

KENTUCKY HIGHLANDS INVESTMENT CORPORATION

June 2006

Partnerships bring progress to the region



In 1968, Kentucky Highlands was built on the basic premise that a significant reduction in the region's poverty could only be achieved through economic growth.

KHIC continues to thrive decades later because we not only understand that cooperation is necessary to achieve progress, we also practice this philosophy every day.

As a result, more than 10,000 new jobs have been created in our 22-county service area in Southern and Eastern Kentucky.

But that success hasn't happened through KHIC alone. There is a common theme running throughout these results — a commitment to economic growth through cooperation and coordination on many levels.

It takes cooperation from local entities, such as city and county government; community lending institutions; state organizations, such as the Governor's Office of Local Development, the Economic Development Cabinet and the Kentucky Housing Authority; and federal officials, such as Congressman Hal Rogers and Ken Slone, Kentucky director for USDA – Rural Development.

This publication highlights several successes from the last year for KHIC and the 22 counties it serves. Here's a quick look at how the common denominator of strategic partnerships and cooperation has benefited the region in the last year:

- **Homeland security efforts**, spearheaded by Congressman Rogers, have brought together an unprecedented level of cooperation between Kentucky and Tennessee. The announcement that Kentucky is competing for a \$500 million national bio-defense lab was made in February with the assistance of two governors, four U.S. senators, three universities (University of Kentucky, University of Louisville and University of Tennessee), KHIC, The Center for Rural Development, the Oak Ridge National Laboratory, the National Institute for Hometown Security and the Southeast Kentucky Economic Development Corporation. All of these leaders and leading institutions will continue to fight to gain a facility that would create more than 400 permanent jobs with a payroll of \$30 million. (See story on this page.)
- **Better access to health care and additional good-paying jobs** go hand-in-hand in our New Market Tax Credit program. A longtime partner of ours, RURAL Local Initiative Support Corporation (LISC) provided KHIC a capacity building grant to develop the program, which will offer loans to bring private-sector investments in health-related companies to our rural areas. It is just one example of the many partnerships KHIC has with federal and local lending institutions, which will spur much-needed investment in our area. (See page 2.)
- **Youth and families are the beneficiary** of a formal partnership with the Federal Home Loan Bank of Cincinnati. The partnership is so strong that a new dormitory at Foothills Academy for at-risk youth has been named for one of the FHLB's leaders. (See page 3.)
- **Tobacco farmers are getting a helping hand**, thanks to funding from the Small Business Administration Microloan program and Kentucky's Phase I Tobacco Settlement, which were pooled together to develop a fund specifically targeted to farmers. It's part of a strategy that has led to KHIC leveraging millions of federal dollars for our area. (See page 3.)

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According to the 2000 census, Appalachian Kentucky has almost 17,000 homes with incomplete plumbing. KHIC, along with more than 10 local, state and federal partners, is working on a **solution to provide families with basic infrastructure and sanitation** that most of us take for granted. New housing modules would include a kitchen, bath and laundry. (See page 4.)

Please take a moment to review the accomplishments we have achieved together in the last year and the important partnerships that have made this progress possible.

Jerry Rickett
President & CEO
Kentucky Highlands Investment Corporation

INVESTING IN OUR COMMUNITY (FY 2005 STATS)

DOLLARS LOANED	\$11.1 million
EQUITY INVESTED	\$.4 million
TOTAL INVESTMENTS	\$11.5 million
LEVERAGED FUNDS	\$13 million
NUMBER OF LOANS	91 loans to 57 companies plus 18 loans to farmers

TOTAL EMPLOYMENT AS OF MARCH 31, 2006: 10,197

Finding a high-tech niche in homeland security efforts

The issue of homeland security challenges is resulting in increased funding and development of high-tech, high-wage jobs.

Leaders in Southern and Eastern Kentucky are positioning the region to play a significant role in the nation's security as well as bring hundreds of jobs here.

Kentucky Highlands is working with Congressman Hal Rogers, who chairs the House Appropriations Subcommittee on Homeland Security, and many others to make this vision a reality.

Through a variety of partnerships and development venture fund efforts, KHIC is working to bring high-tech, homeland security jobs to the area.

Bio-defense lab

In an unprecedented level of cooperation between two states, Kentucky and Tennessee are attempting to recruit a bio-defense lab to Pulaski County.

