

Making a Revolving Fund Work

Preservation Leadership Forum

Several civic leaders founded Historic Boston in 1960 "to preserve and protect the ancient buildings of Boston, and thus perpetuate for the education of posterity the architectural, historical, and general cultural heritage of this city." This broad purpose masked a more specific initial intent: saving the Old Corner Bookstore, a small, early 18th-century dwelling in the central business district, which had become the literary center of the United States during the 19th century. The founders of this charitable corporation raised \$100,000 in private donations (a mammoth amount at that time!) to save the Old Corner. With this success behind them they acquired the site and borrowed money for its rehabilitation.

Over time the Old Corner has become a real estate endowment that supports activities that conserve Boston's architectural patrimony. The income from the property provides the steady source of operating funds so crucial to the success of a revolving fund. Since 1979, Historic Boston's principal activities have been to put people and resources together to preserve historic sites. It intervenes where the planning and regulatory powers of the Boston Landmarks Commission and/or real estate market forces are insufficient to bring about the desired result. It tends to be entrepreneurial by taking risks that respond to individual challenges, rather than having a program into which projects and needs must fit.

Historic Boston has acted as a mediator and as a lender, raised charitable grants for other nonprofit owners of historic properties, provided technical assistance, and sometimes acquired and redeveloped historic sites in its own name. During this time Historic Boston has made loans or investments of \$3.5 million for more than a dozen projects and awarded \$360,000 in competitive matching grants to 23 religious property owners.

SIX PRINCIPLES THAT MAKE A REVOLVING FUND WORK

When you look at the range of opportunities that fall under the rubric of revolving funds and at the variety of initiatives (or lack of them) between the planning and regulatory agencies that impact cultural resources, a simple definition of a revolving fund is elusive. Some general principles, however, provide useful guidance to ambitious organizations.

Principle 1: You gotta do something!

When I entered the preservation movement in 1973, the revolving funds outside Massachusetts impressed me because they seemed to be transmitting the lessons of the house museum tradition into the conservation of a broad range of vernacular, community resources. When, in 1976, Massachusetts preservation leaders founded the Architectural Conservation Trust (ACT) for Massachusetts to be the statewide revolving fund, the pie charts and financial analyses this organization assembled to promote revolving funds throughout the country impressed me for being on the cutting edge of historic preservation.

Three years later when they hired me to help write a manual for revolving funds, I learned that the surveying, planning, promoting, analyzing, theorizing, and proselytizing amounted to nothing compared to the trials and tribulations of actually making a project happen. So I wrote a case study on ACT's first project: the Rodman Candleworks building in New Bedford, Massachusetts, which was a joint venture with the Waterfront Historic Area League.

This project eventually created capital for the statewide revolving fund. The lesson it taught me is that you gotta do something--take the plunge, make a commitment, get your foot in the door, enlist partners, assume risks, and develop a track record--if you want to build credibility and confidence in your organization. These are the prerequisites to raising money and making or losing money. There is a simple measure of whether or not a preservation organization has really done something: Has there been a transaction? Did an easement get signed? Did a property interest change hands? Was there a mortgage?

Principle 2: Know which sites are important and need your assistance.

Presumably by the end of the 20th century, most communities in the United States will have completed surveys of their historic resources so that they know which sites are listed in the National Register of Historic Places or eligible for such listing. If your objective is historic preservation, National Register criteria provide a good measure of significance for your activities. The next step is to identify which of these sites are endangered, which are on the cusp of change (whether good or bad), and which, when rehabilitated, will catalyze other improvements in their immediate neighborhood.

This implies that some comprehensive preservation planning already exists, but you also need to be ready to respond when an important historic resource suddenly becomes endangered. You also need to think in the long term. Historic Boston had targeted the Hayden Building in Boston's adult entertainment district as a priority 14 years before the organization could do anything about it. It took the collapse of the excesses of the speculative real estate market in the late 1980s to establish a realistic price.

Principle 3: Tailor your approach to specific needs, rather than finding needs to fit your program.

Make a serious offer so your opponent has to take preservation seriously. When the Massachusetts General Hospital prepared to demolish its Resident Physician's House (one of two structures not demolished when urban renewal programs resulted in the eradication of Boston's West End neighborhood in the 1960s), Historic Boston prepared a plan and budget to move the structure and, to prove its seriousness, offered to invest \$100,000 in the project if the hospital matched that investment. The hospital decided to move the structure by itself. Historic Boston used its \$100,000 effectively to rearrange the playing field without even writing a check, and the building survives. (Much later, the hospital built a new office building modeled in scale, materials and details to complement the Resident Physician's House.)

