new opportunities for large-scale investment in energy efficiency. With the closure of its Big Sandy power plant in Louisa, American Electric Power is investing millions in efficiency programs, and members of the East Kentucky Power Cooperative are using MACED's How\$martKY residential energy efficiency program. Both of these opportunities, as well as others that exist in the region, have significant potential to create jobs and income opportunities for eastern Kentucky.

Even with the comparatively low electric rates we have enjoyed, eastern Kentucky's electric bills are much higher than the rest of the state and the nation. While the average Kentuckian pays \$106 per month for electricity, eastern Kentuckians pay an average of \$125. This can be a significant burden given the high poverty rates in the region. The average American spends 2.7 percent of their annual income on electricity for their home. In eastern Kentucky, ratepayers spend up to 5.4 percent of their income on their electric bills.⁹

One reason for these high expenses is the poor quality of many homes in the region. Sixty-seven percent of homes in Appalachian Kentucky were built before 1990, and 25 percent are mobile homes. This creates an enormous opportunity for energy efficiency retrofits to create jobs and save ratepayers money. Studies have shown that investments in energy efficiency across all of Appalachia could create 77,000 jobs and save more than \$21

billion in energy costs.¹⁰ This opportunity and need will continue to grow as rates rise.

What's Happening Now?

- Innovative financing programs like How\$martKY allows homeowners of all income levels to afford energy-efficiency retrofits in their homes. In addition to saving ratepayers money on their bills and making their homes more comfortable, these programs create jobs for energy auditors, contractors and the construction trade. These are jobs that cannot be outsourced.
- In 2008, a bill was passed in Frankfort that set energy efficiency standards for all public buildings in Kentucky and established tax credits for certain efficient home purchases. Bills that would require utilities to invest in residential energy efficiency, and

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support energy efficiency programs on public and commercial buildings, continue to be proposed in Frankfort.

- An increasing number of utilities are responding to their customers' need for energy efficiency programs. East Kentucky Power Cooperative (EKPC) and Kentucky Power offer heat pump replacement programs, rebates and home energy audits to their customers. A number of EKPC member cooperatives are participating in How\$martKY to provide residential retrofits to customers of all income levels.
- Many schools across the state, including community colleges, offer classes for students interested in energy efficiency or renewable energy jobs at all levels. Waco Elementary School in Madison County was a national finalist for its efficiency efforts in a Student Energy Portfolio competition. Lindsey Wilson College sponsors the Energy Technology Career Academy, and Big Sandy Community and Technical College offers certificate programs in energy efficiency.

While these efforts are promising, much more must be done to maximize the impact energy efficiency and renewable energy can have in the region. Affordable energy efficiency programs are not offered by all utilities, leaving out many customers, particularly renters and low-income homeowners. More trained, certified contractors are needed to meet the demand for retrofits in areas where they are offered.

While many of our neighbors are reaping the economic benefits of energy efficiency, Kentucky lags well behind. Though Kentucky has many policies enabling (but not requiring) utilities, businesses and homes to undertake energy efficiency measures, we still fall behind most

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other states when it comes to investing in efficiency. Kentucky ranks 39th among states in energy efficiency policy and programs, according to the American Council for an Energy Efficient Economy.¹¹ In 2010, Kentucky utilities spent \$21 million on energy efficiency; the nationwide average was \$77.4 million.¹² Per capita, Kentucky spent \$8.31 on efficiency programs in 2013, compared to the US average of \$18.17.¹³ Clearly there is significant room for improvement.

What Needs to Be Done?

Eastern Kentucky is poised to reap significant benefits from energy efficiency. But the region needs a supportive infrastructure, good models and active partnerships in order to take maximum advantage of the opportunity and avoid the harm from high energy bills.

Local communities can act to promote energy efficiency by:

- Practicing energy efficiency at home, participating in energy efficiency programs offered by utilities, and encouraging friends and neighbors to do the same.
- Encouraging utilities to offer more energy efficiency programs, regardless of if they own or rent, or their income status.
- Working with elected and school officials to conduct energy audits and explore opportunities for energy efficiency in schools and public buildings. Retrofits

on schools can be excellent learning opportunities for children, and can help cash-strapped municipalities find savings on energy costs.

