



Virginia Main Street

MONITOR

TECHNICAL BRIEF

September 2003

Inside this issue

Rebuild America Offers Benefits To Main Street Programs

5

People, Places & Happenings

6

VDDA 2003 Fall Workshop

7

The Virginia Department of Housing and Community Development's Main Street Program provides downtown revitalization technical assistance to Virginia communities, using the National Main Street Center's Four Point Approach™ (Organization, Promotion, Design & Economic Restructuring) to comprehensive preservation-based revitalization of historic commercial districts.



Department of Housing and Community Development

A Revolving Fund: Can it Save Buildings in Your Downtown?

by Sarah Dillard Pope

Used by savvy preservation groups from across the country since the 1960s, including Main Street organizations, revolving funds have saved hundreds of buildings from destruction and have found sympathetic buyers to purchase properties that were perceived to be real estate risks. With the proper foresight and management, a revolving fund may be an effective tool in saving and rehabilitating buildings in your historic downtown.

What is a revolving fund and how is it managed?

A revolving fund is a pool of capital created and reserved for a specific use,

such as purchasing and re-selling buildings, with the restriction that the monies are returned to the fund to carry on the same activity. A variety of public or private entities can operate a revolving fund, but nearly all funds that buy and sell properties are managed by private, nonprofit organizations. Larger and more active revolving funds, such as the Association for the Preservation of Virginia Antiquities' fund, have at least one professional staff person to manage the program. Less active revolving funds, undertaking fewer or simpler projects, can be managed by volunteers or part-time staff, who have a thorough knowledge of real estate techniques and financing. The administering organization's Board has the ultimate responsibility in overseeing the fund's financial trans-

actions. Board members may be asked to donate funds or services and help raise money on an ongoing basis.

Where does the money come from to start a revolving fund?

Revolving funds can receive start-up money from a variety of sources. Often the fund is started with the donation of a property, which can be used to open a line of credit to purchase

(continued on page 2)



Threatened by potential demolition, the old Citizen's Bank building in Bedford was purchased through the state's preservation revolving fund in 1991. A suitable buyer was found and the building now houses a real estate agency (photo by Scott Smith).

A Revolving Fund...

(continued from page 1)

another property, or the property can be sold at a profit to bolster the initial fund amount. Other sources of funding to start and replenish a revolving fund can come from:

- foundation grants;
- local businesses that can provide supplies and materials, office space, expertise, etc.;
- local lending institutions that can provide funds from their own giving programs and offer low interest loans and lines of credit;
- individuals;
- government;
- special events and other fundraising activities;
- and of course, profit from the sale of properties.

What type of transactions does a revolving fund typically conduct?

Organizations use revolving funds to conduct complex to relatively simple transactions, depending on the capacity, mission, and funds of the administering organization. Looking at more complex projects, the fund can **purchase a property** slated for

demolition. It then protects the property with permanent covenants or easements and searches for sympathetic buyers. During this time, the fund is responsible for paying the taxes, maintenance, insurance, and any other type of expenses that come with owning property. Once the property is purchased, the money from the sale is returned to the fund to purchase another property or to be used in a similar real estate transaction, such as an option to purchase.

An **option to purchase**, which in general is less draining on an organization's volunteers, staff and funding than a fee simple purchase, uses the revolving fund to retain the exclusive right to purchase the property while it seeks a suitable buyer. With this legally binding agreement, the owner agrees to sell or lease a property at a fixed price to the revolving fund if the fund exercises its option within a specific time period. Once the fund finds a sympathetic buyer—one who will be able to carry through with a viable re-use project for the property—it can then assign the option to the buyer at closing and incorporate preservation restrictions into the sale. If a profit was made from the sale, it can then be rolled back into the revolving fund.

Revolving funds can also use **purchase agreements** in their favor if an owner is unwilling to negotiate an option and outright purchase is necessary. The fund can request in the standard property agreement that time be provided to conduct structural assessments, cost estimates, and any other type of information needed to determine the project feasibility. Purchase agreements can be made contingent on the revolving fund's ability to raise money for the re-use project.

Right of first refusal is another technique used by revolving funds that allows the fund to match a purchase offer on a property within a certain period of time. It ensures that the fund will be notified before any sale takes place, but does not

obligate the fund to purchase the property.

