**Department of City & Regional Planning**

**University of North Carolina at Chapel Hill**

# Planning 776 Development Finance

**Spring 2021**

**Tuesdays and Thursdays**

 **9:30-10:45 p.m.**

**New East 201**

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New East 307

Office Hours: By Appointment

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**PLAN 776 Development Finance**

# Course Description

“Development finance” is an economic development tool and type of banking used to promote economic and community development objectives in many different contexts. This course focuses on financing tools to promote business development and commercial real estate development, often through public-private partnerships.

Students should come away from the course with a thorough understanding of development finance, including best practice application of program tools and models, as well as insights about the impacts the financial sector is having on the U.S. economy.

Specifically, students will:

1. acquire the basic analytical skills necessary to finance private businesses enterprises, commercial real estate development and investments, and public infrastructure;
2. learn about the wide range of institutional models for delivery of development finance, including community development financial institutions, revolving loan funds, etc.; and
3. be exposed to the federal and municipal finance programs and tools available to provide infrastructure, including government grants and guarantees, tax abatements and credits, special districts, and tax- exempt bonds.

The course also includes “special topics” not discussed in the course text. These are valuation, fiscal impact analysis and financialization. “Financialization” refers to how the growth of the finance sector and finance practices have affected local and national economies. As part of these special topics, we will learn more about how the development of finance has affected not just local government, but actual development challenges faced by planners today.

# Student Responsibilities

Students are expected to complete readings and other assignments before class and come prepared to participate actively in discussion. Students will also take the lead to present and apply development finance models and techniques as described on page 7 below. Each student will take the lead role in one session and the discussant role in a second session.

Students are highly encouraged to raise questions in class without regard to scope – from philosophical to technical. In addition, students are encouraged to send an email or arrange to meet with the instructor to address any aspect of the course.

# Grading

* 1. Final examination (50%)
	2. In-class presentations (35%)
	3. Class attendance and participation (15%)

# Course Texts and Readings:

Karl Seidman, Economic Development Finance, Sage Publications Inc. 2005 is available at Student Stores. You may download electronic copies of chapters through the UNC Library.

All other publications/materials cited below can be accessed online or will be sent as pdf files. The instructor will use email to inform the class about aspects of specific sessions, send pdfs, or flag events or information related to course topics.

# Reference Materials

The Community Development Departments of the Federal Reserve District Banks provide timely and free publications and training on community and economic development finance. Other "current events” materials and links will also be provided that may aid in the choice of future research projects and/or internship/job opportunities.

The Council of Development Finance Agencies based in Columbus, Ohio provides very useful information about all issues relevant to the industry. You can join by going to [https://www.cdfa.net](https://www.cdfa.net/)/ .Their publication Development Finance Review Weekly may be especially interesting:

<https://www.cdfa.net/cdfa/cdfaweb.nsf/pages/news.html> - Click “Newsletters”

The Community Development Financial Institutions Fund in the U.S. Department of the Treasury administers the New Markets Tax Credit program and provides other forms of assistance to promote community economic development.

[www.cdfifund.gov](http://www.cdfifund.gov)

Finally, the Small Business Administration offers a wide array of resources including material on financing. See [https://www.sba.gov/business-guide/plan-your-business/market-research-competitive-analysis](https://www.sba.gov/business-guide/plan-your-business/market-research-competitive-analysis%20)

The two most relevant TABS are:

Business Guide that includes four major topics and 29 subtopics and

Learning Center that includes video courses on 57 topics

The following topics are especially germane to this course:

 Buying a Business

 Financing Options for Small Business

How to Prepare a Loan Package

 How to Write a Business Plan

 Introduction to Accounting

 Market Research

 Selling Your Business

# Class Schedule Topics

January 11 1) Course Overview & Rationale for Economic Development Finance

 January 13 (Course introduction continued): What is finance, and what should we know about it?

 Part I: Business Basics

January 18 2) Debt and Equity Financing

January 20 3) Types of Financial Statements

January 25 4) Analysis of Financial Statements

January 27 5) Financial Analysis for Debt Sources: Ratio Analysis

February 1 6) Business & Real Estate Valuation

February 3 7) Duncan Case & Debrief

 Part II: Financing Business Assets

 February 8 8) Fixed Asset Financing

February 10 9) Real Estate Financing

February 15 10) Discounted Cash Flow Analysis

February 17 11) DCF Application

Part III: Development Finance Intermediaries

February 22 13) Loan Guarantees & Bank Regulations

February 24 14) Revolving Loan Funds

March 1 15) Angel Finance & Venture Capital

March 3 16) Community-Based Financial Intermediaries

March 8 17) Microenterprise Finance

Part IV: Municipal Finance & Deal Structuring

March 10 18) Municipal Finance

Spring break

March 22 19) TIFs & Development Exactions

March 24 20) Gap Financing - Return, Risk & Management

March 29 21) Deal Structuring – Credit Analysis & Matching

 Part V: Special Topics & Guest Speakers

April 5 22) Financialization

April 7 23) How Financialization Undermines Economic Development

April 12 24) Can Adam Smith’s “System of Natural Liberty” Be Saved?

April 14 25) Guest speaker TBD

April 19 26) Guest Speaker TBD

April 21 27) Fiscal Impact Analysis

April 26 28) Return on & Risk of Public Infrastructure Investment; Course Review & Evaluation

May 4 Final Exam @ TBA

# CLASS DESCRIPTION, READINGS AND OTHER ASSIGNMENTS

January 11 Student & instructor introductions-why are we here today?

 Course Overview-what will we cover this semester?

 Instructor & student expectations & responsibilities

1. Rationale for economic development finance

January 13 (Course introduction continued): What is finance, and what should we know about it?

