Session 4 – Interim Finance

Notes submitted by Nan Zhang, Duke University

Moderator: Liz Adams, Lyme Timber
Panelists:

- Andy Lacatell, The Chesapeake Conservancy
- Alicia Leuba, National Parks Foundation
- Reggie Hall, Legacy Works

Session Summary:

To begin this session, Liz Adams emphasized the importance of clarifying common terms and acronyms to enhance mutual understanding among attendees. She explained that "interim finance" in this context refers to bridge loans provided to various community groups, including land trusts and tribes. These loans enable them to undertake conservation activities such as property acquisition and restoration in anticipation of later reimbursement from federal and state funding programs.

Liz introduced another key concept, the "revolving loan fund," which allows for the reissuing of repaid loans to support new conservation projects, thus sustaining funding circulation. She highlighted the growing necessity for bridge loans due to prolonged transaction durations, which can be delayed by complex appraisal processes and bureaucratic hurdles. These delays have been exacerbated by increasing interest rates that make traditional lines of credit costly, thereby threatening the affordability and feasibility of conservation efforts.

To combat these financial barriers, Liz discussed the potential of low-cost bridge loans to safeguard against losing valuable conservation opportunities, stressing the political risks associated with unutilized funds. She outlined three primary sources of funding: philanthropy, business, and public financing. She also mentioned the role of green banks in securing financing for environmental projects.

Before handing it over to the panelists, Liz acknowledged the diverse group of stakeholders present, including borrowers, lenders, and financiers, emphasizing their collective ability to address current conservation financing challenges. She then briefly introduced the panelists and their roles.

- Alicia Leuba, Vice President of Resource Management at the National Park Foundation, is establishing a revolving loan fund to aid the conservation of threatened properties, bridging the funding gap while permanent resources are secured from the National Park Service.

- Andy Lacatell, a consultant for the Chesapeake Conservancy, plays a key role in developing a revolving loan fund supported by a $5 million allocation from the State of Maryland’s clean water revolving loan fund, leveraging his extensive experience from his time at the Nature Conservancy.

- Reggie Hall, Director of Conservation Finance at Legacy Works Group, is creating a collaborative lending platform for urgent conservation needs based at Legacy Works, drawing on his background in managing nearly $250 million in conservation loans at the Conservation Fund.

Panel Question 1: Why have you chosen this moment to undertake the complex process of initiating a revolving loan fund?

Alicia: Founded in 1967, the National Park Foundation (NPF) acts as the primary philanthropic partner of the National Park Service, aiming to raise private support and forge strategic partnerships. Currently, they are running a $1 million capital campaign to be announced next month, with 60% of the goal already met. This campaign emphasizes the protection of threatened parks, wildlife, and landscapes.

A key element of the strategy is the new Parks Forever Fund, a revolving loan fund designed to support significant land acquisition projects aligned with the National Park Service's objectives. This fund, which provides low-interest loans ranging from 0% to 3%, aims to enhance the capacity of our park partner community, including organizations like the Grand Canyon Conservancy and Yellowstone Corps. With initial funding of $2.5 million and an additional $2 million expected soon, NPF plans to establish successful pilot projects to attract more support from various donors. In sum, the Revolving Loan Fund is more than just a financial mechanism; it is a cornerstone of NPF's broader strategy to scale up our impact in land conservation over the next five to ten years. NPF is excited about the potential of this fund to serve a wide community of stakeholders and further the conservation goals of the National Park Service.

Andy: The Chesapeake Conservancy, though a relatively new organization, has made significant contributions to land conservation, particularly in doing conservation work that addresses rising development pressures along the Chesapeake Bay. This has presented challenges in establishing refuges, conservation easements, and state park acquisitions.

To meet these challenges, the Chesapeake Conservancy has initiated the Land Trust Program across Maryland, Pennsylvania, and Virginia. This program, which was bolstered by a $5 million allocation from Maryland's 2022 Conservation Finance Act, aims to provide land trusts with swift access to funds, enabling them to quickly capitalize on conservation opportunities. Managing and administering these funds effectively remains a significant challenge, and the Chesapeake Conservancy is currently consulting with various organizations to optimize the operation of this program. The Chesapeake Conservancy is working to integrate this loan initiative into broader conservation and community efforts. The potential dedication of $200 million annually for land conservation funding in Virginia highlights the importance of this program as a strategic tool to access and leverage substantial funding.

In conclusion, the development of these revolving loan programs is driven by a clear demand and need, supported by initial funding to backstop the Maryland program. The Chesapeake Conservancy is optimistic about expanding capacity and committed to enhancing these programs to address urgent conservation needs.

Reggie: Legacy Works Group focuses on leading community and landscape scale initiatives and designing shared infrastructure components, such as data dashboards and support organizations for larger initiatives. In recent years, despite abundant funding from public agencies, there has been a consistent issue with the timing of this funding, often not aligning with immediate project needs that may require closure by month or year-end. To bridge these timing and funding gaps within project stacks, organizations require access to capital, typically through interim or bridge financing. However, the availability of such financing for conservation purposes has declined, leading to significant gaps.