- Encouraging elected officials to support policies promoting energy efficiency and clean energy in Frankfort.

The state and federal government have a significant role to play in advancing the clean energy sector in eastern Kentucky, and the state as a whole. Major impacts can be made by:

- Passing legislation that supports energy efficiency and clean energy (Clean Energy Opportunity Act), that allows for third-party ownership, and that creates efficiency standards for residential, commercial and public buildings.¹⁴
- Investing in energy efficiency financing programs to bring them to scale. On-bill financing programs are especially beneficial for low-income residents.
- Retrofitting schools and government buildings with energy efficiency technologies. This will save cash-strapped local governments money on their utility bills and provide educational opportunities for students in science and technology.
- Providing technical assistance and financing for contractors and entrepreneurs to take advantage of opportunities in the energy sector, and for towns, municipalities and enterprises to develop energy efficiency projects.



Resources

This is a brief list of organizations, agencies and institutions that support energy efficiency in eastern Kentucky.

- East Kentucky Power Cooperative: www.ekpc.coop/energyefficiency.html
- Energy Efficient Enterprises: www.maced.org/E3
- How\$martKY: www.maced.org/howsmart-overview.htm
- Kentucky Home Performance: www.kyhomeperformance.org
- Kentucky Power: www.kentuckypower.com/save/programs
- Kentucky Sustainable Energy Alliance: www.kysea.org

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Transition Strategy: Local Foods

The local foods sector has been booming in eastern Kentucky and has significant potential to grow. More than just a trend, the local foods sector has the potential to improve both community health and boost the income of farmers and food entrepreneurs. Farmers' markets in Whitley County, Prestonsburg, Berea, Whitesburg, Floyd County, Hazard and many other places across the region are growing in revenue and participation. Community gardens and farm-to-school programs are becoming increasingly popular. This burgeoning sector needs support and smart investment to become an economic engine in eastern Kentucky.

The Opportunity

Eastern Kentucky has a history of small-scale agriculture, and a relatively untapped market. Direct-to-consumer sales nationwide (through farmers markets, community supported agriculture and on-farm sales) reached \$1.2 billion by 2007, according to a 2010 USDA study.¹⁵ In West Virginia alone, 31 farmers markets generated an estimated 69 full-time equivalent jobs and \$656,000 in labor income.¹⁶

The market exists, and it is growing. If just 5 percent of food purchases in West Virginia were made from local sources, the state's farmers would see \$200 million more in income each year.¹⁷ For every dollar spent on local food, between \$0.55 and \$0.78 is spent elsewhere in the local economy.¹⁸

In keeping with the current national trend, demand for local foods is expanding in eastern Kentucky. Though the number of farms is decreasing in the region—and across the nation—in nineteen Appalachian counties, farms that sell directly to the consumer actually grew between 2007 and 2012. In seven counties, that number more than doubled. Direct-to-consumer sales brought in more than \$5.3 million to eastern Kentucky farmers in 2012.¹⁹

Area health departments, schools and nonprofits are promoting the economic and health benefits of fresh fruits and vegetables grown locally. Formal farmers markets exist in more than half of eastern Kentucky counties, along with many formal and informal roadside

stands. Farm-to-school programs are putting more local food on children's plates. In fact, in some areas the demand for local food outstrips the supply. This presents a significant opportunity for eastern Kentucky farmers and food producers to fill that gap and grow their enterprises.

What's Happening Now?

Significant advancements in the local food sector have been made in eastern Kentucky. Some highlights include:

- Economic development officials are increasingly recognizing that small-scale agriculture and local foods are a crucial part of a resilient economy. An increasing amount of state funds are supporting small-scale agriculture and food entrepreneur projects. Agriculture Development funds were used to help build the Chop Shop, a regional meat processing facility on the Wolfe/Morgan county line, and many counties have included local agriculture development in their strategic economic plans.
- Home and school gardeners are planting more to sell at farmers markets. Programs like Grow Appalachia support backyard and community gardens with training and supplies. Grow Appalachia works with 21 eastern Kentucky community centers and requires its partner sites to sell at farmers markets. Owsley County High School's garden and

greenhouse offer students a chance to sell what they grow at the on-site farmers market.

