



2017 Expenditure and Revenue Report

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

September 1, 2017





Southwest Virginia Cultural Heritage Foundation & Friends of Southwest Virginia

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On behalf of the Southwest Virginia Cultural Heritage Foundation, the following report is submitted to the Governor and the Chairmen of the House Appropriations and Senate Finance Committees per Appropriation Act Item 109 K.2.

Overview and History:

The Southwest Virginia Cultural Heritage Foundation's purpose is to encourage economic development of the legislatively defined 19 county, four city, and 54 town region through innovative expansion of cultural and natural heritage ventures supporting entrepreneurship and business growth. Recognizing a transition in the economic structure of the region from the loss of extractive and manufacturing industries, the Department of Housing and Community Development (DHCD) worked with regional partners in 2002 to envision a new future for Southwest Virginia that capitalizes on the region's cultural and natural assets to attract tourism and enhance quality of life. The Foundation emerged from working with numerous state agencies, local governments, and non-profit entities to address the economic challenges of the region and diversify the regional job base through creative economy enterprises.

The Southwest Virginia Cultural Heritage Commission, established in 2008 by the Virginia General Assembly, takes the lead in developing a creative economy in Southwest Virginia. In 2011, the Commission became the Southwest Virginia Cultural Heritage Foundation, a community development and tourism marketing organization with support from the Department of Housing and Community Development. Through a supporting non-profit - the Friends of Southwest Virginia - businesses and individuals help communities, organizations, and individual entrepreneurs mobilize and succeed throughout the region.

Heartwood Overview and Mission:

Located in Abingdon, VA, Heartwood: Southwest Virginia's Artisan Gateway, offers visitors a taste of the culture and heritage of Southwest Virginia. From the sounds of the region's distinctive Bluegrass to the sights of world renowned folk artists from around the mountains, one can find moments of discovery for the entire family. For art and craft lovers, Heartwood has four shopping galleries featuring juried craft from the 'Round the Mountain Artisan Network as a showcase of the individuals who have devoted their lives to interpreting SWVA through all forms of the arts. Of all the cultural moments shared by families in Southwest Virginia, none are more personal and important than family meals. Heartwood's restaurant recreates traditional southern moments through modern cuisine served in a relaxed atmosphere. Open daily, you will



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find an assortment of specialties crafted from local products. The restaurant is complemented by a coffee, wine, and beer bar with many regional offerings.

The 29,000 square foot artisan and performance center was completed and opened to the public in 2011 with an investment of approximately \$15 million dollars of public funding. Heartwood provides the following to the communities of Southwest Virginia:

- A home for the headquarters of the Southwest Virginia Cultural Heritage Foundation, Friends of Southwest Virginia, The Crooked Road: Virginia's Music Heritage Trail, and 'Round the Mountain Artisan Network.
- A venue for the region's artists to showcase and sell their work as they grow and train to become sustainable artisan entrepreneurs.
- A primary performance venue of The Crooked Road, supporting and showcasing local musicians from across the region.
- A restaurant and a coffee, wine, and beer bar serving regional fare to promote and sustain local farmers and producers.
- Service as a visitor center and showplace for the region's cultural and natural assets through numerous visual and interactive displays, an information desk, and direct customer assistance.
- Meeting and conference facilities for regional and statewide entities.
- Outdoor event space for regional arts, music, food, wine, and outdoor recreation festivals and promotions.

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. Through a management contract effective through December 2017, GSI is responsible for the management and operation of the restaurant, retail sales and catering, special event booking and coordination, visitor center operations, housekeeping, marketing, and group sales.

While much of Heartwood's main floor is devoted to revenue generating activities such as events, retail, and food services, a significant portion of the building is focused on supporting regional economic development initiatives. A large amount of space at Heartwood is also dedicated to exhibiting the cultural assets of the region and its communities; the facility also serves as the focal point for the community development work of the Foundation and its aligned initiatives - The Crooked Road, 'Round the Mountain, and Appalachian Spring.



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2016-2017 Operations:

The Foundation participated in numerous initiatives in 2016-2017 which are expected to bring long term benefits to the Foundation and to the region as whole. These activities include continued expansion of the Appalachian Spring initiative, the launch of a regionally supported Southwest Virginia brand, and continued focus on the mission of Heartwood.

Heartwood’s 2016-2017 fiscal year operational budget is broken down in Figure 1. It should be noted that \$300,000 of the Foundation’s \$875,000 appropriation in both FY 17 and FY 18 continues to be utilized for payroll and related costs associated with Foundation staff directly employed by DHCD; the remainder was allocated to the Foundation and Friends of Southwest Virginia for Heartwood operations.

