

**SOUTHWEST VIRGINIA
COMMITTEE**



▪ *In-Person Meeting* ▪

AGENDA

SOUTHWEST VIRGINIA COMMITTEE

The Inn at Blackstone
707 Fourth Street
Blackstone, VA
Thursday, October 12, 2023
9:30 A.M.

The public may remotely participate in this meeting by accessing the following dial-in numbers: **1-434-230-0065** (toll) and enter **conference ID: 742 579 325#**.

The Commission will not change the method by which it chooses to meet without providing a new meeting notice that is in accordance with the Va. Freedom of Information Act. If problems are experienced calling in, please contact: **Hannah Franke-Fuller** at (804)-894-9659 or hfranke-fuller@revitalizeva.org or **Joyce Knight** at (804) 894-9651.

Welcome and Call to Order	<i>The Honorable James "Will" Morefield, Chair</i>
Call of the Roll	<i>The Honorable James Campos, Acting Executive Director</i>
Public Comment	
Approval of the <u>5/18/23</u> Minutes	<i>(published on website)</i>
FY24 Funding Applications – Meat Processing Projects	<i>Ms. Sara Williams, Southwest Regional Director</i>
Extensions and Modifications	<i>Ms. Sara Williams, Southwest Regional Director</i>
Other Business	<i>Mr. Stephen Versen, Deputy Director</i>
• Report on FY24 application deadline	<i>Ms. Vicki Humphreys, Grants Director</i>
• Active Grants by Investment Category	
Adjournment	

**FY24 Southwest Virginia Program
Staff Summaries and Recommendations
October 12, 2023**

The Commission received two applications by the June 1, 2023, application deadline of the FY24 Southwest Virginia Program, which was solely focused on meat processing facilities. The Southwest Virginia Committee will act on these applications at its meeting scheduled for October 12 at 9:30 a.m. The Southwest Virginia Committee will consider extensions of six existing grants.

Req #	Organization	Project Title	Request Amount
4153	Blue Ridge Plateau Initiative	Blue Ridge Plateau Meat Processing Facility	\$2,500,000
4154	Tazewell County IDA	Ponderosa	\$979,000

TOTAL (2 requests) \$3,479,000

**Tazewell County IDA
Ponderosa (#4154)
\$979,000.00 Requested**

Project Summary: Commission funds are requested to construct a meat processing facility in Tazewell County. The Tazewell County IDA will own the facility, which will be leased to a local operator (Blue Ridge Butchery). Development of the facility (site and construction) is estimated to cost \$1,958,000 with the TRRC grant providing 50% (\$979,000) as allowed by this program’s guidelines. Tazewell County will provide the remainder of the funds from a variety of sources. Blue Ridge Butchery (BRB) will provide all equipment for the facility at an estimated cost of \$502,225. No support for equipment was included in the application.

The 7,500 square foot facility is designed to accommodate the processing of multiple species. Cut Floor A will be dedicated to processing beef five days a week while Cut Floor B will be used to process pork, lamb, and chicken, each on a separate day. The division of the cut floors will allow USDA regulations to be maintained. Although USDA approval of the facility cannot be provided until it is operational, USDA inspectors were consulted during the design process.

Matching Funds: Tazewell County will provide 50% of the cost to develop the facility. These funds will be obtained from a variety of sources including a forgivable loan from the Virginia Coalfield Economic Development Authority (\$200,000). The application states that an application will be submitted to the Virginia Small Business Finance Authority for \$629,000. The County will also apply to the Agriculture and Forestry Industries Development (AFID) Fund however the

amount of the incentive is unknown and will be determined through the application and approval process. The value of the County owned property (\$100,000) is also included in the match total.

Project Outputs: A new USDA inspected meat processing facility will be established. The application identifies 10 local producers who have expressed interest in using the facility although, based on regional demand data, the actual number of users will likely be much higher depending on the operational capacity of the processor. During its first year of operations, the facility is expected to generate \$1,736,000 in revenue. No information was provided for additional revenues per producer, which will likely depend on each producer's usage of the facility.

Staff Comments:

The public/private partnership described in this application outlines an ambitious plan to quickly develop additional meat processing capacity for Tazewell County and the surrounding region. By accommodating multiple species, it will serve a variety of producers, many of which currently have little to no access to processing facilities. The business plan reports that local USDA facilities have reported a 150% increase in demand over the past 3 years. All facilities are working at max capacity and typically turn down an average of 2 customers each day. Capacity of chicken processing is especially limited, with only one chicken processor, which will no longer accept new customers.