- Institutional buying is scaling up demand. Many area schools participate in farm-to-school programs, and state parks and restaurants are offering locally grown products on their menus. Perry and Greenup counties received federal farm-to-school grants for 2014, and some Kentucky state resort parks are buying more local food to serve in their restaurants.
- Agricultural education programs are teaching school children how to grow and sell produce, poultry and livestock, creating a new generation of potential farmers. The Kentucky Department of Agriculture recently unveiled its “Appalachia Proud” program to widen and strengthen educational opportunities in small-scale agriculture to train the next generation of farmers.

However, there are still significant gaps in eastern Kentucky’s food system. The impact of the local food sector varies widely within the region. Several counties, including Laurel, Perry, Wayne and Magoffin, saw significant increases in the number of farms selling directly to customers over the past five years, while other saw big drops. The region overall experienced a six percent decrease in the amount of income coming from direct sales, while the state as a whole saw an 8.4 percent increase. Counties like Cumberland, Greenup, Johnson and Owsley saw increases of 50 percent or more.²⁰ This uneven impact indicates a need for better access to education, advocacy and training for all members of the food system.

The many resources for farmers and food producers are not well coordinated. Statewide resources have historically been concentrated in the central and western parts of the state. Processing and aggregation facilities are a critical need, but only if they are correctly sized to the community. Too often, state and federal funds go toward physical infrastructure in communities that have a real need for personnel to manage farmers markets or broker connections between farmers and institutions.

It can be difficult for consumers to access local foods even though demand for it is increasing. The impact of the local food sector varies widely throughout the region. It can be difficult for grocery stores and restaurants to source from multiple farmers when they are used to getting all of their food from one source. Farmers markets in urban areas are often able to accept food stamps, but this technology is out of reach for many

small, rural farmers markets in our region, though some have started the practice. More people could benefit from learning how to cook fresh fruits and vegetables. Cooperative extension and health departments need more resources to offer this type of education to the community.

Finally, the region needs more producers to meet growing demand. Like small farmers across the country, eastern Kentucky food producers are struggling. The number of farms in eastern Kentucky fell by 7.5 percent between 2007 and 2012, and the average farm in the region loses money.²¹ Many state programs, financial offerings and federal regulations are aimed at large-scale commodity farms and livestock producers, not to smaller farms supplying the local community.

New and existing local producers need technical assistance to scale up production, meet food safety requirements and connect with markets. The potential exists for small farmers to reap the rewards of the local food sector, if they are equipped to take advantage of it.



What Needs to Be Done?

The supply of local food must increase in eastern Kentucky, and consumers must be able to access it. The region needs more farmers producing higher yields of fresh produce and more food entrepreneurs making value-added food products while consumers are buying more at farmers markets, grocery stores and school cafeterias. Infrastructure, training, education and technical assistance are important on both sides of the equation.

“ The region needs more farmers producing higher yields of fresh produce and more food entrepreneurs making value-added food products while consumers are buying more at farmers markets, grocery stores and school cafeterias.

There are a number of things communities can do to support their local food system. Local people can:

- Support local farmers and food entrepreneurs by buying local wherever possible. Ask for locally produced food at grocery stores and restaurants to create more demand.
- Encourage schools to participate in farm-to-school and school gardening programs, and talk to local government about creating community gardens. Take an inventory of empty lots or other unused open space in communities that could be used for public gardens.
- Talk to extension offices, health departments and chambers of commerce about opportunities to support local food producers.
- Celebrate the importance of local farmers and producers in communities by hosting locally sourced dinners or other events.
- Work with other interested community members to complete a community food assessment, which identifies the challenges, opportunities and gaps in the local food system.

