

Southwest Virginia Cultural Heritage Foundation 2016 Expenditure and Revenue Report

**A Report to the
House Appropriations
and
Senate Finance Committees**



On behalf of the Southwest Virginia Cultural Heritage Foundation it is our pleasure to submit this report to the Chairmen of the House Appropriations and Senate Finance Committees per Appropriation Act Item 109 K.2. 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. This collaboration has come in recognition of the fact that 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 enhance quality of life to facilitate the attraction and development of new industries 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 to the public in 2011 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 region's cultural and natural assets through numerous visual and interactive displays. Heartwood also serves as a meeting and conference facility for regional and statewide 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 (GSI), a corporation headquartered in Fairfax, Virginia which oversees approximately 250 properties across the United States.

While much of Heartwood's main floor is devoted to revenue generating activities such as events and retail and food services, a significant portion of the building is focused on regional economic development support and is not generating revenue. A large amount of space at Heartwood is also devoted 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. Heartwood, the Foundation and its partners participated in numerous activities in 2015 and 2016 which are expected to bring long term benefits to the Foundation and to the region as whole. These activities include the Mountains of

Music Homecoming, a multi-day regional music event with broad based media coverage, the creation of a regionally supported Southwest Virginia brand and the designation by the Virginia Tourism Corporation of Southwest Virginia as a unique tourist destination.

Recognizing that the 2015 appropriation 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 in 2015 to make a one time commitment of \$600,000 as a stop gap measure to ensure the initiative could continue successfully. The FY 2016 appropriation provided a budget for the Foundation of \$475,000; this amount covered staffing for the Southwest Virginia Cultural Heritage Foundation, a portion of Heartwood’s operational costs (insurance, utilities, etc.) and limited regional marketing. The 2015-2016 Heartwood Operational Budget is broken down in Figure 1. The one time Tobacco Commission funding helped fill the gap between the state appropriation, \$475,000, and the operational budget of \$501,500.

Expense Category	2015-2016 Heartwood Operational Budget
Administrative Expenses	\$ 79,000.00
Facilities Expenses (includes marketing)	\$ 284,500.00
Payroll Expenses	\$ 138,000.00
Total	\$ 501,500.00

Figure 1

In recognition that funding for operational support of Heartwood is still not sufficient, the Executive Director of The Foundation has continued the comprehensive review of operational efficiency, instituting measures to tighten the oversight of commercial activities and facility management. This ongoing activity, entitled Heartwood 360, began in the Fall of 2014 and has continued to evaluate all of the physical and operational aspects of Heartwood as a business and hospitality destination. This effort continues with the goal of minimizing the need for state support and outside subsidy. The Foundation is actively seeking ways to increase visitation and control operational costs while maintaining the quality and intent of Heartwood. A number of adjustments have been made to date:

- The contract with Guest Services (GSI) has been 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 took place on September 12, 2015 with 91 exhibitors and vendors and attendance of approximately 1,500 people.

In addition to Heartwood 360, 29 Southwest Virginia localities demonstrated their commitment to the efforts of the Foundation through annual investments of financial support totaling approximately \$165,016 in FY 14-15. The Foundation will continue to seek innovative ways to increase revenue and improve operational efficiency without sacrificing the quality of the services provided at Heartwood or compromising the mission of the Foundation.