Tazewell County has assisted in the development of this facility through a property and financial commitment. Under the terms of the draft performance and lease agreements between Tazewell and the operator, Blue Ridge Butchery will lease the facility for a 15-year period. Tazewell will receive monthly rental payments of \$5,600 during the first year (\$67,200 total). The rate will then increase by 2% each year. The tenant will also be responsible for all maintenance, taxes, insurances, operating expenses, tenant improvements, etc. The performance agreement requires BRB to employ 10 new full-time equivalent (FTE) employees within 18 months of operation. These are robust requirements that illustrate Tazewell's high expectations for the success of this business. Blue Ridge Butchery's commitment to meet these expectations also speaks to their personal commitment to the project. Blue Ridge Butchery is also responsible for the procurement of the estimated \$502K of equipment required to furnish the facility, as well as \$168,201 in working capital for the first year of operation. These funds will be requested from local lenders.

During the review process, TRRC Staff sought input from other relevant agricultural organizations including VA-FAIRS and VDACS AFID staff. The overall opinion of the business plan provided in the application was positive. The Blue Ridge Butchery principal has significant experience with meat processing as well as marketing local foods. Similar experience is reflected across the team that has been formed to lead the organization during the startup period. This is a group that understands the industry and the challenges associated with operating a meat processing facility. BRB is confident that, because the project will be adding additional processing capacity to a region with an enormous amount of pent-up demand, the facility will generate adequate cash flow to meet its financial obligations.

Staff agrees with the presumption that while there is sufficient demand to provide initial customers for the facility and to earn revenue, it is unlikely to provide enough operating capital to cover all expenses during the initial months of operation. The proforma included with the application shows a deficit of operating income of \$99,722 during the first year with the majority of this (\$90,334)

occurring during the first month. By the second month the deficit drops to \$24,534 and continues to decrease over the course of the year. By the fifth month operating income is \$1,346 and stays mostly positive through month 12. During months five thru twelve, the operating margin ranges from a high of 6% in month six to a low of -5.5% in month ten. The margin for other months in this range is 3.3% Although this illustrates gradual progress throughout the startup period, it does indicate that Blue Ridge Butchery will require additional operating support during the first year. Commission staff provided the applicants with a list of potential grant sources which, if appropriate, may be able to reduce the initial financial strain. For example, TRRC funds could be requested by Tazewell on behalf of Blue Ridge Butchery to support 25% of the equipment cost. The award, subject to a performance agreement, could help reduce the debt incurred by BRB for equipping the facility.

These concerns do not reflect a distrust of the business plan or the overall project. They merely reflect the operational and financial challenges encountered by other similar projects. Meat processing is a difficult industry to enter due, in part, to the large financial commitment. Additional grant support from all reasonable federal, state (including TRRC and VDACS programs), and potentially private sources will allow the business to begin operations in the best financial place possible. Commission Staff sees tremendous potential for this project and will continue to monitor its development.

Financial Viability Assessment:

A review of key viability criteria indicates that this project involves reliable, bonafide partners with the capacity and expertise to complete and sustain the project. The project as proposed demonstrates good promise of viability, but based on the financial information presented, the costs assignable to Blue Ridge Butchery would benefit from some modification to lower its start-up costs. Thus, staff has provided reference to other grant sources to further support the project. Identification and current level of commitment of matching funds looks promising. The IDA and the partner have presented a realistic understanding of the timeline, key measures and projected outcomes of this undertaking.

Staff Recommendation:

Staff recommends an award of \$979,000 contingent on achieving full project financing.

Blue Ridge Plateau Initiative
Blue Ridge Plateau Meat Processing Facility (#4153)
\$2,500,000.00 Requested

Project Summary: Commission funds are requested to support 50% of the estimated \$5M cost to develop a new USDA inspected meat processing facility in Carroll County. TRRC support is requested for land preparation, building design and construction, holding pen construction, slaughter and processing equipment. The Carroll County Economic Development Authority (EDA) will provide a site for the facility.

Matching Funds: Matching funds for this project are largely uncommitted. The application lists the following sources of match: Carroll County EDA (\$275,000 for property purchase), Blue Ridge Plateau Initiative (\$1,398,576 to be provided from unnamed private and/ or government lenders), AFID Facilities and Infrastructure Grants (\$820,187).

Project Outputs: The application estimates that the facility will serve 1,400 producers annually. This figure represents the total number of red meat producers in the surrounding 4 counties of VA and NC that will have access to the facility. Each producer will earn \$24,000 in annual sales revenue. No additional information was provided to document the practicality of this estimate.