The state government has a role to play in supporting local food in eastern Kentucky through policy and programs. The state should:

- Direct state and federal investments, particularly Agricultural Development funds and Farm Bill program funds, to eastern Kentucky farmers, food products, intermediaries and aggregation and distribution facilities.
- Allow state and federal funding to be used for personnel, not just infrastructure.
- Direct public institutions, including colleges, local hospital systems and state parks, to purchase locally produced food when available, and expand farm-to-school and school garden programs to all public schools.

- Provide technical assistance to farmers and food entrepreneurs for product development, marketing and food safety standards through county extension agents and other service providers.
- Ensure that state and federal regulations support, not hinder, small farmers and food entrepreneurs.
- Establish a statewide food policy council to streamline and coordinate the local food system statewide. A food policy council will make it easier for farmers to access services and funds and to make connections between producers and consumers, particularly at the institutional level.

Resources

This is a brief list of organizations, agencies and institutions that support local foods in eastern Kentucky.

- Appalachian Roots: www.appalachianroots.net
- Community Farm Alliance: www.communityfarmalliance.org
- Eastern Kentucky Local Food Systems Collaborative: www.appalfoods.org
- Grow Appalachia: www.berea.edu/grow-appalachia
- Jackson County Regional Food Center: www.jcfoodcenter.com
- Kentucky Center for Agriculture and Rural Development: www.kcard.info
- Kentucky Department of Agriculture: www.kyagr.com
- Appalachia Proud: www.kyagr.com/marketing/appalachia-proud-ky.html
- Farm-to-School: www.kyagr.com/consumer/farm-to-school.html
- Farmers Market directory: www.kyagr.com/marketing/farmers-market-directory.aspx
- University of Kentucky College of Agriculture, Food and Environment: www.ca.uky.edu
- Cooperative Extension Service: extension.ca.uky.edu
- Food Systems Innovation Center: www.uky.edu/fsic
- Robinson Center for Appalachian Resource Sustainability: www2.ca.uky.edu/rcars/


Transition Strategy: **Forestry Sector**

Eastern Kentucky is blessed with abundant, beautiful forests that have provided for our region for centuries. Forestry has been, and remains, a critical part of our state's economy. But our forests have suffered from a legacy of poor management practices and fragmentation. While the recession and housing bust hit the wood products sector hard, demand for sustainable wood products is slowly growing. Ecosystem services programs reward family forest owners for the protection of clean air and water. Additionally, healthy forests can be an important part of a growing tourism industry.

The Opportunity

Rich and beautiful forests are one of eastern Kentucky's greatest assets. While a legacy of poor forestry practices have reduced the quality of our hardwoods, the forest and wood products sector is still an important part of the region's economy. In 2013, the forest industry generated \$12.8 billion for Kentucky's economy and employed more than 27,500 people statewide.²² In eastern Kentucky, the industry employed more than 5,700 people in 320 businesses in 2011.²³ Pulaski County's sizable cluster of wood and paper products manufacturers employs more than 1,500 people.

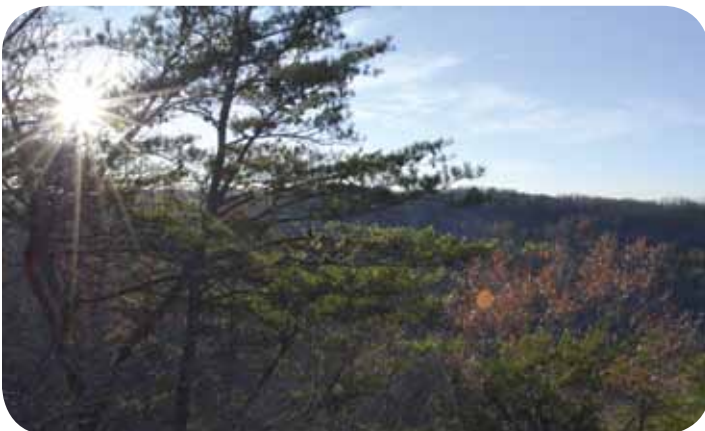
While the industry nationwide was hit hard by the housing bust, recent data indicates that the housing market is beginning to recover from the recession, and hardwood log prices are increasing.²⁴ Additionally, there has been promising growth in the sustainable wood products sector. Chain of Custody certifications, which ensure that wood products come from sustainably

 In 2013, the forest industry generated \$12.8 billion for Kentucky's economy and employed more than 27,500 people state-wide.

managed forests, grew 60 percent between 2009 and 2010.²⁵ With the right training and technical assistance, eastern Kentucky's many wood products manufacturers can take advantage of the growing market demand for sustainable wood products.