Kentucky's effort to compete for a \$500 million national bio-defense lab is being undertaken with the assistance of two governors, four U.S. senators, three universities (University of Kentucky, University of Louisville and University of Tennessee), KHIC, the Center for Rural Development, the Oak Ridge National Laboratory, the National Institute for Hometown Security and the Southeast Kentucky Economic Development Corporation.

"The joint effort by so many institutions and government officials is unprecedented," said Jerry Rickett, president & CEO of Kentucky Highlands. "The resources, energy and abilities that have been harnessed for this project make Kentucky highly competitive for this important homeland security project, which would result in hundreds of good-paying jobs to our area."

In February, a formal announcement was made, but that is just the beginning of the process. All of these leaders and leading institutions will continue to fight to gain a facility that would create more than 400 permanent jobs with an average salary of \$74,000 and a payroll of \$30 million.

It will provide opportunities not only for scientists and other researchers, but also will create demand for more service and retail jobs, University of Louisville Professor Paul Coomes recently told the *Lexington Herald-Leader*. He also stated that the lab would probably result in other technical operations in the life sciences field as well as attract some doctors, lawyers and bankers to the area.

Tennessee Valley Corridor

Another cooperative effort with Tennessee is the Tennessee Valley Corridor, which is a non-profit organization dedicated to promoting the Tennessee Valley Corridor as one of the nation's premier science

and technology centers. It also seeks to leverage the corridor's world-class research institutions and technology assets for maximum regional economic development and new job creation.

Rickett, who is Congressman Roger's appointee to the board, is hoping that the group will call attention to Kentucky-based businesses.

"Kentucky is a late joiner to the organization," Rickett said. "Thousands of jobs have come to the Tennessee Valley as a result of Oak Ridge National Laboratory. Along with trying to recruit the bio lab, KHIC is working to bring similar jobs to Kentucky."

Tech 2020

Kentucky Highlands also has a strategic partnership with the Technology 2020 project, which was designed to help start new technology businesses and provide assistance to create new jobs for the region.

Technology 2020 has established a business incubator program to help companies successfully meet the challenges associated with business start-up and to nurture companies that will be headquartered in the Tennessee-Kentucky region.

Like Kentucky Highlands, Tech 2020 is a community development corporation.

(Continues on page 3)

Rickett receives two national awards for community development



Jerry Rickett, President and CEO of KHIC, accepting his Pioneer in Excellence Award

Jerry Rickett, president & CEO of Kentucky Highlands Investment Corporation, received two national community leadership awards for his work to stimulate economic opportunity in Southeastern Kentucky.

One recognition came from LISC, Local Initiatives Support Corporation, which is a national community development support organization. Rickett was one of 25 executive directors from urban and rural non-profit community organizations to receive the honor, which coincided with LISC's 25th anniversary.

He received the Mike Sviridoff Leadership Award at the Ronald Reagan Center in Washington, D.C., last fall in front of an audience of more than 800. Sviridoff was LISC's first president.

In addition, Rural LISC awarded Rickett with a Pioneer in Excellence Award, which was created to recognize outstanding leaders in the rural community development field. He received the honor last spring in California.

"Jerry has helped Kentucky Highlands set the standard for investing in the economic future of rural communities," said Michael Rubinger, LISC president & CEO. "Trying to turn around distressed communities is very tough. It takes vision, hard work and tremendous determination."

In awarding this honor, Rural LISC cited that, under Rickett's leadership, Kentucky Highlands has invested \$136 million in more than 400 businesses with an annual payroll in excess of \$200 million.

\$22 million in loans will improve health care in rural Kentucky

In much of Southern and Eastern Kentucky, families have to travel to Lexington, Louisville or Knoxville for many medical treatments.

A report from the University of Kentucky Center for Rural Health, health-care providers indicated that it is extremely difficult – and in some cases nearly impossible — for many counties to secure affordable financing for clinics, hospitals and other related facilities.

This situation not only can be detrimental to the health of patients in the region, but it is a burden for family members as well.

Thanks to the New Market Tax Credit Program, Kentucky Highlands Investment Corporation will be able to attract \$22 million in private investments for medical care.

"Expanding access to health care is one of the most important things we can do to improve the quality of life throughout rural Kentucky," said U.S. Representative Hal Rogers in a news release announcing the program. "Over the last 37 years, KHIC has made a tremendous impact in our region through its many valuable economic development initiatives. The funding obtained through the New Market Tax Credit program will enable KHIC to further those efforts."