As mentioned above, many revolving funds use **donations of real estate** to supplement, and in some cases start, the fund. Donated properties can be leveraged to open a line of credit at a lending institution for the purchase of another property, or can be sold to a sympathetic buyer and the profit rolled back into the fund. Individuals who donate properties outright do so for a number of reasons, including preservation of their property, reduction of estate and inheritance taxes, or to obtain a charitable contribution deduction on their income taxes for the fair market value of the property. For instance, a revolving fund can obtain a property through a **bargain sale** when the owner sells the property to the fund at less than its fair market value. The seller benefits from a charitable contribution deduction for the difference between the bargain sale price and the fair market value of the property.

Revolving funds have alternatives to ownership, such as **long-term leases** that allow the fund (or a sympathetic lessee that the fund has located) to lease an endangered property over a long period of time, generally at least 15 years but not more than 99 years. By leasing a threatened building from an uncooperative owner, the revolving fund protects the property while a long-term solution is sought.

Ensuring the success of a revolving fund

In the National Trust's *Information* brief on preservation revolving funds, Lyn Howell Moriarity writes: "A revolving fund is an excellent fundraising and public relations tool for a multipurpose preservation organization or a Main Street or neighborhood revitalization program. Its visibility and aggressiveness attracts members, donations and news coverage for the organization, and it can be used as an educational tool." With those positives stated,

(continued on page 3)

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Office of Community Revitalization
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& Community Development

Amy Yarcich, Program Manager
Courtney Anderson,
Downtown Revitalization Planner
Sarah Dillard Pope,
Downtown Revitalization Planner
Barbara Knight, Executive Secretary

501 N. Second St.,
Richmond VA 23219
Phone (804) 371-7030
Fax (804) 371-7093
E-mail: mainstreet@dhcd.state.va.us
Web site: www.dhcd.state.va.us



The Main Street organization in Salisbury, North Carolina, was able to save the three buildings shown above through its revolving fund, before (above left) and after (above right). The buildings were to be demolished by local government to make way for a parking lot for a new municipal office building. With the money from its revolving fund, the Main Street organization purchased the buildings, removed the aluminum siding (shown at left) and completed restoration work that resulted in the resale of the buildings and a much improved city block. The renovated buildings complement the new municipal office (photo courtesy of Downtown Salisbury Inc.).

revolving funds are a serious and sometimes risky business that requires expertise from knowledgeable Board members such as attorneys, bankers, and realtors. Some projects may make a profit that can be rolled back into the fund, while others will make no profit or even bring a loss to the fund. The revolving fund and the buildings it saves should be looked at in terms of the long run: how much will be reinvested in the community; how many jobs will be created; and will the project fit into the area's master plan. An agreement on how the revolving fund will be managed, a strategic plan for maintaining its pool of money, and a Board committed to its oversight are essential in ensuring the success of a revolving fund.

A revolving fund in action: Downtown Salisbury, Inc.

The Main Street organization in Salisbury, North Carolina, just north of Charlotte with a population of approximately 26,000 people, administers a revolving fund that has gone from \$0 to \$85,000 in four years. It all started with the donation of a vacant Cheerwine Bottling Plant to Downtown Salisbury, Inc. (Cheerwine is North Carolina's take on the cherry

Coke). When Randy Hemann, now Executive Director of the organization, was interviewing for the position, the bottling plant donation had recently taken place. The most important question asked of Randy during the interview was: what can we do with this building? Randy's suggestion was to use the property to establish a line of credit with a local bank and use that money to start a revolving fund. The idea has proven successful with the purchase, resale and rehabilitation of three downtown buildings slated for demolition and the redevelopment of the bottling plant. The four buildings the organization has purchased and sold through its revolving fund have resulted in \$1.6 million in investment.

Comprised of an attorney, a contractor, and other members knowledgeable in the local real estate market, a special volunteer committee was formed from the Main Street Board to oversee the revolving fund. Downtown Salisbury, Inc. has a supportive and committed Board that set goals for the revolving fund and was willing to take calculated risks. The revolving fund committee first established a written agreement, adopted by the Board, outlining how the organization would resell properties.