Beyond wood products, eastern Kentucky's forests provide many ecosystem services, such as clean water, clean air and carbon sequestration for the whole state and nation. Carbon offsets are becoming increasingly popular for corporations and individuals who want to mitigate their environmental impacts. Some municipalities, including New York City, pay upstream landowners to protect their drinking water sources from pollution instead of building costly water filtration systems.²⁶

Even the act of learning more about responsible management can benefit our region's forests. Landowners who are interested in taking advantage of the carbon market or sustainable wood products industry must first talk to a professional forester. As landowners become educated about their property and its benefits, many are motivated to become better stewards of their land. Healthy forests are better protected against fire and insect threats, and can be part of the region's eco-tourism opportunities.



What's Happening Now?

- Eastern Kentucky has long been home to numerous lumber yards, sawmills and millworks. As consumers increasingly demand to know that their wood products are coming from sustainable sources, more of the industry is becoming certified as sustainable to meet that demand. The University of Kentucky's Center for Forest and Wood Certification helps landowners, loggers and forest products industries obtain "chain-of-custody" certification. This certification assures consumers that their wood products came from sustainably managed forests, and is essential to participation in the growing "sustainable wood" market.
- Eastern Kentucky contains thousands of acres of surfaced-mined lands that can be replanted in native hardwoods. In time, smart forestry can ensure these forests are sources of sustainably-harvested timber, food production, carbon sequestration and tourism opportunities. Programs like Green Forests Work put people to work planting native trees on previously mined land for future sustainable use.
- Healthy forests act as "carbon sinks," crucial for combating climate change. And eastern Kentucky's headwater streams are the source of drinking water for much of the rest of the state. Programs that pay landowners to protect their forests ensure that the many benefits of healthy forests are secured for the long term. The Appalachian Carbon Partnership connects family forest owners with the carbon offset market, which pays them for protecting their forest land.

The forest sector in eastern Kentucky is still struggling despite these positive steps. A long history of "high-grading," or harvesting only the best trees and leaving the poorer-quality ones, as well as disease and invasive species, has reduced the quality of our hardwoods. Between 2004 and 2011, the percentage of high-quality trees in the state declined 38 percent.²⁷

“ Chain-of-custody certifications, which ensure that wood products come from sustainably managed forests, grew 60 percent between 2009 and 2010.



Since higher-quality trees fetch higher prices, this has an impact on the economic value of the forestry sector.

The state Division of Forestry is responsible for enforcing best management practices, monitoring harvests, educating landowners about the importance of forest stewardship, and a host of other programs crucial to healthy forests. But its budget and staff have been cut drastically over the past several years. Just two state foresters are responsible for the bulk of eastern Kentucky, and there is only one private consulting forester for all of southeastern Kentucky.

At the same time as state budgets are being cut, the federal government is paying little attention to privately owned forests. The federal budget for state and private forestry has dropped approximately 22 percent between 2011 and 2014, and is just 10 percent of the total federal forestry budget. Additionally, federal Abandoned Mine Lands funds, which are intended to help reforest previously mined lands, are tied up in Washington, D.C., with no clear way to access them.

The payoff for good forest management is not immediate, and many family forest owners cannot afford the upfront costs. At the same time, funding for state and federal cost-share programs and grants are being cut. Programs to reward landowners for proper stewardship in the short term are limited. And the declining number of foresters is making it difficult for landowners to access information and services they need.


While the amount of high-quality certified wood from eastern Kentucky is growing, area companies face competition from the global market. The state Wood

Products Competitiveness Corporation once existed to promote Kentucky's wood products around the country and world. However, it was dissolved more than a decade ago, leaving Kentucky's wood products without a dedicated body to promote them.