The goal is to bring private-sector investments in low-income rural areas to help finance community development projects, stimulate economic opportunity and create jobs in areas that need it most.

Here's how the program works:

Participating individuals, banks and other financial institutions will receive a credit against

federal income taxes for making qualified equity investments in community development entities, such as Kentucky Highlands.

KHIC has received permission to obtain up to \$22 million in investments, which then will be used to provide low-interest loans to health-care and related businesses with the goal of improving access to medical care in rural Kentucky. The investments will be made through two funds:

1. Health Care Real Estate Fund, which is a specialized fund or series of funds for providing debt capital to eligible health-care and related real estate projects in the target areas. A separate investment fund will be created for each project. The fund is expected to make real estate investments up to \$5 million.

2. The Health Care Business Loan Program, which is a loan fund or series of funds that will provide debt capital to eligible health-care providers and businesses for equipment, fixed assets and working capital. Debt capital would be invested in a wide variety of businesses that meet KHIC and the investor's lending criteria, credit standards and risk criteria. These loans may be combined with other federal loan guarantee programs, including USDA business and industry guaranteed loans originated by KHIC.

For both funds, the investor for each project will use its investment and underwriting criteria.

Kentucky Highlands has had tremendous success using federal funds to improve access to health care

and create good-paying jobs. One example can be found in the Empowerment Zone.

In Clinton County, it wasn't unusual for families to make a four-hour roundtrip to visit loved ones in the hospital as they recovered from surgery. Today, residents no longer have to leave home to undergo operations.

Through a major renovation, Clinton County Hospital has realized \$15 million in improvements to its facility, including a new emergency room, diagnostic facilities, two operating rooms and patient rooms financed by U.S. Department of Agriculture (USDA), KHIC and the Office of Community Services.

Residents also have access to high-tech magnetic resonance imaging (MRIs), which eliminated a five-month backlog; home health services; and several new doctors, including a pediatrician, which it previously didn't have.

As a result, 50 new good-paying, skilled jobs also have been created.

This experience will be beneficial as KHIC undertakes the New Markets Tax Credit Program.

"The program will significantly enhance its ability to serve a particularly underserved market," said Jerry Rickett, president & CEO of KHIC. "By working with local financial institutions, the investment incentive will offer affordable financing that it wouldn't otherwise be able to do with traditional forms of capital lending."

For more information, please call Brenda McDaniel at 606-864-5175.

KHIC, alliance partner receive national funding awards

Two London, Ky.-based organizations received federal awards that will bring \$1.1 million to the region.

Kentucky Highlands Investment Corporation and the Appalachian Development Alliance, Inc., were selected as two of the 48 community-based organizations across the country to receive awards from the U.S. Department of Treasury's Community Development Financial Institution Fund.

"Kentucky Highlands is thrilled to receive this award, which will allow us to continue to provide assistance to businesses and help put people to work in Southeastern Kentucky," said Jerry Rickett, president & CEO of KHIC.

The \$206,663 in funding is being used for farmer assistance and computer upgrades.

Most of the funds are being used to capitalize a microlending program for farmers who want to diversify to become less dependent on tobacco. The remaining funds will upgrade KHIC's computer system to create online loan applications, which will create greater efficiencies for Kentucky Highlands and its borrowers. A more seamless data collection system will let KHIC track the financial and organization condition of its borrowers, so it can better tailor products and services to meet customers' needs.

The announcement was made by Congressman Hal Rogers and CDFI Deputy Director of Programs and Policy Linda Davenport at Integrity Mold and Die in Mt. Vernon.

CDFI was created in 1994 to use federal resources to invest in and build the capacity for community development institutions, so they can respond to gaps in local markets not being served adequately by traditional financial institutions.

KHIC also is a member of the other local organization to receive funding. In addition to Kentucky Highlands, the seven other members of

the Appalachian Development Fund are Appalbanc, Community Ventures Corporation, East Kentucky Corporation, MACED, Mountain Economic Development Fund, Pine Mountain Community Development Corporation and Southern Kentucky Economic Development Corporation.

The alliance utilizes collective efforts to provide business development capital and technical assistance to small businesses and distressed communities in the region. It will use this \$950,000 in funding to diversify its portfolio and offer more flexible lending structures to borrowers.



