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# Preservation Revolving Funds: Then and Now

2007

Preservation Leadership Forum

In 1978 Jim Gray, the executive director of the Historic Preservation Fund of North Carolina, Inc., spoke about North Carolina's new "revolving fund" at the National Preservation Conference in Chicago. The new statewide fund had only three or four properties under its belt, one full-time employee, and a budget of $35,000. A year later, as the Fund's new director, it was my turn on the podium, telling conferees more about our properties work.

The subject has remained popular. The perennial session of the 1990s and early 2000s, "Real Estate is the Name of the Game" (featuring Lee Adler of Historic Savannah Foundation, Arthur Ziegler of Pittsburgh History & Landmarks Foundation, Dana Crawford of Denver, and me), continued to attract attendees year after year. In 2006, at the National Preservation Conference in Pittsburgh, an entire day was devoted to revolving funds. It's interesting to consider what has changed with revolving funds since1978—and what hasn't.

**What's In a Name?**

For starters, some organizations no longer use the term "revolving fund. "Preservation North Carolina (PNC) operates an Endangered Properties Program; we don't use the term "revolving fund" except as a historical reference.

Why do some organizations make this distinction?

Many practitioners have been concerned about the lack of understanding about what it means to operate a revolving fund. "Revolving fund" and "revolving loan fund" have become synonymous terms, even though there's a fundamental difference between an organization that buys and sells historic properties (an acquisition fund) and one that makes loans to other preservationists to undertake preservation projects (a loan fund). The skill sets, sources of funding, and operating models are all completely different. To make matters worse, there are funding sources that confuse revolving funds with endowment funds.

What's more, too many preservation organizations view a revolving fund as a pot of money rather than as a program. When contemplating getting involved in real estate, they too often get fixated on how much money they have to have in a revolving fund before they can successfully start working with property. They conclude: Until we have a massive supply of money, we can’t have an endangered properties program. So, in the end, nothing happens, and important buildings are lost.

A number of practitioners would assert that the classic definition of a “preservation revolving fund” (a pool of capital created and reserved for preservation, with the condition that the money will be returned to the fund to be reused for similar activities) no longer reflects the breadth of nonprofit preservation property work. Instead, organizations use options, lines of credit, program-related investments, block grant funds, fees for services, donations of property, bargain sales, and other sources of flexible funding. Organizations rarely come up with their own funds from a reserved pool of capital, as they did in 1978.

Today, it is clear that preservation expertise is much more important than available capital in working to save endangered properties. Part— and only part—of saving a property from destruction is figuring out where the money will come from. If a nonprofit group has a good project and the expertise to carry it off, the group can find the needed capital to work with real estate.

**Breadth of Programs, Depth of Expertise**
Today’s properties programs are vastly more sophisticated than those contemplated in 1978. Some examples:

The **Providence Revolving Fund, Inc.**, (a loan fund) had an operating budget of $630,000 for 2006; it has no membership and does minimal fundraising. It makes loans for exterior rehabilitation in target areas, prepares plans and specs, does construction administration, makes “gap” loans in the Downtown, develops affordable housing, and provides technical services on a fee-for-service basis. Its income comes from contract grants with the City of Providence, loan interest income, capital fund investment income, development fees, and fees for services. Its Neighborhood Loan Fund of $2.1 million consists of five funds, each with its own lending requirements. The sources of the funds have been Community Development Block Grants, loans from the state historic preservation office, Providence Bond Funds, bank loans, and its own revolving fund capital. Its larger $6.5 Downtown Fund is a program related investment from the Rhode Island Foundation. The organization’s impact on the city has been substantial. To define the Providence Revolving Fund as a “pool of capital” misses the mark.