What Needs to Be Done?

Kentucky's forests and forest products industries have long been neglected by the state and federal government. Without additional support, land and business owners will continue to struggle. The state and federal government serve a key role in supporting the forestry sector in eastern Kentucky. They should act now by doing the following:

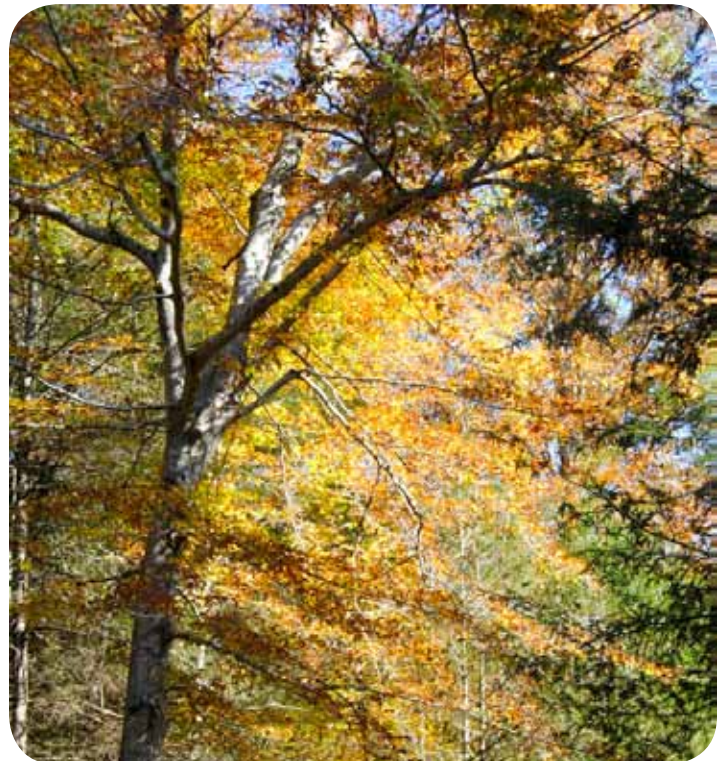
- Release Abandoned Mine Lands funds and other funding to support large-scale reforestation efforts on former mined lands.
- Reinstate the Wood Products Competitiveness Corporation to market sustainably harvested eastern Kentucky forest and wood products regionally, nationally and internationally.
- Scale up technical assistance in chain-of-custody certifications for landowners and manufacturers to meet the demand for sustainable wood products.
- Restore funding to the Division of Forestry to develop forest management plans, provide technical assistance and cost-share programs to landowners and enforce best management practices.
- Explore financial incentives for loggers and primary wood products companies for harvesting and processing wood from certified land, and for landowners engaging in forest stewardship plans. Many states offer tax breaks for landowners who enroll their land in stewardship programs.
- Work with area universities and community colleges to increase and expand education and training programs for new loggers and foresters. Expand Master Logger trainings, particularly in the eastern part of the state.

 Healthy forests are better protected against fire and insect threats, and can be part of the region's eco-tourism opportunities.

Resources

This is a brief list of organizations, agencies and institutions that support forestry in eastern Kentucky.

- Appalachian Carbon Partnership:
www.appalachiancarbonpartnership.org
- Center for Wood and Forest Certification:
www.forestcertificationcenter.org
- Kentucky Division of Forestry Forest Stewardship Program and Landowner Services:
forestry.ky.gov/LandownerServices/Pages/default.aspx



Transition Strategy:

Ensure Meaningful Investment

Eastern Kentucky is brimming with encouraging projects and innovative ideas that need financial backing to get off the ground or grow to scale. The region's ongoing infrastructure challenges can be job-creating opportunities if investments are made in broadband, housing, child care, health care and education.

The region has no shortage of economic development ideas, but many require more financial support than the local community can provide. Investments not only improve quality of life, but they also make our region more attractive to businesses, entrepreneurs, visitors and future residents.

Our communities are at a crossroads. Growing federal, state and philanthropic investments will help them take the path to a brighter future.