Members of the Appalachian Development Alliance accepts award. Left to right: Debbie McKinney, State Director for Senator Jim Bunning; Stephen Taylor, KHIC; Mike Hillock, Community Ventures Corporation; Linda Davenport, the CDFI Fund's Deputy Director of Programs and Policy; Congressman Hal Rogers; Paul Pratt, Pine Mountain Community Development Corporation; Donna McClure, Field Rep for Senator Mitch McConnell; Holly Scoville, Field Rep for Senator Jim Bunning.



Officers of KHIC accepts award. Debbie McKinney, State Director for Senator Jim Bunning; Holly Scoville, Field Rep for Senator Jim Bunning; Linda Davenport, the CDFI Fund's Deputy Director of Programs and Policy; Congressman Hal Rogers; Jerry Rickett, President and CEO of KHIC; Brenda McDaniel, CFO of KHIC; Ray Moncrief, Executive Vice President and COO of KHIC; Donna McClure, Field Rep for Senator Mitch McConnell.

Finding a high-tech niche in homeland security efforts (Continued from page 1)



Harlan County contractor Five-D has worked on more than 50 runway lighting and navigation system projects at civilian and military airports in 17 states.

Success story in Harlan County

KHIC also has assisted a high-tech company right here in the region that does business with the military.

When an airport needs a contractor to upgrade its facilities, chances are, it finds one in Atlanta, Chicago or Dallas.

But it's a Harlan County, Ky., contractor who is making great strides in the business – with more than 50 runway lighting and navigation system projects at civilian and military airports in 17 states.

Five-D Enterprises is owned by Paula Davis and operated by her project manager and husband, Shawn.

As a private pilot, Shawn Davis noticed that many airports he flew into needed lighting upgrades. Davis, by combining his skills as an electrician and a pilot, identified a burgeoning business opportunity to merge both interests and increase the profit margin from what the company was making on school construction.

"Being a pilot, I understand the way the primary users of our systems — the pilots — make use of what we install," Davis said. "We understand airport installation methodology, application and standards. With our extensive experience in working with air traffic control, we know how to blend into the airport operations with minimal disruption and compromise of safety."

His first airport contract was rewiring the runway of the London, Ky., airport.

Over time, Five D has bid as a subcontractor or prime contractor for many airports, including projects in Kentucky cities such as Louisville,

Lexington, Cincinnati/Northern Kentucky, Frankfort, Hopkinsville, Pikeville, Hazard and Georgetown. It also has tackled projects in Atlanta; Huntington, W.Va.; Nashville; Indianapolis; Wichita, Kansas; Oklahoma City, Charleston, S.C.; Savannah, Ga.; and Raleigh-Durham, N.C.

Five-D recently has branched out and has begun working with military installations, including Fort Campbell, Charleston AFB, Pope AFB, Langley AFB, Fort Stewart, and the Beaufort MCAS.

"Our first military contract was the Naval Ordinance Center in Louisville," Davis said. "I was impressed by the integrity of the procurement process, the fairness of the contracting office and the predictability of how things worked. At the end of the day, in the military world, it's about getting the mission accomplished in compliance with the significant mission objectives. We are well-versed in the standards and rules, so we are able to deal with them more effectively than someone who does not specialize in this work."

The company is growing as a result of a recent \$200,000 loan in working capital from Kentucky Highlands Investment Corporation and another \$200,000 from Southeast Kentucky Economic Development Corporation.

American Waterways in Production in Wayne County

Investors Include UK Basketball All-Americans

American Waterways, a division of Somerset Houseboats, opened its plant last summer on KY 90 in Wayne County. The goal of the company is to build affordable, entry-level houseboats with the same attention to quality and safety found with its parent company, Somerset Houseboats.

Steve Lochmueller, CEO of Somerset Houseboats and American Waterways, said the idea for American Waterways was hatched at a strategy session last fall. In just 17 weeks after leasing the building from Kentucky Highlands Investment Corporation, the first houseboat was completed.

"Our market research shows a strong opportunity for a quality, NMMA Certified, mid-entry level houseboat," said Tom Wylie, an official with the investment group led by former Kentucky Wildcats Jamal Mashburn and Ron Mercer. "Bolster that with increased consumer awareness of the

many houseboating benefits and the continued growth and development by the marina industry, and you've got a winning concept."

American Waterways, which currently employs 50 people, anticipates employing more than 90 team members and producing up to 48 houseboats per year when it reaches full production. It offers a variety of floor plans and interior décor packages, which are updated each season.