Solve an owner's problems by acting as its agent. The 1,500 sq. ft. 1799 "Stone House" located on a very prominent corner in a depressed neighborhood in Charlestown was on the verge of collapse. The owners had inherited it and 5,600 square feet of land, but had neither time nor interest in real estate development or management. Historic Boston offered to raise money to stabilize (and later restore the exterior of) the structure, in exchange for a mortgage on the building and the land along with an exclusive right to act as the owners' agent. With this much site control, Historic Boston could persuade a development team to incorporate the "Stone House" into a 110-unit condominium project with underground parking. The larger project repaid our investment, bought out the owners, transformed the neighborhood, and preserved the "Stone House" as the focal point of its development (and the backdrop for the "Spencer for Hire" television series).

Offer incentive loans at an interest rate that is 1/2 prime. When several landmark churches have undertaken major exterior restoration projects, Historic Boston has provided low-interest bridge financing to cover contractor costs pending reimbursement by personal pledges to a capital campaign, Massachusetts Historical Commission grants, and/or other future financial commitments. Loans ranged up to \$150,000 and all were repaid promptly.

Structure deals and raise money for another nonprofit. To emerge from voluntary receivership, the Dimock Community Health Center persuaded its creditors that the value of the seven deteriorated historic buildings on its campus represented the maximum amount of money the creditors could receive. The alternative was to put the agency out of business. As a result, the creditors wrote off about \$300,000 in debt, but Historic Boston saw only opportunity (and challenges) in the historic buildings. The case for raising money was strong: vital community services take place in this neglected African-American neighborhood, the buildings are important landmarks because of their association with the first training of women nurses, and contributions to this project will leverage new opportunities for the neighborhood. Historic Boston wrote grant proposals that netted more than \$500,000 to repair the roof. Without leaks, more rentable space became available. With a potential

income stream, Dimock leased the building to a limited partnership, so that *The Boston Globe* could take advantage of the historic rehabilitation tax credit based upon the total invested in the building. To repair the building, Historic Boston used the charitable grants, *The Globe's* equity contribution, an institutional loan, and provided a second mortgage to bridge the gap--in all a \$2,000,000 project for one building on a campus appraised at \$500,000.

Buy and develop real estate. This should be the last resort for a revolving fund, because the revolving concept becomes a study in slow motion. (ACT referred to this as the "developer of last resort.") Yet if this is the only way an historic property can be saved, it is better to act than to lose an irreplaceable resource. When an 18th-century house--the third oldest structure in the Roxbury neighborhood--was on the verge of being transformed into a crack den and/or burned down if the one surviving nonpaying tenant left, Historic Boston purchased it from the receiver of the bank that had foreclosed on it. Rehabilitated at unduly high cost with four, moderate-income tenants, the Spooner-Lamber House stands as a beacon of hope in a neighborhood of historic buildings the cumulative neglect of which is hard to understand. While the income stream does not justify the necessary investment, the return comes close to what a money market fund would pay for the same investment, and in time Historic Boston should be able to sell the property to an owner-occupant and break even, assuming that real estate values increase over time. On the other hand, if someone or some agency is willing to give your revolving fund a lot of money to do something that your organization considers worthwhile and doable, abandon this principle and set up a program providing your organization does not lose its soul in the process.

Principle 4: When evaluating risk, think of everything.

There is no project in which Historic Boston has invested money that would, at the time we made the investment, have met any conventional underwriting criteria for risk. As a nonprofit, it should not be competing with commercial developers. As members of a preservation organization we have to ask ourselves three additional questions about risks: (1) Can the city afford to lose this resource? (2) Can we use our nonprofit status to obtain grants and gifts to subsidize the project? (3) Can we survive if we bet the farm on this project?

Principle 5: People are as important as the resources you are trying to conserve.

We have adopted from the Philadelphia Historic Preservation Corporation the mission description of "putting people and resources together" to save historic sites. Getting people to buy into a vision of restored historic sites is often more difficult--and as important--as finding the money needed. People with no prior interest in preservation love to be identified with a preservation project that they think does good and creates beauty for a community. Historic Boston made a list of more than 500 names of people who had played some specific role in our Hayden Building project long before it was completed. They include foundation

trustees who awarded us money, carpenters and apprentices, bank loan officers, neighborhood council members, landmarks commissioners, abutters and prospective tenants. In this busy neighborhood, however, thousands of nameless people will benefit from the change for which this project is a catalyst.

Principle 6: Persevere.

I recently heard a preacher recount that "perseverance" was a "grace" or unmerited form of divine assistance. Whether perseverance comes from divine sources or from the strength of human tenacity, it is at the core of operating a preservation revolving fund whose mission could be described as swimming against the tide to conserve things that conventional wisdom says is impossible.

WHAT THEN IS A REVOLVING FUND?

Historic preservation revolving funds act as nonprofit entrepreneurs.¹ This suggests that when business and financial acumen is used to put people and resources together to save pivotal sites, entrepreneurial leadership should adapt to the needs of specific times and places, rather than forcing community needs to fit into a specific program. "Nonprofit" means that the benefits of projects (and their liabilities) do not inure to the individuals involved. But, as nonprofits, revolving funds can obtain grants and donations to mitigate the risks of highly worthy but fiscally dubious endeavors.

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