The Opportunity

The region will not thrive without significant—and smarter—investment from local, state and federal government, private investors and foundations. Increasing investment in the region will help attract and leverage other funds, much like seed funding helps a small business get off the ground and draw in money from other investors. Public funds can leverage private philanthropy, and vice versa, through public-private partnerships. Kentucky has recently leveraged an investment in broadband to attract additional funding from the Appalachian Regional Commission.

New emphasis on “impact investing” and community philanthropy is helping empower communities to take ownership of development projects. In its explanation of the importance of rural development philanthropy, the Nebraska Community Foundation explains, “effective development depends on the participation of and control by local residents.” Strong economic development requires diverse voices, democratic decision-making and community input.

Public and private investment in infrastructure lays the groundwork for the region to take advantage of new economic opportunities. Early childhood education,

broadband access and quality health care support an engaged, capable workforce. Investments in promising economic sectors and entrepreneurship can give businesses the kick-start they need to stand on their own as part of a thriving economy.

What's Happening Now?

Recently, eastern Kentucky's foundering economy has received welcome attention from the state and federal government. With the coal industry in steep and ongoing decline, it has never been more critical to invest in long-term strategies and critical infrastructure that the region badly needs. New programs and initiatives are coming to life, and include:

- The Shaping Our Appalachian Region (SOAR) Summit brought together more than 1,000 people to think about the needs and future of eastern Kentucky. The ongoing SOAR initiative has spurred investment in rural broadband in the region. Kentucky's two-year budget includes \$2 million per year to fund a Regional Strategic Development Fund and \$200,000 per year for the SOAR initiative.

- The White House’s Promise Zones program gives many southeastern Kentucky counties priority for federal funding for education, economic diversification and entrepreneurship programs, as well as additional funds for small business loans.
- The Appalachian Regional Commission, the only federal agency with a sole mission to support Appalachia, has pledged several million dollars to eastern Kentucky through the SOAR and Promise Zones initiatives.
- The federal StrikeForce program gives a number of eastern Kentucky counties priority for USDA funds for rural development, housing, agriculture and other projects.
- Community philanthropy is a growing movement, with foundations being established in the region. Recent legislation in Frankfort provides incentives for donating to community foundations. The Foundation for Appalachian Kentucky is supporting its own community in Perry County and helping other communities to build their own foundations.

As promising as these may be, there still exists a wide gap between the needs of the region and the resources available. For the most part, the new federal programs do not provide new money for the region; they only give priority status to funding applications for existing funds.

State and federal budgets are already under significant strain, so finding resources for the region is difficult.

The Kentucky state budget has been cut by \$1.6 billion since 2008, affecting crucial public services like early childhood education, healthcare and social services.²⁸

The Appalachian Regional Commission has faced a \$10 million reduction in funding between 2009-2013, due to sequestration and other budget cuts.

Coal severance funds have been and continue to be critical to the region. However, these funds, which are intended for economic development in the coalfields, are dwindling quickly as production declines. The money that is left is increasingly being used to plug



holes in struggling county budgets. In the state’s 2014 budget, \$20 million of coal severance funds have been earmarked for 400 different projects, with \$62.4 million being used for debt service.²⁹ While many of these projects may be valuable, piecemeal spending is not sufficient to help the region prepare for a new economic future. More strategic use of these funds is critical. Eastern Kentucky needs a strategic plan for long-term economic development to ensure that these precious resources are used to truly further sustainable development in the region.

Philanthropy in the region is not at a measurable level with the rest of the state or country. At an individual level, Appalachians donate about 4.5 percent of their annual discretionary income—a percentage on par with the rest of the state. However, just 14 percent of the total amount donated by Kentuckians occurs in Appalachian counties, despite the region being 27 percent of the state population.³⁰

Foundations also leave Appalachia behind. Between 2010 and 2013, Appalachian Kentucky received about \$18.7 million in grants from foundations, whereas metro Louisville, which has a similar population size, received more than \$172.4 million.³¹ Moreover, more than 65 percent of foundation funding in Appalachian Kentucky came from just six foundations. This puts nonprofits and their work in a precarious position if these major funders decide to shift their focus elsewhere or close their doors.