**Preservation North Carolina’s Endangered Properties Program** is part of the organization’s broader preservation mission. Approximately $800,000 of its annual budget is property related, with five full-time regional properties directors plus support staff. For one of its recent projects, it borrowed more than $1.5 million from banks; most of the loans were unsecured. The organization acquires properties and sells them as-is with protective covenants, but by using options it can remain more flexible and require less capital. With only modest capital, it has nearly 600 properties under covenant or easement. The sales of donated real estate represent nearly one-third of the organization’s annual income.

**Pittsburgh History & Landmarks Foundation (PHLF),** one of the pioneers of the revolving fund, has taken engagement with real estate to new levels. It makes below market- rate loans to nonprofit organizations in its region and market-rate loans for profit making entities where traditional lending sources are reluctant. In one example, PHLF’s loan of $265,000 helped leverage a $30 million project to restore 41 existing housing units and develop 273 new units of affordable housing. Its market-rate investment account lending now totals $4.5 million. PHLF also lends money to easement donors when their own mortgage lenders won’t subordinate their loans; then PHLF gets the restricted property refinanced with an easement in place.

**Historic Savannah Foundation,** another revolving fund pioneer, has broadened far beyond its original acquisition and- resale model. The organization maintains an internal “Dirty Dozen” list of endangered properties that it wants to preserve. With this list, it can focus its efforts on the properties where it will have the most impact. Recently it took over the mortgage on one of its chosen properties after learning from the legal notices in the local newspaper that the loan was in default. With little or no capital, but with great sophistication and quick action, Historic Savannah could achieve a preservation victory.

**Knox Heritage** of Knoxville is a “new kid on the block.” The organization has a Vintage Homes program through which it acquires, renovates, and resells historic property. It has obtained a $350,000 line of credit from the National Trust, and it turned a lemon into lemonade by raising more than $100,000 for the J. Allen Smith Endangered Properties Fund when the J. Allen Smith House was demolished.

The levels of expertise and continuity of those who work with revolving funds are unheard-of with preservation organizations that don’t engage in real estate. Among the speakers in the 2006 Pittsburgh sessions were Arthur Ziegler of Pittsburgh (40+ years of direct property experience), Clark Schoettle of Providence (18 years), Mark McDonald of Savannah and Dean Ruedrich of North Carolina (more than a decade each), and me (28 years). Schoettle noted that he probably would not have stayed so long if his organization hadn’t focused exclusively on direct real estate involvement.

So, what’s the same as in 1978? For one thing, the passion and enthusiasm for the subject. In 1978, the conference room was full; the same was true in 2006. The subject is contagious, and little stirs the blood like compelling before-and-after images…with smiling faces.

The criteria for engagement with real estate have scarcely changed since 1978. Jim Gray enunciated the criteria for the North Carolina program: The property had to be 1) endangered, 2) significant, 3) buyable (obtainable), 4) sellable (marketable), and 5) there had to be local support. Even today several organizations, including PNC, still use those criteria.

To a large extent, the same organizations are leading the way with property work; Pittsburgh, Savannah, and North Carolina were among the most prominent revolving funds in 1978, and Providence wasn't many years behind. It's disappointing that only a modest number of nonprofit preservation organizations have excelled in this field. Yet at the same time, the number of land trusts has exploded nationally, using many of the same tools and concepts.

**Engaging More Organizations**
Even preservationists have a hard time understanding these programs. Often the questions at the end of a revolving fund session show that some in the audience clearly don't "get it." Perhaps one of the problems is the terminology. As long as we talk about "revolving funds" and "pools of capital," we're not going to engage people.

The term "revolving fund" tells the public little about what we're seeking to achieve. Google the term, and the first four responses are related to 1) the Department of Defense, 2) safe drinking water, 3) small business loans, and 4) international economic development.

Consider "land trust"; it combines two words that touch the heart and mind.

At the Pittsburgh conference, there were several excellent sessions about how to "frame" issues to make them more relevant. Maybe we need for a group of preservationists to convene and consider how to best "frame" direct involvement by nonprofits with real estate in a way that is understandable and compelling. And then, maybe we can agree on a better name to describe our work.

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