The Lexington, Ky.-based investment group led by Mashburn and Mercer purchased Somerset Houseboats in 2003. Its new American Waterways' brand appeals to entry-level and mid-level boaters. Customers have the opportunity to select from specific options prior to building their model. According to Wylie, having selected options to choose from keeps the cost more affordable than the traditional custom-built boats. The starting price for each houseboat is approximately \$175,000.

American Waterways participates in the National Marine Manufacturers (NMMA)

Certification and Customer Satisfaction Index (CSI) programs.

Mountain Ventures, Inc. and Southeast Kentucky Economic Development Corporation provided equipment loans to assist Somerset Houseboats in launching this new venture.



Pictured above are officials participating in the ribbon cutting ceremony for American Waterways.

SouthEast Telephone named One of Best Places to Work in Kentucky for

SouthEast Telephone was named one of the 2006 Best Places to Work in Kentucky.

The award, similar to the *Fortune* magazine list of 100 Best Companies to Work for in America, was announced by the Kentucky Society for Human Resource Management and the Kentucky Chamber of Commerce.

Its goal is to encourage employers in the state to create excellence in the workplace and improve employee satisfaction to attract and retain talented workers to Kentucky.

"When people come on board, they feel like they're part of the organization – they know that what they're doing is contributing to the effort," said Darrell Maynard, president and founder of SouthEast Telephone. "We always try to share all our discussions for why we are doing what we're doing."

SouthEast Telephone, which is headquartered in Pikeville, ranked ninth in the category of medium-size companies (25 to 199 employees). It is the only company in Eastern Kentucky to make that list.

The selection was based on an assessment of the company's employee policies and

procedures as well as the results of an internal employee survey. The process was managed by Best Companies Group, with the research and list selection conducted by Modern Think LLC.

SouthEast Telephone provides local, long distance, Internet and paging services to 33,000 business and residential customers in 52 rural Kentucky counties.

Mountain Ventures partnered with River Cities Capital Fund of Cincinnati to provide venture capital to SouthEast Telephone in 1998, and additional investments have been made as the business grew.

Mountain Ventures, a subsidiary of KHIC, is a small business investment company licensed by the U.S. Small Business Administration to make investments in private, for-profit companies. It makes investments of up to \$250,000 in KHIC's 22-county area.

Company funded by Southern Appalachian Fund Wins National Award



Left to right: Ray Moncrief, Fund Manager of SAF; Jonathon Bragdon, President and COO of Tricycle, Inc.; and Grady Vanderhoofven, Assistant Fund Manager of SAF.

A high-tech company that has received equity funding from the Southern Appalachian Fund won a national award.

Tricycle Inc., headquartered in Chattanooga, Tenn., received a 2006 Excellence Award from the Community Development Venture Capital Alliance.

It earned the Portfolio Company of the Year Award for its innovative human initiatives; creation of sustainable, quality jobs; significant progress toward its financial goals; performance in the marketplace; and outstanding management capacity.

Tricycle, a leading technology service provider for the carpet industry, provides digital carpet modeling services to the interior design industry. By using state-of-the-art technology instead of sending carpet samples, it conserved 9,425 gallons

of oil, kept 56,500 pounds of carpet out of landfills and saved the interior design industry more than \$5 million.

The Southern Appalachian Fund, with offices in Oak Ridge, Tenn., and London, Ky., is a New Markets Venture Capital Company, providing equity capital and operational assistance for early-stage and growth companies in low income areas in Kentucky, Tennessee and the Appalachian counties of Mississippi, Alabama and Georgia.

KHIC executives L. Ray Moncrief and Brenda McDaniel serve as the fund's president/fund manager and chief financial officer, respectively.

Agriculture microlending program helps farmers diversify

Small business and agriculture are two major economic engines for Southern and Eastern Kentucky.

However, the decline in tobacco quota and, ultimately, the end of the quota system, have negatively impacted the area economy.

Small farmers, many of whom grow tobacco and are small business owners, struggle to make ends meet. The need for diversification has never been greater.

With \$600,000 from the Small Business Administration Microloan program and \$158,000

from Kentucky's Phase I Tobacco Settlement, the KHIC Agriculture Microlending Program was developed specifically targeted to farmers.

The farmers must live within a 11-county service area of Bell, Clay, Clinton, Harlan, Knox, Jackson, Laurel, McCreary, Rockcastle, Wayne and Whitley counties. The maximum loan amount is \$35,000 and can be used for equipment, inventory, working capital, production costs and other costs associated with farming.