Staff Comments:

The Blue Ridge Plateau Initiative has been working for many years to establish a meat processing facility in the Carroll County region. The Commission, matched by Appalachian Regional Commission funding, provided a \$50,000 award in 2010 to support a feasibility study and initial business plan for the facility. Since that time the project has struggled to progress beyond the planning phase to reach a point where construction of the facility appears imminent. There does not appear to be any single reason for the delays, however turnover at Carroll County and issues related to the selection of an appropriate site have contributed. Multiple ownership structures have been presented, including an original plan for the non-profit owner to lease the facility to a private operator. The current business plan, updated in 2023, describes an ownership arrangement where BRPI, a non-profit, will own the facility but will delegate oversight of operations to a seven-member Executive Board. A General Manager/ certified butcher will lead an initial staff of two line workers and one office support position.

Since the project's inception more than a decade ago, TRRC has supported its development efforts. In January 2019, a \$500,000 grant was awarded to BRPI to serve as seed money for the project in hopes that it could be leveraged to entice other funders to assist the project. Unfortunately, additional funding did not materialize and finally, in January 2023, the TRRC funds were rescinded. At that time the applicant was encouraged to continue to develop the project with a goal of applying to this special funding round. The project, and the related business plan, has evolved over the years and a new application reflecting the most current project status seemed appropriate.

The application submitted to this program's June 1 deadline continues to show a lack of progress and development for the project. At the time of application, a site had not been identified. In early September, the applicant informed Staff that Carroll County recently purchased a parcel of land outside of Hillsville to be provided for the facility. This is a very promising update and is a good indicator that the County is committed to assisting BRPI in successfully implementing this project.

Commission support for publicly or non-profit owned value-added processing facilities such as the one described in this application is limited to no more than 50% of capital (facility and equipment) costs. The \$5M total project cost presented in this application was clearly designed to justify the maximum possible award for this special funding round (\$2.5M). Upon closer examination of the budget, there were substantial funds allocated for operating capital which cannot be included in the TRRC eligible project total. Based on the cost estimates provided, it appears that the total capital cost is \$4,326,701. The amount eligible for support from TRRC is \$2,163,350.

Due to the age of the cost estimates provided with the application it is not possible to determine if the costs are a reasonable reflection of current market prices. The construction quote is from 2011 however, the application states that the amounts had been modified “after consulting with experts in the construction field.” The modified amounts appear to be the basis for the budget however no documentation from third party “experts” was provided to corroborate the figures. The same approach was applied to the quotes for equipment. These quotes are from 2018. Because current estimates have not been provided it is not possible to calculate an accurate total project cost. The situation is further complicated by the very recent selection of the site. The 2011 estimates do not reflect construction at the current site. The application states that the 2011 floor plan is for reference only. A new building design, and associated cost estimates, will be required for the development of the final site.

The lack of accurate cost estimates is a strong indicator that an award to support the construction of the facility, which has yet to complete final design, would be extremely premature. Other than Carroll County’s recent property purchase, no additional funds are committed for the project. The applicant pledges to provide matching funds, totaling approximately \$1.4M, from monies obtained from unnamed private and/ or government lenders. The budget also states that an application has been filed with the AFID Program for \$820,187 based on BRPI’s estimation of financial need. After further discussion with both BRPI representatives and AFID staff, along with TRRC Staff’s knowledge of the AFID program, the status of the application is unclear. The budgeted \$820,187 AFID award does not appear to be a reasonable expectation considering that the AFID Facilities Program Guidelines limit awards to a maximum of \$500,000. The AFID Infrastructure program limit is \$50,000. Although this project could qualify for these programs in the future, the award amounts will certainly be much smaller than those provided in the TRRC application.

Despite the years of effort BRPI has dedicated to this project, it continues to require significant planning before it is at a point where implementation funding can be considered. A planning grant application was recently submitted to USDA’s Local Food Promotion Program (LFPP). The applicant also plans to apply for an AFID planning grant. No information for the scope of the planning activities to be funded by these potential grants has been provided. BRPI’s decision to request support for additional planning, rather than implementation, further Staff’s opinion that Commission funds should not be committed at this time.

Financial Viability Assessment:

A review of key viability criteria indicates that while this applicant is passionate about the project, the proposal does not demonstrate that the capacity and expertise currently exists to move the project forward. There is not a meat processing provider identified for the facility, nor is there sufficient information regarding how they will obtain sufficient match to leverage the project. The budget is not appropriately scaled so that all partners are assuming equal or similar levels of risk. It is also not supported by current construction or equipment quotes. While the effort is supported by an

adequate business plan, the project is not at a stage that staff would consider viable for investment at this time. This project requires further development to achieve viability.

Staff Recommendation:

Staff recommends no award at this time.