Some of the terms of the agreement include: the type of restrictive covenants that would be placed on properties; the assurance that all projects would take advantage of preservation tax credits; the length of time it would open RFPs to potential developers; and the policy that the organization would not always sell to the highest bidder. The Board looks not only at the price offered by the potential purchaser, but also at how much the buyer is willing to invest in the property, the number of jobs that will be created, and how the proposed project fits into the downtown master plan. The highest bid might not be the best bid for the property and the downtown in the long run.

When local government had intentions of demolishing three aluminum-clad, historic downtown buildings, which it owned, Downtown Salisbury, Inc. approached officials and offered to purchase, clean up and sell the properties. The buildings were to be demolished to make way for a parking lot for a new adjacent office building slated for the Chamber of Commerce, economic development and tourism offices. Downtown Salisbury offered parking alternatives and persuaded local

(continued on page 4)

A Revolving Fund...

(continued from page 3)

government to sell the three buildings to them. With money from its revolving fund, the organization was able to purchase the buildings, remove the aluminum siding and complete some other restoration work to entice potential buyers. Availability of the three buildings was advertised in the local newspaper and the organization soon had qualified buyers lined up. The buildings, two of which are owner-occupied, now house a real estate business, a State Farm insurance office, and an Internet company.

Downtown Salisbury used its revolving fund to stabilize the Cheerwine Bottling Plant and remove some environmental hazards, such as asbestos, to make the building more attractive to potential buyers. The organization announced an RFP in the local newspaper, which resulted in a solid investor for the building. Today, the bottling plant hosts five residential condos on the upper floor and five offices on the bottom floor. The historic two-story addition on the side of the original plant has been rehabilitated and made into a secured parking garage with a keypad entry.

From the inception of its revolving fund, Downtown Salisbury realized that it might not be able to save every building in downtown or make a profit on every project. The organization makes wise decisions on which projects to take on—sometimes calculated risks—and its Board is committed to being responsible stewards of the fund.

APVA's Historic Property Revolving Fund

If developing and maintaining a revolving fund is not in your organization's near future, you may want to take advantage of the services offered by APVA's revolving fund. The oldest statewide preservation group in the Commonwealth, APVA has managed the revolving fund since 1999. The fund was estab-

lished in 1989 by the General Assembly and administered through the Virginia Department of Historic Resources (VDHR) before being transferred ten years later to the APVA. The organization was selected to manage the fund because of its preservation ethic and commitment to the fund program. Its revolving fund uses a variety of methods to save properties, including options to purchase, deeds of gift, bargain sales, and direct acquisitions. To qualify for assistance, properties must meet one of the following criteria: individually listed in the National Register or a contributing property to a National Register district; listed in the Virginia Landmarks Register; or deemed eligible by the Virginia Department of Historic Resources as eligible for listing in either the Virginia Landmarks Register or the National Register of Historic Places.

Another valuable service provided by the APVA's revolving fund is marketing properties nationally and locally and helping to find potential buyers. The APVA provides targeted access to potential buyers through its national networks and statewide branches. The Fund Director will help the seller envision the potential for restoration or adaptive reuse of the property and develop a realistic preservation plan.

In 1991, the revolving fund, which at the time was administered by VDHR, purchased the old Citizen's Bank in Bedford. The building was owned by an estate, and the heirs

were eager to sell the property. Interest was brewing among some individuals in the community to purchase the building and demolish it to create a parking lot for the adjacent Social Services Office. The Bedford Main Street program worked with VDHR in purchasing the building through the revolving fund and helped to find a buyer. Though it took several years to find a qualified buyer, the old Citizen's Bank Building remains standing today and houses a real estate agency.

For more information about the APVA's revolving fund, contact Gordon Lohr, Fund Director at 804/648-1889, lohr@apva.org.

Further reading on revolving funds:

Lyn Howell Moriarity, *Preservation Revolving Funds, Information brief, Series No. 78*, National Trust for Historic Preservation, Washington, D.C., 1993.

Forum Journal, *Revolving Funds: Saving Buildings and Bringing New Life to Communities*, Vol. 12, No. 1, National Trust for Historic Preservation, Washington, DC, Fall 1997.