**Figure 1: FY17 Operational Budget
2016-2017 Heartwood Revenue**

<i>Facility Rental Fees</i>	\$20,885
<i>DHCD</i>	\$575,000
<i>Guest Services Inc.: Restaurant, Catering, Retail</i>	\$531,290
Total Revenue	\$1,127,175

2016-2017 Heartwood Expenses

<i>Administration</i>	\$40,773
<i>Office Expenses</i>	\$28,253
<i>Technology</i>	\$29,036
<i>Utilities</i>	\$61,911
<i>Heartwood: Marketing</i>	\$44,307
<i>Heartwood: Guest Services F&B, Catering and Retail</i>	\$847,725
<i>Heartwood: Maintenance & Grounds</i>	\$88,211
<i>Commissions: Round the Mountain and The Crooked Road</i>	\$16,971
Total Expenses	\$1,157,187

The fiscal year operating loss of \$30,012 from the operational budget of Heartwood was covered by reserves. This report focuses on Heartwood operations and revenues. It should be noted that the overall



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Foundation mission of serving the entire region through additional coordination of local, state and federal resources continues to be successful in leveraging funds that are producing tangible economic results.

Overall, visitation for Heartwood in FY 2017 was 36,360. This is a decline of 7.34% from FY 2016's visitation of 39,240. While the organization has become more sustainable compared to past years due to budget savings and expenditure cuts, visitation has declined due to a reduction in marketing, sales, and event operation expenditures.

In recognition that funding for operational support of both the Foundation and Heartwood were not sufficient, then Executive Director, Todd Christensen, continued the comprehensive review of operational efficiency from previous fiscal years. Measures were instituted to tighten the oversight of commercial activities and facility management; examples of these measures include reduced staffing, reduced facility maintenance (including reduced lawn care and landscaping and reduction of facility/goods improvements), reduced marketing initiatives for Heartwood, and a reduction of programming at the facility.

Future Direction & Operations:

Following the retirement of Executive Director Todd Christensen in May 2017, a national search resulted in the recruitment of Chris Cannon to take the lead of the Foundation and its initiatives. A native of Southwest Virginia, Cannon has spent his career in tourism and economic development with the Georgia Department of Economic Development. While in Georgia, Cannon directed a state program, The Tourism Organizational Evaluation Program, focused on providing organizational restructuring and development assistance to tourism non-profits and attractions. Cannon began on July 5, 2017, and has initiated a full evaluation of the organization and operations at Heartwood.

Moving forward, the Foundation will refocus the business model of Heartwood from organizational efficiency towards business revenue development through sustainable retail, restaurant, and event growth. A full business model evaluation and recommendations for new revenue streams will be presented to the Foundation's Board of Directors in the fall of 2017 for implementation in the spring of 2018. Items of note for the future sustainability of Heartwood:

- The contract with GSI will expire in December of 2017. The contract is currently being reviewed thoroughly for renegotiation or reorganization and will be considered by the Board of Directors.



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- Beginning in the fall of 2017, the position of Heartwood Sales, Marketing and Events Coordinator will return to the Foundation and Friends organization oversight. The move is being made to increase the use of rental activities in an effort to drive revenue growth.
- The Finance Committee of the Foundation had been granted greater responsibility to advise the Executive Director on the general oversight of the commercial operations of Heartwood. This committee will be reconvened to conduct budget reviews and provide assessments of operational issues.

The Heartwood budget for the 2017-2018 fiscal year, approved by the Friends of Southwest Virginia Board of Directors, is shown in Figure 2:

**Figure 2: FY18 Operational Budget
2017-2018 Heartwood Revenue**

<i>Donations</i>	\$1,000
<i>Facility Fee</i>	\$40,000
<i>Rent Income</i>	\$24,000
<i>Interest Income</i>	\$300
<i>Events Revenue</i>	\$18,000
<i>DHCD</i>	\$575,000
<i>Heartwood - Retail</i>	\$270,000
<i>Heartwood - Catering</i>	\$60,000
<i>Heartwood - F&B</i>	\$240,000
<i>Miscellaneous</i>	\$1,000
<i>Total Revenue</i>	\$1,229,300



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2017-2018 Heartwood Expenses

<i>Administration</i>	\$45,000
<i>Office Expenses</i>	\$33,000
<i>Technology</i>	\$33,000
<i>Utilities</i>	\$70,000
<i>Heartwood: Marketing</i>	\$60,000
<i>Heartwood: Guest Services</i>	\$58,500
<i>Heartwood: F&B</i>	\$404,500
<i>Heartwood: Catering</i>	\$93,000
<i>Heartwood: Retail</i>	\$338,500
<i>Heartwood: Maintenance & Grounds</i>	\$100,000
<i>Heartwood: Events</i>	\$1,500
<i>Commissions</i>	\$20,000
<i>SWVA Special Events</i>	\$10,000
Total Expenditures	\$1,268,000

Overall, the 2017-2018 fiscal year operational budget forecasts an increase in revenue and a proportional increase in expenditures. Projections show that in future years as retail and restaurant revenues increase, fixed-costs will remain stable and lead to greater sustainability. As previously mentioned, a full evaluation of the operations and new potential operational models will be considered by the Foundation's Board of Directors in the fall of 2017. These new business models will provide alternative solutions for the sustainability of the operation of Heartwood and increased success of the Foundation's larger work in the region.