To date, 21 loans for \$577,900 have been made. Most of these family farmers were tobacco

producers who are seeking to begin or increase their farming in areas such as dairy, poultry, beef, horses and small grains.

KHIC continues to seek additional funding sources for the revolving loan, which will continue to be replenished as farmers pay back their loans.

For additional information, please contact Gene Bundy or Edgar Davis at 859-864-5175.

Partnership gives troubled youth a second chance

The land and the youth who live on it have been given a new beginning.

The Clinton County property was once the largest underground chamber for marijuana production ever discovered in the United States.

The teens who now live there were troubled youths who found themselves in court on drug related charges, often after being neglected, ignored or abused.

Foothills Academy brought them together for a fresh start.

Rolling pastures, plank fencing and wooded areas serve as the landscape around Foothills Academy — a safe setting that provides a life of structure, responsibility and learning. It replaces a life of uncertainty and abuse — giving these youths a chance to become responsible citizens instead of



Pictured is the new dormitory "The Carol Peterson Home", located at Foothills Academy.

hardened criminals.

And this year, the community gathered together to dedicate a new dormitory — named the Carol Peterson home after the senior vice president of housing and community investment for the Federal Home Loan Bank (FLHB) of Cincinnati.

The dorm was named after Peterson in recognition of her personal effort and her professional support through the FHLB - Cincinnati.

She visited Foothills Academy while on a tour of KHIC projects in the area in August 2002. At the time, Foothills Academy had been opened for less than four months, and there were only 16 residents.

Peterson met with Judge Jeff Choate, founder and chairman of Foothills Academy, Director George Page and several of the young men. She appreciated their efforts and encouraged their growth plans.

Peterson explained the Federal Home Loan Bank of Cincinnati's Housing Grant Programs and the member board application process.

Foothills Academy submitted an application and in June 2003 was awarded a FHLB Affordable Housing Grant through the Bank of McCreary County. In addition, USDA - Rural Development awarded Foothills Academy a \$75,000 public facilities grant for the project, and KHIC provided an unsecured \$35,000 loan to purchase the land.

Much of the work on the dorm, which opened in early 2005, was done by the young men living at Foothills.

"The Federal Home Loan Bank of Cincinnati is pleased to have a role in all of the affordable housing projects that we do," Peterson said. "However, Foothills Academy is very special. We are very grateful for the opportunity to play a part in changing the direction of young people's lives."

The academy was featured as one of FLHB's outreach highlights in its 2003 annual report.

The residential community for boys ages 13 to 18 provides housing as well as counseling, academic, vocational and life skills training for up to 72 youths who were runaways, came from abusive homes or were somehow brought before the court. It employs 90 people and provides onsite teachers.

The academy is run privately by a local nonprofit board and supported through a contract with the Kentucky Cabinet for Families and Children as well as the Kentucky Department for Juvenile Justice.

In addition to the partnership between Kentucky Highlands and FHLB, other funding also was provided through the EZ's Development Venture Fund, the Clinton County EZ Community and USDA Rural Development.



Kentucky Rural Development State Director, Ken Slone

KHIC's annual board tour highlights Clinton and Wayne counties

For nearly 10 years, KHIC board members and guests have annually toured parts of KHIC's service area to see the impact Kentucky Highlands has made on people's lives and livelihoods, on communities' character and quality of life.

It would be impossible to visit the more than 10,000 people who have gotten a job as a result of Kentucky Highlands, including more than 3,600 who found work in the Empowerment Zone in the last decade. KHIC decided to focus on just a handful of examples in Clinton and Wayne counties.

Here are the highlights:

- **The ASPIRE Center in Monticello**, which serves as the community's economic development center, was the first stop on the tour. It houses the Wayne County EZ Community and the Wayne County EZ Industrial Development Authority, which provide assistance to existing businesses in the area, industrial site development and operate a revolving loan fund in conjunction with the USDA. The local industrial recruitment effort is housed here as well.

The EZ-funded center also has a gym, a multi-purpose room, indoor and outdoor walking tracks, and an outdoor swimming pool. In addition, community members can lease the facilities for events such as weddings and meetings.

During the visit, board members also met briefly with Gale Edwards, executive director of the Wayne County EZ Industrial Development Authority.