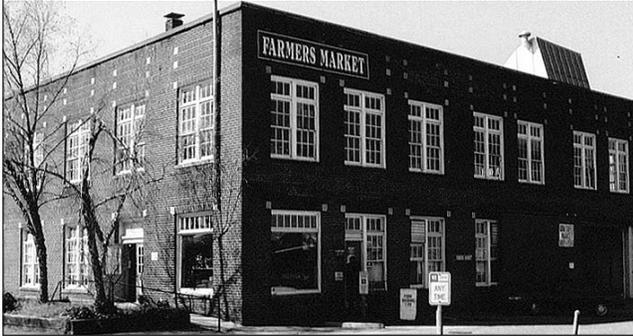
Both publications are available to check out from the Virginia Main Street Library. ■

Sarah Dillard Pope is a downtown revitalization planner with Virginia Main Street.

We want your e-mail address!

If you prefer to receive the Virginia Main Street Monitor electronically as a .pdf document, please send your e-mail address to:
spoep@dhcd.state.va.us.

Rebuild America Offers Benefits To Main Street Programs



Through a Rebuild America partnership project, energy efficient features have been introduced to many of the historic buildings in Shelby, North Carolina's Main Street district, including the Farmer's Market Building and the old Belk Department Store building shown above (photo courtesy of Shelby, NC Main Street program).

Administered by the U.S. Department of Energy, Rebuild America began in 1994 with the mission to accelerate energy-efficiency improvements in existing commercial, institutional and multifamily residential buildings through private-public partnerships created at the community level. It serves five building sectors: Commercial Buildings; K-12 Schools; Colleges and Universities; State and Local governments; and Public and Multi-family Housing. Working on a local level, Rebuild America helps community organizations access innovative technologies, industry services, customized assistance, and a variety of business and technical tools needed to perform energy retrofit on buildings. Through the program, communities can reduce energy expenditures, retrofit existing buildings, and build new energy efficient facilities.

Beginning in early 2001, the Virginia Housing and the Environment Network (VaHEN) was designated by the Virginia Department of Mines, Minerals, and Energy as the Virginia Rebuild America Program representative. Committed to changing the way homes, commercial and public buildings, and communities are designed and built, VaHEN is the only statewide organization to provide information, technical assistance, education, and networking about energy efficiency, renewable energy and environmental compatibility. In its first phase of operations, the Virginia Rebuild America program has focused on energy improvement efforts in schools and affordable housing across the Commonwealth, including Roanoke and Fairfax County schools and Community Housing Partners, Inc. In its second phase of operations, Virginia Rebuild America will be providing resources and technical assistance to small businesses and community organizations that are seeking energy efficient upgrades, and hopes to work with Main Street communities to accomplish these tasks.

Main Street—Rebuild America partnership projects have been successful in Mississippi, West Virginia, and North Carolina. Potential owners, merchants and residents of historic downtown buildings are naturally more attracted to those buildings that are energy efficient and that generate reduced heating, cooling and electrical costs. Improving roofing, lighting, heating and cooling systems, insulation, and windows are among the areas in which Rebuild America has provided technical assistance to Main Street communities. Judy Dyer, the Rebuild America program representative in West Virginia, says about the partnership, "Rebuild America adds another piece to the pie for Main Street. Main Street is involved

(continued on page 7)

New Additions to the Virginia Main Street Library

The Virginia Main Street Library has recently added some useful publications to its collection, including:

- *Secrets to Small Business Success* by Ken J. Burnes: a highly readable book that offers advice to small businesses in a hands-on workbook format. It covers subjects such as price and profit, image and customer service, technology, and owner attitude. It also advises businesses on analyzing their market environment, their competition, and their customers.
- *New Life for White Elephants: Adapting Historic Buildings for New Uses*, National Trust for Historic Preservation Information Brief: this publication provides information on buildings from around the country that were once seen as white elephants and are now examples of successful renovation and reuse projects.
- *The Lobbying and Advocacy Handbook for Nonprofit Organizations* by Marcia Avner: this guide will help you understand your role in shaping public policy, assess the benefits of lobbying to fulfill your mission, and show you how to develop and carry out an advocacy plan.
- *A Primer on Nonprofit PR* by Kathleen A. Neal: a basic public relations manual for non-profit organizations, this book is helpful if you're starting from square one or need a refresher. Chock full of ideas and strategies, it shows how standard public relations techniques can be used creatively and effectively for a nonprofit organization.

