



Terence R. McAuliffe
Governor


Maurice A. Jones
Secretary of
Commerce and Trade

COMMONWEALTH of VIRGINIA

William C. Shelton
Director

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

To: Maurice Jones, Secretary of Commerce and Trade
Delegate S. Chris Jones, House Appropriations, Chair
Senator Walter Stosch, Senate Finance, Chair
Senator Charles Colgan, Senate Finance, Chair

From: Bill Shelton, Director 
Department of Housing and Community Development

Memo: Appropriation Act Item 104 K.2-Southwest Virginia Cultural Heritage Foundation

The following report fulfills the 2015 Appropriation Act Item 104 K.2 which requires the Southwest Virginia Cultural Heritage Foundation to report by September 1 of each year to the Governor and the Chairmen of the House Appropriations and Senate Finance Committees on the expenditures of the foundation and its ongoing efforts to generate revenues sufficient to sustain operations.

The General Assembly appropriated \$475,000 to support the Southwest Virginia Cultural Heritage Foundation which covered staffing, a portion of operational costs for Heartwood and some regional marketing however was insufficient and therefore additional funding was pursued to continue the operation of the Foundation and its related activities. The Foundation did receive a one-time grant of \$600,000 from the Tobacco Commission to continue the overall initiative and to maintain the operations of Heartwood as a showplace for the creative assets of Southwest Virginia and the quality of life of its' communities.

Partners for Better Communities



www.dhcd.virginia.gov

The 2015 Appropriation Act Item 104 K.2 requires the Southwest Virginia Cultural Heritage Foundation to *“report by September 1 of each year to the Governor and the Chairmen of the House Appropriations and Senate Finance Committees on the expenditures of the foundation and its ongoing efforts to generate revenues sufficient to sustain operations.”*

The Southwest Virginia Cultural Heritage Foundation’s purpose is to encourage economic development of the Southwest Virginia region through the expansion of cultural and natural heritage ventures promoting entrepreneurial and employment opportunities across the region. The Foundation has worked with asset based economic development initiatives, such as The Crooked Road, ‘Round the Mountain, and the Appalachian Spring Outdoor Recreation initiative as well as numerous state agencies, local governments and nonprofit entities to address the economic restructuring needs of the region as a shift in the economic base from extractive industries and manufacturing is necessary.

Since 2002 the Department of Housing and Community Development has worked with regional partners to capitalize on the region’s cultural and natural assets to attract tourism, and develop a quality of life to facilitate the attraction and development of new manufacturing and other economic enterprises. The showplace for this creative economy effort is *Heartwood: Southwest Virginia’s Artisan Gateway*; a 29,000 square foot artisan and performance center, which was completed and opened in 2010 with an investment of approximately \$15 million dollars of public funding. Heartwood provides a venue for the region’s artisans to showcase and sell craft, and is also a performance venue along The Crooked Road. One of Heartwood’s primary functions is to provide a showplace for the exhibits of the regions cultural and natural assets through numerous visual and interactive displays. Heartwood also serves as a meeting and conference facility for regional and state-wide entities and provides a setting for regional arts, music, food and wine, and outdoor recreation festivals. Heartwood’s commercial operations are operated through a contract with Guest Services Incorporated, a corporation headquartered in Fairfax, Virginia which oversees approximately 250 properties across the United States.

While much of Heartwoods main floor is devoted to revenue generating activities such as events, retail and food services, a significant portion of the building is focused on regional economic development support and is not generating revenue. Due to the large amount of space that Heartwood devotes to exhibiting the cultural assets of the region and its communities, and in serving as the focal point for the community development work of the foundation, its aligned initiatives (e.g. The Crooked Road and Round The Mountain) and their staff, it is not feasible for Heartwood to be a self-sustaining.

The 2015 appropriation act provided a budget for the Foundation of \$475,000; this amount covers staffing for the Southwest Virginia Cultural Heritage Foundation, a portion of Heartwoods operational costs (insurance, utilities, etc.) and limited regional marketing. Recognizing that this amount was insufficient to operate the Foundation and its related activities, additional funding was pursued from other grant sources. In order for the Foundation to continue to cover operating expenses for staff, support regional marketing initiatives and cover other Heartwood operating costs an agreement was made with the Tobacco Commission to make a one time commitment of \$600,000 as a stop gap measure to ensure the initiative could continue successfully.

In recognition that funding for operational support of Heartwood is still not sufficient, the Executive Director of The Foundation has undertaken a comprehensive review of operational efficiency and has instituted measures to tighten the oversight of commercial activities and facility management. Beginning in the Fall of 2014 a process entitled Heartwood 360 was initiated, which evaluated all of the physical and operational aspects of Heartwood as a business and hospitality destination. A number of adjustments have been made:

- The contract with Guest Services (GSI) is being restructured and they will be responsible for the efficient management of all operations with Heartwood to ensure quality and institute stringent cost controls.
- GSI will be responsible for the direct management of the marketing of Heartwood to travelers visiting the Southwest Virginia Region.

- The position of the Friends of Southwest Virginia Operational Manager was eliminated, which ensured significant cost savings.
- GSI established new core positions to institute operational measures; this also includes the elimination of one management position.
- GSI has assumed the cost of all services and inventory of all products, with the exception of locally made craft.
- The Finance Committee of The Foundation has been granted greater responsibility to advise the Executive Director on the general oversight of the commercial operations of Heartwood. This includes bimonthly budget review meetings and assessment of operational issues.
- The front yard of Heartwood has been developed into a “Festival Marketplace” to provide a location for music, craft, outdoor recreation, food and beverage festivals and sales to generate more visitation and sales. (The SW Virginia Outdoor Expo taking place September 12 has attracted 91 exhibitors and vendors and expects attendance of well over 1000 people)

We are confident that these actions will result in significant cost savings.

During FY 13-14, 29 Southwest Virginia localities, including towns as well as counties and cities, have demonstrated their commitment to the efforts of the Foundation through annual investments of financial support totaling approximately \$186,150 to the work of the Foundation. However, there is still a need for ongoing significant state support to maintain the operations of Heartwood as a showplace for the creative assets of Southwest Virginia and the quality of life of its’ communities.