To address this, Legacy Works is finalizing the design of the Conservation Loan Collaborative and are preparing for its launch. The design of this initiative leverages the expertise of a fund manager with the extensive knowledge and networks of local organizations, regional collaboratives, foundations, and private funders. The goal is to facilitate the creation of revolving funds that mobilize and deploy capital effectively. Legacy Works is developing the systems, services, and support necessary for organizations with project pipelines and funders seeking investment opportunities. This framework will enable them to find each other, collaborate, and establish the revolving loan funds needed to accelerate their conservation goals and outcomes. The framework supports three types of funds: geographically restricted funds, programmatic or topical funds, and national funds. These funds can leverage one another's resources to support priority projects and enhance their impacts.

Panel Question 2: What do you think is the biggest challenge or opportunity that you're facing with implementing a loan fund?

Alicia:

Opportunities:

- Scaling and Leveraging: There is significant potential to scale up the capacity of our partner organizations and leverage local funds by attracting new local funders to conservation projects. Our role as a national organization provides reassurance to other funders, particularly those local organizations less familiar with conservation lending.
- Engagement and Expansion: We aim to engage with staff and boards of more risk-averse organizations to help them mobilize their donor resources for critical conservation projects linked to their national parks. This initiative could substantially expand the pool of potential donors for conservation initiatives nationwide.

Challenges:

- Property Acquisition Timelines: The Park Service's timelines for acquiring properties can extend up to five years, posing significant holding challenges for some organizations. Our focus includes assisting with carrying costs through this loan fund while organizations continue fundraising.

- Political and Operational Realities: Navigating shifting political realities over lengthy periods and managing associated risks is crucial. We have also addressed the challenge of familiarizing our finance team with the mechanics of a revolving loan fund, which differs significantly from traditional grant banking. Our community engagement efforts have helped educate and reassure our team about the impact and sustainability of revolving funds.

Looking forward, I am excited about the rapid impact this fund is expected to make, given the strong demand. We aim to not only launch this initiative successfully but also to explore what other new strategies might follow.

Andy:

- **Comparative Funding Models between Maryland and Virginia:** Maryland benefits from dedicated conservation funding, ensuring reliable financial support for projects. In contrast, Virginia lacks such dedicated funding, presenting challenges related to the timing of state funding sources.
- **Experience with Land Conservation Loan Programs:** Virginia boasts extensive experience with its land conservation loan program initiated in 2003, and has protected nearly 50,000 acres. This experience offers valuable lessons, particularly as Maryland is newer to utilizing such programs.
- **Challenges with Land Trusts' Maturity and Risk Aversion:** The maturity level of land trusts varies significantly, ranging from well-established organizations to nascent ones still defining their focus. Managing the expectations and capacities of these trusts, especially regarding large-scale projects, poses significant challenges.
- **Landowner Expectations and Valuation Issues:** Managing landowners' expectations regarding timing and valuation of land is complex. Emphasizing the importance of securing favorable deals upfront can mitigate costs and challenges later.
- **Operational Challenges in Running a Revolving Loan Fund:** A primary concern for the Chesapeake Conservancy is the structural and operational aspects of managing a revolving loan fund, including loan underwriting. There is a need for incremental progress in developing effective strategies and structures for the fund, leveraging external expertise and diverse opinions.

Reggie:

- **Educational Opportunities and Stakeholder Management:** The primary challenges in revolving loans involve educating stakeholders (users, lenders, investors) about the nuances of financial management within the sector.
- **Overcoming Board Reluctance:** There is a notable hesitation among board members to approve borrowing due to fiduciary duties, despite staff enthusiasm. This creates a need for targeted educational initiatives to address

misconceptions and demonstrate the benefits and safety of managed borrowing for organizational growth.

- **Tailored Educational Programs:** Implementation of specific training programs, such as boot camps for federal agency staff, funders, and foundation personnel, can help reshape outdated perceptions about financial borrowing in the nonprofit sector.
- **Reframing Financial Expectations:** When establishing revolving loan funds, the focus should be on covering costs with a modest profit margin rather than achieving high returns. This shift from traditional financial targets to a model that values social capital and catalytic impact is essential.
- **Supporting Local Conservation Initiatives:** The conservation sector is increasingly reliant on small, local organizations that lack traditional financial support. Including social contributions and impacts can help these organizations secure necessary capital for expansion and continued success.

Echoing previous points, the panelists discussed the low risk and high reliability of well-managed revolving loan funds, citing the Open Space Institute's $95 million loan portfolio with minimal defaults as evidence of effective underwriting practices. They noted a local near-default due to sentimental biases, underscoring the need for strict underwriting discipline. Reggie shared that in his career underwriting 400 loans totaling $250 million, only one defaulted. This highlighted the challenges of managing large loan portfolios but affirmed their general dependability when well-managed.

The conversation then addressed the difficulties smaller local organizations face in accessing capital. The panelists proposed that mission-aligned lenders could offer both financial and technical support to these organizations, enhancing their capacity for successful conservation projects. They emphasized designing revolving loan funds to be inclusive of lower-capacity organizations to promote equity and enable these groups to contribute effectively to conservation efforts.