Nearly 200 slide programs, videocassettes and publications are available to assist individuals and communities involved in downtown revitalization activities. You can access the Virginia Main Street library guide at: <http://www.dhcd.state.va.us/MainStreet/>. Publications and audiovisual materials listed in the guide are available for a loan period of three weeks, and there is no cost to the borrower other than return shipping. You may borrow up to three materials at once. Send your requests to MainStreet@dhcd.state.va.us or call 804/371-7030. ✍

Preservation Distance Learning Opportunity

Beginning in Fall 2003, the Savannah College of Art and Design will launch SCAD e-learning. SCAD e-learning

gives students and working professionals an opportunity to earn a graduate certificate in historic preservation or a master of arts in historic preservation. These faculty-led courses are offered for academic credit under the authority of the Savannah College of Art and Design, a regionally and nationally accredited institution.

All SCAD e-learning programs have required and elective courses, and academic advisers are available for course selection assistance. SCAD e-learning programs follow the quarter system, with courses offered in fall,

winter, spring and summer. Most courses run 10 weeks. While courses have definitive start and end dates, they are not tied to specific meeting times. In several courses, students may work at an accelerated

pace, completing the requirements of the course ahead of schedule. To explore personal potential as an "e-learner," read more about SCAD e-learning, take the SCAD e-learning self-assessment or fill out an application for admission, visit www.scad.edu/elearning. For Savannah College of Art and Design admission information, call 800/869-7223 or 912/525-5100 or send e-mail to admission@scad.edu. ✍

Update on TEA-3 Authorization

TEA-3 is the third iteration of the transportation vision established by Congress in 1991 with the Intermodal Surface Transportation Efficiency Act (ISTEA) and renewed in 1998 through the Transportation Equity Act for the 21st Century (TEA-21). Debate has taken place over TEA-3 over its future implementation. How will the next reauthorization enable decision-makers to achieve better outcomes through transportation investments? How can TEA-21's provisions for flexibility, local decision-making, long range planning, fiscally constrained budgeting, and environmental stewardship be strengthened to improve the transportation system?

The House Appropriations Committee revised a draft of the FY 2004 Transportation Appropriations Bill in July that provided \$33.8 billion for highway spending. The Committee restored \$600 million in funding for the Enhancements Program that the original draft had eliminated. However, this approved draft bill left it up to the

(continued on page 7)



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individual states to decide whether to spend their allocations on enhancements projects or roads. When the House takes up the transportation appropriations bill in September, an amendment will be offered to restore guaranteed funding for enhancements. Senate action on the bill was deferred until after Labor Day and possibly into 2004 because of continuing disagreement over the funding mechanism to support higher spending levels for TEA-3 authorization. For the latest information on TEA-3, go to: <http://www.tea3.org/>. ✎

New Market Tax Credits

Allocation Applications for the New Market Tax Credits should be submitted by 5:00 p.m. ET September 30, 2003 to the Bureau of Public Debt. The application may be accessed online at: www.cdfifund.gov/docs/nmtc/allocation_app_03/allocation_app.pdf. If

your organization is not able to use the online application system, it must request a paper submission exception by September 15. Request forms may be obtained by calling 202/622-7373.

To be able to apply for an allocation of tax credits to spur investment, your organization, or a partner organization that fits the criteria, must have applied to the U.S. Department of the Treasury to become a Certified Development Entity (CDE) by August 29. If your community already had a recognized Community Development Financial Institution (CDFI) or Specialized Small Business Investment Company (SSBIC), the entity did not need to apply for CDE status but still must have registered with the Treasury by the same deadline. ✎

New VMS Affiliates

Welcome to the following new Virginia Main Street Affiliate commu-

nity who has joined the fold in recent months:

- Village of Ettrick

To find out how your community can become an Affiliate and have access to Main Street quarterly trainings, check out our website at www.dhcd.state.va.us/cd/crd/msp/m_spindex.htm. ✎