While there is significant room for investment in the region, there also exists a community of capable agencies, social entrepreneurs and nonprofit organizations who are ready to put new money to work for eastern Kentucky. A strategic, long-term plan for economic development will further ensure that scarce dollars are spent toward advancing future goals rather than one-off projects, and will make the region more attractive for investors.

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What Needs to Be Done?

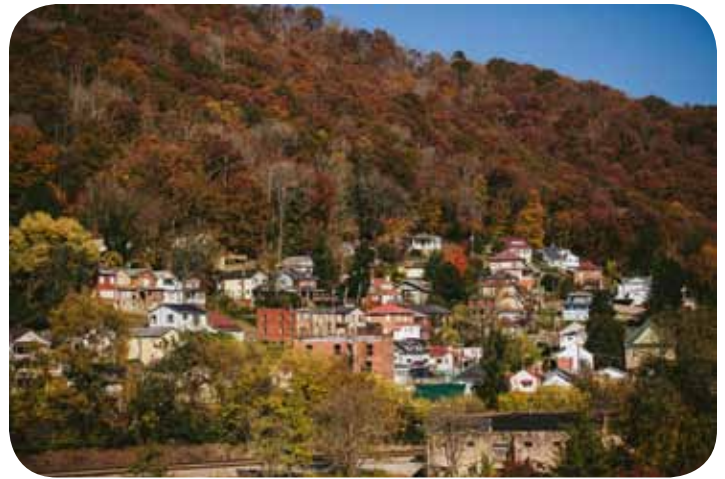
In order to improve all factors of eastern Kentucky's economic development, the region needs significant investments from multiple sources.

Local communities can advocate for increased investment in the following ways:

- Map the assets and challenges in communities to understand where investments could make the most difference.
- Work with community foundations to complete a "transfer-of-wealth" analysis to determine how much wealth will exit a community as older generations leave their inheritance to heirs who live outside the region.
- Participate in state and local government. Many organizations host lobby days on key issues that make it easy for people to meet with their legislators and participate in committee hearings.
- Work with others to develop a set of investment priorities that support a vision of a stronger county and region. Participate in the SOAR process to ensure that these goals are reflected in any strategic plan.
- Influence where severance tax dollars are spent. Meet with legislators to understand their vision about severance tax spending and share the community's priorities.

State and federal governments should do the following to improve investment in the region:

- Create a permanent fund with a portion of coal severance dollars that will provide investment dollars well into the future. Although the future of coal production and severance tax is very uncertain, setting aside about one-fourth of funds into a long-term endowment could result in hundreds of millions of dollars in a permanent fund in 20 years.³² Because eastern Kentucky's severance funds are in decline, we must act quickly to preserve some of what we have for the future.
- Establish a body to craft and manage a long-term strategic plan for the region. This body must be transparent, accountable, democratic, representative of the diversity of the region and involve significant public participation.
- Reallocate existing coal severance dollars toward long-term development strategies rather than one-off



projects. Innovative and collaborative projects that build on and support one another will better leverage existing resources and attract new funds.

- Craft a package of federal investments tailored to the needs of eastern Kentucky's economic transition. The Defense Department's Office of Economic Adjustment, which assists communities affected by the closure of military facilities, offers one model for this.
- Direct federal funds, especially from the Appalachian Regional Commission and USDA, towards communities of highest need in eastern Kentucky. These funds can be used for a variety of economic and rural development projects, including broadband access, rural development and agricultural projects.
- Release Abandoned Mine Lands funds and create a strategic plan for their use. These funds can be used to put people back to work restoring previously mined lands for economic and environmental benefits.
- Modernize and update the state tax code to better reflect the current economy, achieve fairness for the most vulnerable in our communities, and create increased revenue to support the investments we need in areas like broadband access, education and affordable child care.

“ Investments not only improve quality of life, but they also make our region more attractive to businesses, entrepreneurs, visitors and future residents.

Endnotes

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