Panel Question 3: A quick story of either the one that got away, because they did not have a bridge loan, or a success story from a bridge loan.

Alicia: In 2022, Cuyahoga Valley National Park in Ohio sought to acquire a 216-acre property, once a golf course, that had undergone multiple ownership changes. This priority property was available for $5 million. Facing a tight deadline, the Cuyahoga Conservancy and TPL initially encountered appraisal difficulties. Nevertheless, the conservancy managed to raise about $4.5 million. To close the funding gap, the National Park Foundation provided a crucial loan, completing the acquisition. This project not only succeeded but also inspired local lenders and foundations to explore new collaborative opportunities with non-profits. Recently, the conservancy's director highlighted our role as the final contributor, noting its catalytic effect on future collaborative conservation initiatives. We expect this momentum to launch numerous similar projects soon.

Andy: We established the Dragon Run State Forest in Virginia, now spanning 10,000 acres, through Virginia's Land Conservation Loan Program, which served as a significant catalyst. However, we faced setbacks with two other projects. We had to return a $1 million grant because we couldn't secure financing to purchase the property. Additionally, we narrowly missed acquiring a $250,000 property by just $8,000 in a bid.

Reggie: Somewhere across this country, there's a project, or more than one, that's not happening because a gap can't be filled, the seller can't wait any longer, whatever the story is. It's the projects that we don't know about that are not happening.

Audience Question 1: what advice do you have for individuals who realize that creating a revolving fund could be advantageous but lack the necessary connections to act promptly when land becomes available for purchase.

Andy: It is correct in considering the need for preparedness rather than merely reacting to circumstances as they arise. It's crucial to establish a structured approach that allows you to act swiftly. Indeed, many revolving loan programs exist nationwide, supported by the EPA, which states utilize effectively. Several of us here in North Carolina are eager to assist you in getting such a program off the ground. This proactive mindset is precisely where you need to begin.

Reggie: I suggest conducting a survey of the stakeholders in your region to ascertain their priorities. Your project or opportunity might align with the interests of a larger or more prepared organization, thereby allowing for a partnership to leverage their resources. If your project is particularly substantial and complex, you might even consider partnering with TIMOs.

Audience Question 2: How to find the correct partners to work with the local park foundation that may not have the expertise to deal with a real estate transaction?

Alicia: The idea of enhancing the involvement of local land trusts in national parks is compelling. While some land trusts are already engaged in such partnerships, many others have yet to tap into this potential collaboration. There's a clear opportunity to bridge the gap between the land trust community and national park partners, thereby benefiting both sides.

Andy: The partnership involved various stakeholders, including land trusts, national land conservation organizations, state agencies, and local land trusts. Collaboration and confidentiality were key to its success, with regular meetings ensuring coordination on funding, legislation, and logging efforts.

Reggie: It's important to focus on education and capacity building, as well as finding ways to support agencies in streamlining their programs to facilitate the more efficient deployment of capital. There are numerous opportunities for improvement and innovation in this area.

Audience Question 3: can you share some exciting innovations on the revolution and the repayment side?

Andy: One area for improvement is in sponsorship initiatives, particularly in Virginia, where partnerships with municipalities could enhance conservation efforts while offering benefits such as reduced interest rates or payment plans for public works projects. It's crucial to integrate an environmental justice perspective into loan programs, aligning with discussions on biodiversity and poverty. This evolution could involve transitioning some loans into grants, prioritizing community-building alongside biodiversity conservation. These changes represent ongoing efforts to ensure that conservation initiatives address socioeconomic concerns effectively.

Reggie: The revolution in approach involves tailoring projects or funds to meet the specific needs of communities or organizations requiring access to capital. While federal funds have been the focus, state and local funding streams may offer quicker turnaround times. Examples show how predictable state funding programs have facilitated significant conservation efforts over time, benefitting numerous family farms. Additionally, there's a need for bridging reimbursement-style grants to support habitat preservation, park, and trail infrastructure, allowing for quick access to funds to facilitate projects like stormwater management, trail construction, and programs promoting children's engagement with nature.

Audience Question 4: Are there any examples or tools that help respond fast? Is there anything you recommend people consider?

Alicia: Working with the Park Service has highlighted the importance of being nimble in identifying and addressing conservation priorities, especially with uncertain availability of resources. Projects like the Cuyahoga demonstration exemplify the potential for rapid turnaround. It aims to develop organizational capacity for quick yet thorough assessments, balancing risk management with agility.

Reggie: Efficiency in conservation financing relies on cultivating "muscle memory" and establishing relationships with mission-aligned lenders to swiftly access capital when needed. This involves understanding lender processes and potentially getting pre-qualified to expedite funding. The Conservation Fund's past success in closing loans within 30 days underscores the importance of preparedness and responsiveness.

Audience Question 5: Are you trying to raise funds from non-conservation groups?

Reggie: We've been anticipating some developments. One of the potential pilot projects within our collaborative involves a community land trust. We’re currently engaged in discussions with them to explore how we can assist in establishing a revolving loan fund tailored to their specific needs. The aim is to empower them to lead their projects autonomously, without having to fit their requirements into existing frameworks.