People

Anne Williams joined Downtown Franklin Association as its new Main Street program manager on September 1. Anne is a native of Franklin and will be applying her knowledge about nonprofit management from her previous position at The Children's Center. Main Street Radford welcomed **Amanda Dye** as its new program manager in July. Prior to joining MSR, Amanda worked with the Appalachian Center for Community Service and recently completed her Master of Science in Corporate Communication at Radford University. ✎

Rebuild America Offers Benefits To Main Street Programs (continued from page 5)

in a lot of exterior design, but has a learning curve with energy efficiency. Bringing Rebuild America into the picture allows a holistic look at the opportunities available for improving a building while retaining its original character. It's a win-win situation for the building owner and everyone involved."

The Virginia Rebuild America program invites Virginia Main Street communities to contact the organization and discuss potential partnership projects. By becoming a partner with the organization, a Virginia Main Street community may receive such services as:

- workshops for property owners on low-cost methods of reducing energy bills;
- energy audits on selected buildings;
- help in developing energy efficiency action plans for downtown;
- and assistance in locating a heating and cooling contractor that could potentially offer services and/or mechanical equipment at a discounted cost through the Rebuild America Business Partners Network. ■

For more information, about the Virginia Rebuild America program contact:
Annette Osso, Executive Director, VaHEN
703/486-2966
vahen@mindspring.com
www.vahen.org

VDDA 2003 FALL WORKSHOP TRANSFORMING YOUR COMMUNITY

**Friday, October 10, 2003
Smithfield, Virginia**

Experience the charm and hospitality of Smithfield and learn first-hand about projects that can transform a community. Topics include streetscaping, balancing development and preservation and a walking tour of Smithfield, featuring recent development and preservation projects.

\$25 for VDDA members

\$35 for non-members

To register contact:

Stephen Kleiber

VDDA Executive Director

540/231-5373 or online at:

www.virginiadowntown.org



**VIRGINIA DEPARTMENT
OF HOUSING AND
COMMUNITY DEVELOPMENT**

501 North Second Street
Richmond, Virginia 23219

Downtown Development Calendar

October '03

- 8-9 Rebuild America, 2003 Energy Smart Communities Leadership Conference, Minneapolis, MN (252/459-4664)
- 8-10 *Design within our Environs*, Johnson City, TN (TN Chapter, American Planning Ass., www.tnapa.org or develop@johnsoncitytn.org.)
- 8-10 *Urban Forum II: Helping Communities Create Vibrant Commercial Corridors*, Philadelphia, PA (Local Initiative Support Corporation www.liscnet.org)
- 9 *Cemetery Preservation*, Washington, DC (National Preservation Institute, 703/765.0100 or www.npi.org/register.html)
- 10 *Transforming Your Community*, Smithfield, VA (Virginia Downtown Development Association, 540/231-5373 or www.virginiadowntown.org)
- 19-21 Virginia Municipal League Annual Conference, Roanoke, VA (804/649-8471 or jerry@vml.org)
- 27 *Downtown Institute 2003: Organization*, Crownsville, MD (410/209-5814 or brownjo@dhcd.state.md.us)
- 27-28 *GIS in Virginia*, Richmond, VA (Virginia Association of Planning District Commissions, 804/367-6001 or vagis@richmondregional.org)

November '03

- 5-7 *Reinventing Community Development*, Baltimore, MD (The Enterprise Foundation, 410/772-2418 or networkconference@enterprisefoundation.org)
- 13 *Writing and Creative Mitigation for Archaeological and Historic Preservation Projects*, Alexandria, VA (National Preservation Institute, 703/765-0100 or www.npi.org/register.html)
- 14 *Downtown Institute 2003: Economic Restructuring*, Crownsville, MD (410/209-5814 or brownjo@dhcd.state.md.us)
- 19-20 **Virginia Main Street Managers Retreat**, Graves Mountain Lodge, VA (only for program managers of designated VMS communities)

December '03

- 2 *Community Plant Health Care*, Morgantown, WV (Arbor Day Foundation, 402/474-5655, or conferences@arborday.org)
- 31 Tree City USA Application deadline (go to www.arborday.org/programs/treecityapplication.html)