Extensions and Modifications

Friends of Southwest Virginia

Building Appalachian Spring: Growing the Economy of Southwest Virginia through Developing Outdoor Recreation Destinations (#3198)

Approved for \$500,000 in September 2016 (\$206,053 balance)

Request for final extension

Staff Overview & Comments: The balance of this grant is required to support development in the Town of Haysi. This project, originally proposed as the development of a Riverwalk area has encountered numerous challenges and revisions since this grant was approved seven years ago. These changes were necessary to accommodate additional flood mitigation requirements as well as right of way issues with private landowners. In its current form, the project is focused on improvements to the areas around the Town owned pavilion in Haysi. These enhancements include new sidewalks and curbs, lighting, and landscaping. The parking lot will be paved, and additional signage will be installed. These activities complement the recently completed Haysi to Breaks trail construction project also supported under this grant.

This grant was approved to support three separate and complex projects involving numerous partners and funding sources. Based on the information provided, it appears that at least one additional extension will be needed to see the final project, focused on increasing access from the Town of Haysi to the Russell Fork River and Breaks Interstate Park, to completion. The project is scheduled for completion in early 2024. A nine-month extension was requested.

Staff recommends approval of a final extension through June 30, 2024.

Floyd County EDA

Floyd Regional Commerce Center Phase II Development (#3191)

Approved for \$420,696 in September 2017 (\$406,273 balance)

Request for one-year extension

Staff Overview & Comments: The balance of this grant will be used for construction of utilities to serve the additional building pads under development at the Commerce Center. Phase II activities also include the construction of an access road funded through the ARC Access Road Program. The extension request approved by this Committee in October 2022 noted that the project was scheduled for completion in 2024 and would require, at minimum, one additional extension. Due to increased construction costs since the time of the grant's approval, additional funds are required to complete the project. The project was put out to bid in early 2023 with the lowest bid more than \$1M over budget. The EDA has submitted an application to US-EDA to help close the funding gap. Given these factors, it is likely that one or more additional extensions will be required for this project.

Staff recommends approval of a one-year extension through September 30, 2024.

Floyd County EDA

Floyd Light Industrial Building and Growth Center Campus (#3558)

Approved for \$497,475 in October 2019 (\$28,834 balance)

Request for final extension

Staff Overview & Comments: This project was approved in 2019 to support the development of a 13,000 SF building suitable to house light industrial users. The project is exceptionally well matched. To date, over \$4.8M of additional funding has been reported to TRRC. This amount includes over \$2M from US EDA. Floyd County EDA has contributed the remaining match for the project. An extension is required to allow the grantee adequate time to close out the project including payment of the retainage to the contractor. The US EDA has approved an extension until the end of January. The Commission grant should be extended to align with this end date.

Staff recommends approval of a final extension through January 31, 2024.

Heart of Appalachia Tourism Authority

Coalfield Regional Tourism Destination Project (#3464)

Approved for \$483,220 in September 2018 (\$401,598.27 balance)

Request for one year extension

Staff Overview & Comments: This balance of this grant is allocated for the design and site development of the now named Three Rivers Destination Center. The facility will serve as a visitor's center for the Clinch River State Park area. Design of the Center is now complete, and the construction phase is fully funded. Much of the past year was spent completing an environmental impact process before finally executing the contract with DHCD in June. The most current project estimate was provided approximately 20 months ago and indicates a total cost of \$2.8M. Significant matching funds, including a \$1.5M POWER grant (ARC), \$209K DHCD, and local in-kind support are committed for

the project. Due to rising costs, there is a funding deficit. Heart of Appalachia plans to address this deficit through a phased construction effort to allow time for additional fundraising. Lower priority items such as landscaping may also be eliminated to ensure that available funds are focused on the primary project, a complete and functioning building. Although this project has been slow to proceed, as is often the case when multiple funders are involved, it appears to finally be on track. Significant progress is expected during the next year.

Staff recommends the approval of a one-year extension through September 30, 2024.