- After that, board members toured **Lake Cumberland Milling**, which not only employs 16 people, but its soybean extrusion mill creates a market for 500,000 bushels of soybeans for area farmers — an important development as farmers become less dependent on tobacco. Additionally, the availability of soybean meal in the area saves local livestock producers from paying transportation costs for purchased feed. Lake Cumberland Milling received working capital through KHIC's agriculture microloan program. In addition, KHIC staff helped the company establish relationships with USDA and local officials while in the business planning phase.
- From there, the KHIC tour continued at **Foothills Country Meats**, where they learned about all aspects of the business and toured the facility. The Kentucky Highlands Empowerment Zone and the Wayne County EZ IDA provided a total financing package of \$700,000 to the company to help build the facility and purchase equipment.

- **KAP Land Holdings** in Clinton County was the next stop on the tour. The complex houses a group of businesses in the medical field that have improved health care in the county and provided nearly 50 good-paying jobs, thanks to funding from the EZ. Dr. Tracy Cross, owner of KAP Land Holdings, moved back home to establish a surgical practice that conducts medical examinations and minor procedures on-site. In addition to his surgical practice, the complex houses three other businesses:

- **Ampyss, Inc.**, a medical billing and records management company that processes claim forms for several physicians and medical practices;
- **Twin Lakes MRI, Inc.**, a much-needed magnetic resonance imaging testing that has resolved a five-month backlog of procedures. It is run by a family practice doctor and a radiologist, who use high-tech machinery worth almost \$1 million; and
- **Certacare, Inc.**, which provides drug therapy, such as chemotherapy, to outpatients and recently released hospital patients in a nine-county area. This service is more cost-effective than requiring patients to remain in the hospital and allows patients to receive this treatment at home rather than in the hospital.

- The rolling pastures, plank fencing and wooded areas of **Foothills Academy** was the next destination. Foothills Academy is a residential community for boys ages 13 to 18. It provides housing as well as counseling, academic, vocational and life skills training for up to 72 youths who were runaways, came from abusive homes or were somehow brought before the court.

The academy, which employees 90 people, provides onsite teachers. Funding was provided through Kentucky Highlands Investment Corporation, the EZ's Development Venture Fund, the Federal Home Loan Bank (FHLB) of Cincinnati, the Clinton County EZ Community and USDA Rural Development. In fact, a new dorm on the site was named after Carol Peterson of FHLB.

- The final stop was **Windy Hills Farm** in Wayne County, where brothers Terry and Tim Bertram have dairy cattle, poultry, vegetables and tobacco. They have EZ ag loans as well as an SBA ag loan — helping farmers diversify from being too dependent on tobacco.

Another unique aspect to the farm's diversity is the development of ag tourism. During the months of September and October, elementary schools are invited to schedule field trips so that elementary school children can see first-hand how farms operate. Farm employees give tours of the dairy and then take the students outside to milk "Bessie," a paper-mache cow with a plastic glove udder underneath it to let them perfect their skills. Children also can pet baby chicks, rabbits, goats, pigs and calves, then get an up-close look at a farm tractor. The farm also is open to the public during the fall for pumpkins, mums and fodder.



Housing cores could revolutionize low-income housing

Many low-income families in rural regions of the country have homes without common conveniences, such as modern plumbing.

The solution in some areas has been modular housing, which can be brought in on a large truck and set up using a big crane at a relatively inexpensive cost. But the problem is particularly difficult in Southern and Eastern Kentucky, where narrow bridges and winding roads make it impossible to move such wide loads and equipment.

To date, the answer to providing adequate plumbing for the almost 17,000 homes in Appalachian Kentucky that need it has been slow in coming. A small number of nonprofits are able to build a handful of homes each year for low-income families, but more must be done to solve the problem.

Jerry Rickett, president & CEO of Kentucky Highlands Investment Corporation, had an idea on how to bring significant improvements to substandard housing and lower the cost of new housing in Southern and Eastern Kentucky.

With the first sketch done on a napkin three years ago, Rickett began to explore the feasibility of manufacturing housing component modules known as housing cores. The core includes a completely finished kitchen, bath and laundry that meet universal design standards and can be used hooked up to a wastewater treatment system, such as a septic tank or water line. The benefits would be three-fold, Rickett said.

"It would increase the quantity and quality of affordable housing in the area, increase homeownership opportunities in KHIC's service area and create jobs while providing construction skills training," Rickett said.

