

## 2001 Annual Report Executive Summary

### Kentucky Highlands Empowerment Zone

During the year ended December 31, 2001, the Kentucky Highlands Empowerment Zone continued its aggressive implementation of the Strategic Plan as almost all the Benchmarks made progress. The majority of the Empowerment Zone grant award has been earmarked for job creation efforts, and in this area, the KHEZ continues to be judged a success. Total employment within the three KHEZ counties at December 31, 2001 had grown to 22,001, an increase of 2,603 jobs (+13.4%) from the December 2000 figure, and 6,652 or 43.3% since designation. The overall KHEZ unemployment rate at December 2001 stood at 7.4%, which is up 1.9% for the year, but still down 26% since designation. The growth in total employment indicates there continues to be strong economic activity in the Empowerment Zone. Many residents are finding jobs and while even more are looking for employment. The majority of the increase in unemployment claims came in the last quarter when several manufacturers experienced layoffs. This is evidenced by the fact that in August 2001, the unemployment rate for the KHEZ stood at 5.8%, with total employment in the Zone at 21,517. An anomaly exists here in that while the August 2001 unemployment rate is 1.5% below the December rate, total employment is actually 484 lower than the December 2001 figure. The majority of those laid off have been recalled and the unemployment rate should decline during the first quarter of 2002. Another reason for the growth in total employment in the KHEZ has been the population increase over the last decade. According to the 2000 U.S. Census, the population of the three KHEZ counties stood at 43,052, an increase of 4,494 residents or 11.7% during the 1990's. This compares to a growth rate of 9.7% for Kentucky during the same period and a decline in population in the Appalachian counties of the Commonwealth, of which the KHEZ is part.

During the year ended December 31, 2001, the Developmental Venture Fund (Benchmark 1) approved six new loans to KHEZ companies. Included in these investments was financing for Surgical Specialties, PSC, a surgery practice opened in Clinton County. The project was coupled with a \$2.0 million expansion at the Clinton County Hospital to construct a wing allowing general surgery to be performed at the hospital for the first time in history. The remaining loans approved during the year were for expansions of existing KHEZ businesses. In addition, two companies were granted moratoriums on their loan payments to allow the businesses to make through the economic downturn.

One has already resumed normal terms. Total employment at the companies which have received financing from the Developmental Venture Fund stood at 3,006 at December 31, 2000. This is a decline of 282 during the course of the year. The total private investment leveraged by the Fund grew to a total of \$98,166,000 at year end. The performance of the Developmental Venture Fund loan portfolio has been excellent. A total of \$18,254,022 in loans has been approved, with an outstanding balance of \$11,085,730 at December 31, 2001. In addition, a total of \$3,810,219 in loan repayments beyond the \$11 million Benchmark capitalization has been relent and is in use in the Zone. One loan was not paying in accordance with terms and this company is working closely with the KHEZ on a restructure plan. A second loan, however, went into default in 2001, with the KHEZ securing a judgment and repossessing the collateral. The other major lending initiative within the KHEZ involves small farmers.

The Alternative Crop Fund (Benchmark 6) had an outstanding year, closing thirty new loans during the period and utilizing \$76,266 in repaid principal in the process. A total of 109 Alternative Crop Loans, representing an investment of \$370,812 in KHEZ funds, have been made to date. During the year ended December 31, 2001, nine Production Loan Funds were made. This brings the total since designation to forty-six. The amount invested with Zone farmers through this Benchmark is now \$541,270, including \$131,735 in repaid principal funds. Both of these programs have grown significantly as a result of an extensive marketing program. On the county level, several Benchmarks were completed and others began to make noticeable progress.

In Clinton County, the Clinton County 21st Century Learning Center (Benchmark 10), a local EZ project, was completed in December 2001 and began holding post-secondary classes in January 2002.

This \$3.9 million education center will make available college level classes for the first time to Clinton County residents. Other Clinton County accomplishments include completion of the new county emergency services building (Benchmark 38) which includes a private AirVac service, substantial progress on the Foothills Academy (Benchmark 31) center of trouble youths, and the first two business locations in the Clinton County Industrial Park (Benchmark 2).

In Jackson County, the Environmental Impact Statement (EIS) for the reservoir (Benchmark 19) was completed after four years of planning. The Final Draft EIS and the Record of Decision were issued on September 5, 2001. The EIS recommends a 113-surface acre lake at the War Fork/Steer Fork site. This site involves only seven property owners and no relocation. The major hurdle remaining for the project is to secure a Section 404 permit from the U.S. Army Corps of Engineers. This may take some time.

Several other Jackson County projects also made progress on implementation. The community center/theater (Benchmark 25), located within a new vocational school, was completed and opened to the public in December 2001. The entrepreneur training program (Benchmark 9) and the city of McKee revitalization project (Benchmark 16) continued on course. The day care provider training project (Benchmark 41) will be undertaken shortly as part of a new day care/family care center currently is constructed in the Jackson County Industrial Park. This center was funded in large part through a \$499,000 RBEG award. The Strategic Plan annual review process in the Spring 2001 added 12 new benchmarked projects in Jackson County. Of these, six have already been completed. In Wayne County, all benchmarks are complete.

The last remaining item, the construction of a swimming pool at the ASPIRE youth center (Benchmark 26), was finished in December 2001. The pool is scheduled to open in May 2002. However, the ASPIRE youth center is low on operating funds and is pursuing a strategy to put it on more secure footing. All other activity under the benchmarks within Wayne County is finished. During the year ended December 31, 2000, the KHEZ invested \$4,814,657 of SSBG funds. At December 31, 2000, a total of 32,948,888, or 82.4%, of the SSBG award has been expended. In addition to this amount, \$4,018,220 of loan repayments has been reinvested within the Zone. This brings the total amount invested by the Kentucky Highlands Empowerment Zone in Clinton, Jackson and Wayne Counties to \$36,967,108. The resulting impact is tangible and readily apparent.