Southwest Regional Recreation Authority

Creating a Sportsman's Economy for Southwest Virginia (#3564)

Approved for \$125,000 in October 2019 (\$80,676 balance)

Request for final extension

Staff Overview & Comments: This grant was approved four years ago to assist with the development of a Rifle/Pistol Complex intended to allow SRRA to diversify recreation opportunities for visitors. Commission funds were allocated for Dixon Range for property and improvements and equipment. Under the original scope of the project, a historic cabin was to be restored and renovated to house restroom facilities and offices. The property was donated to SRRA by the previous owner with the requirement that the cabin be restored. Once the project was underway SRRA leadership made the decision to dismantle the cabin and to construct a pole barn to house the restrooms, offices, etc. TRRC Staff were not consulted about the change in project scope and initially declined the request to reimburse Spearhead for the pole barn. After much discussion, a compromise was reached that allowed for 50% reimbursement of the new facility once the deliverables promised in the application (restrooms and offices) were achieved. As a result, TRRC reimbursed less than the amount originally budgeted for the project. Unfortunately, the property donor's stipulation that the cabin be restored went unfulfilled. New SRRA leadership would like to rectify the situation and see the cabin restored as promised. The balance of the TRRC grant will be used for reconstruction of the cabin (~\$35,000) which will now house a First Aid Station. The property will also be surveyed to ensure boundaries are properly identified to prevent unauthorized access and create a safety zone. While these activities were not included in the original application, they are reasonable additions to the project scope. Staff is supportive of this change which will allow the conditions of the property donation to be achieved while continuing development of the site.

Staff recommends approval of a nine-month extension through July 31, 2024.

Tazewell County IDA
Cultural Arts of Southwest Virginia Corporation (#3557)
Approved for \$225,000 in October 2019 (\$161,383 balance)

Staff Overview & Comments: This grant was approved to assist with the cost of constructing two additions totaling 2,500 square feet to be added to the building to create space suitable for live performances. Tazewell County IDA is the grantee however the beneficiary is a non-profit formed around the time of the grant's approval, Cultural Arts of Southwest Virginia Corporation. The building is owned by a for profit entity, Tazewell Cinema & Entertainment LLC, however the space developed as a result of this project is controlled by the non-profit. Since the grant's approval, only a small amount of funding has been released. These expenses reflect demolition work as well as site preparation required for the addition. An additional reimbursement request was submitted in early September. It has been held while SW Office staff work with the County and the non-profit beneficiary to determine which expenses are allowable under the scope of the award. The extension submitted in September describes problems with boundary adjustments affecting an adjacent landowner. Most of the work performed over the past year appears to be additional site development work needed to correct these problems. The project also required additional A&E design to accommodate the new property boundaries. Costs associated with both the additional site development, as well as the redesign, may not be covered by the grant. These expenses are a result of the project's lack of appropriate due diligence and are not the responsibility of the Commission.

There is no general contractor responsible for the project. All work performed to date has been self-contracted by the beneficiary, which has primarily used a single local contractor. No formal contract exists which details the scope of the work, associated costs, or an estimated completion time. There does not appear to be a certain path to completion. If additional time is provided for this project, it must be accompanied by new requirements which remedy this oversight. No additional TRRC funds should be released until the project, from this point through to completion, has been competitively bid and a professional contractor, with formal contract satisfactory to TRRC grant staff's approval, selected.

Staff recommends approval of a one-year extension through October 31, 2024, contingent upon the project's solicitation and selection of a contractor through a competitive process, suitable to the project. The grant will be frozen until the contingency has been met.

**Virginia Highlands Community College Educational Foundation
Advanced Technology and Workforce Development Center (#3465)
Approved for \$1,000,000 in September 2018 (\$1,000,000 balance)
Request for one-year extension**

Staff Overview & Comments: This grant was awarded to assist with the construction of a new workforce development building located on VHCC's campus. A groundbreaking was held in November 2021 and construction began soon after. Due to rising construction costs, VHCC made the decision to begin construction while continuing fundraising to raise support to complete the facility. The initial phases of construction were completed in February 2022 (site grading, road construction, water-sewer-electric infrastructure installation, and steel package purchase and erection).

In September 2022 the Commission approved a one-year extension with the condition that the grant be used for "last dollar" construction expenses after all fundraising required to complete the project is available and spent. The anticipated total cost of the project is \$8.5M with \$5M previously raised. Some of these funds were used for the initial construction phases. An additional \$3.5M is needed to fund the project through to completion. Over the past year, VHCC has been extremely successful with fundraising efforts. In addition to a \$1M award from the Wellspring Foundation, an anonymous donor has pledged up to \$2M for the project. Only \$5K remains to be raised.

Due to the successful fundraising efforts, VHCC has requested that the contingency placed upon the project with last year's extension be removed. Staff recognizes the successful fundraising efforts and suggests a slightly altered contingency to allow, at the Grants Director's approval, the use of TRRC funding during the final construction phase. The project must be under contract and ready to proceed with construction. Documentation of the availability of all funding required to complete the project must also be provided.

Staff recommends a one-year extension through September 30, 2024, conditioned upon the Grants Director's approval to release funds to support the final phase of construction. This approval may be requested once the project is under contract and has documented that all funds necessary to complete the project are available to use concurrently with the TRRC grant.