The idea then came to the attention of Jim Burris, an architect who is retired from the Kentucky Housing Corporation and worked on low-income housing. Burris has designed the all models of the core units.

"I have a long interest in seeing homes for low-income families be built more efficiently," Burris said. "There is a lot of need out there. Government programs aren't as focused on single-family home ownership.

"In the 1970s, there was a rise in non-profit builders, but they built houses conventionally – one piece at a time. The bathroom/kitchen unit is the very best way to go. It takes the most expensive part of the home – the part that requires the most skill and licensing – and builds it all at once in a shop. That solves the problem of a lack of licensed workers in the area, increases productivity and lowers the costs. It also will fit on a conventional truck."

Substandard homes are provided with modern plumbing, electrical and HVAC systems without having to demolish the entire house or incur extensive and costly lead-based paint and other environmental regulations that are triggered when dealing with older home.

The designs for the units, which vary from 14 feet by 8 feet to 22 feet by 8 feet, continue to evolve as models are installed and ideas for improvement are incorporated.

In November 2005, HOMES, Inc., rehabilitated a house in Letcher County and installed the second prototype of the core unit. The renovation to the home of Billy Morris, who is disabled, included a core unit and a septic tank. He had running water, but the source was from water in a mine, and the toilet was placed over a stream about 50 feet from the house.

"The CORE is an innovative way of providing a kitchen, bathroom, utility room, etc. to existing structures while at the same time adding equity to the home," said Don Profitt, executive director of HOMES Inc.

USDA Rural Development Housing Specialist Russ Thomason was so impressed that he suggested a meeting with KHIC, HOMES Inc., and other partners to discuss how more Rural Development funds can be accessed to help more people get core units.

Both Southeast Community Technical College — which has campuses in Bell, Harlan and Letcher counties — and Somerset Community College — which has locations in Clinton, Wayne and McCreary counties — have expressed an interest in building housing cores to give their students real world hands-on training and to benefit the communities they serve.

Plans are under way for a third core unit to be built by Mountain Outreach. The cost of that unit is expected to be less than \$9,000. Rickett eventually hopes to manufacture the cores on a larger scale, which reduce the costs even more.

"The concept also fits in with KHIC's local market initiative," Rickett said. "If the core units can be built in factories here, then local jobs are created for local people. In addition, it brings new money into the area because funds for low-income housing typically come from state and federal governments."



The home as it was before the CORE was set.



The final product with the housing CORE in place

Housing Core Partners

The Housing Core project is coordinated and managed by Kentucky Highlands Investment Corporation staff and made possible by the KHIC board of directors and the following partnering organizations:

- HOMES, Inc.
- USDA Rural Development
- Kentucky Housing Corporation
- PRIDE
- Federal Home Loan Bank Of Cincinnati
- Cumberland Valley National Bank
- Burris & Associates
- Kentucky Manufacturing Assistance Center
- University of Kentucky student chapter of Engineers Without Borders
- Southeast Community and Technical College
- Mountain Outreach, Inc.

KHIC analyst gains certification as Microsoft Certified Systems Engineer



Ken Stegman, KHIC's new Microsoft Certified Systems Engineer.

Ken Stegman, an investment analyst for Kentucky Highlands Investment Corporation, recently earned the designation of Microsoft Certified Systems Engineer.

The yearlong training focused on the server and network environment, which will allow Stegman to ensure that KHIC's computer system will operate more efficiently and securely. He just completed a series of 10 tests that are required to gain certification.

"The certification will enable KHIC to help investee companies that do not have the money to set up their own computer network," said Stegman, a

resident of Richmond and graduate of Berea College. "I have the training and skills to be able to design their networks or serve as a support person."

Stegman also has earned the title as a Microsoft Certified Systems Administrator. Both certifications came as a result of the C-Train program through the Center for Rural development in Somerset, which reimburses companies up to 80 percent of the costs training and exams in the computer industry.

C-TRAIN is \$5 million dollar innovative grant program funded by the U.S. Small Business Administration that promotes high-tech skills and higher paying jobs, assists rural businesses in becoming more competitive in today's economy, helps existing companies to retain employees and give promotions, and recruits new companies to the 42-county service region.

MILESTONES

- **Board Member William McClure** was recognized this past year for serving 30 years on the Kentucky Highlands Investment Corporation's Board of Directors.
- **Board Member Richard Foley** was recognized this past year for serving 15 years on the Kentucky Highlands Investment Corporation's Board of Directors.