# Part I: Business Basics

January 18 2) Debt & equity financing

 Valuation basics

 Risk-return mindset

Readings for Seidman, Economic Development Finance (EDF), Part I & II, Chapter 2 this class: pp. 3-40

January 20 3) Types of Financial Statements

 Understanding the balance sheet, income statement & cash-flow statement

 Accrual method of accounting

Readings: EDF, Chapter 3, pp. 41-59

 Bring text or examples of financial statements to class to facilitate discussion

References: Beginners’ Guide to Financial Statements

 <https://www.sec.gov/reportspubs/investor-publications/investorpubsbegfinstmtguidehtm.html>

For an extremely detailed yet accessible explanation of financial statements, see John Tracy, How to Read a Financial Report: Wringing Vital Signs Out of the Numbers, 5th edition, John Wiley & Sons, Inc., 1999 192 pages

[Available as an ebook from the UNC library](https://catalog.lib.unc.edu/catalog/UNCb4009916)

January 25 4) Analysis of Financial Statements

 Discussion of American Biotechnology Company’s financial statements

 Discussion of Financial projections of cash flows

 Discussion of Chrystal Clear Window Company ability to support additional debt

Note: The instructor will not present an assessment of financial condition or performance of American Biotechnology Company nor an analysis of Chrystal Clear.

Readings: Seidman, EDF, Chapter 4, pp. 60-90

 Skim pp. 74-78 and Table 4.1 on Ratio Analysis

 Assignment: Focus on not more than two aspects in assessing Chrystal Clear’s financing needs

 Write up your analysis (about 250 words)

 Turn in a hard copy at the beginning of the January 30 class

January 27 5) Financial Analysis for Debt Sources: Ratio Analysis

Readings: Seidman, EDF, Chapter 4, pp. 74-78 & Table 4.1

 776-Malizia excerpts18 (9 pages)

February 1 6) Business & Real Estate Valuation

Reading: Duncan Case

References: See SBA video: Selling Your Business

 [www.aicpa.org](http://www.aicpa.org) –the trade association for CPAs

 [www.valuationresources.com](http://www.valuationresources.com)

 <https://www.calcxml.com/calculators/business-valuation> <https://www.sba.gov/sites/default/files/articles/Business_Appraisal_-_November_29_2016_-_ver_3.pdf>

 Martin and Gustafson, Valuing Your Business, Holt, 1980

 Used copies available (Dec. 2017) from Amazon for $6

 The Appraisal of Real Estate, 14th edition

 Appraisal Institute “bible” on real property appraisal

February 3 7) Duncan Case & Debrief

# Part II: Financing Business Assets

February 8 8) Fixed Asset Financing

Readings: Skim Seidman, EDF, Chapter 5, pp. 91-103 on working capital financing

 Focus on discussion of Figure 5.1

 Seidman, EDF, Chapter 6, pp. 111-123

Assignment: Study Phoenix Forge Case & prepare for in-class discussion

February 10 9) Real Estate Financing

Readings: Seidman, EDF, Chapter 7, pp. 133-153

February 15 10) Discounted Cash Flow Analysis

Readings: Godschalk & Malizia, Sustainable Development Projects, Chapter 6

 Copy of chapter will be emailed to class

Assignment: Carefully review the DCF example in the appendix to Chapter 6

February 17 11) DCF Application

Exercise: Conduct sensitivity analysis – Excel with instructions sent to class

# Part III: Development Finance Intermediaries

For the next five sessions, the pedagogy will change from lecture-discussion sessions to student-led sessions. Two students will take the lead role in each of these classes. One will summarize the assigned reading. The second will present related material that may

1) identify and describe important changes on the topic,

2) apply the material through a mini-case study, or

3) present other relevant content agreed upon by the instructor.

Students should go to [www.ocw.mit.edu/courses/urban-studies-and-planning](http://www.ocw.mit.edu/courses/urban-studies-and-planning). Seidman’s Fall 2016 development finance course is included there as 11-437. For several topics, you will find useful updated information there on the topics below.

February 22 13) Loan Guarantees & Bank Regulations

Reading: Seidman, EDF, Chapters 8-9, pp. 161-214

February 24 14) Revolving Loan Funds

Reading: Seidman, EDF, Chapter 10, pp. 217-239

March 1 15) Angel Finance & Venture Capital

Reading: Seidman, EDF, Chapter 11, pp. 240-266

March 3 16) Community-Based Financial Intermediaries

Reading: Seidman, EDF, Chapter 12, pp. 267-291

March 8 17) Microenterprise Finance

Reading: Seidman, EDF, Chapter 13, pp. 292-315

# Part IV: Municipal Finance & Deal Structuring

March 10 18) Municipal Finance

Reading: Seidman, EDF, Chapter 15, pp. 341-362

Note: We are skipping Chapter 14 on federal programs because some were addressed in Part III and some of these programs are in flux.

References: National Association of Home Builders series on infrastructure

 https://www.nahb.org/news-and-economics/industry-news?q&sortBy=relevance&sortOrder=asc&page=1

 Government Finance Officers Association

 [www.gfoa.org/](http://www.gfoa.org/)

March 22 19) TIFs & Development Exactions

Reading: White et al., Financing Economic Development in the 21st Century*,* Chapter 12 on TIFs & Chapter 13 on development exactions – pdfs to be distributed

Reference: “Best and Worst Methods of Calculating Impact Fees” pdf to be distributed

March 24 20) Gap Financing - Return, Risk & Management

Reading: Meeker, Doing the Undoable Deal– pdf to be distributed

March 29 21) Deal Structuring – Credit Analysis & Matching

Reading: Zimmerman, Banking for Nonbankers – pdf to be distributed

# Part V: Special Topics

# April 5 22) Financialization

#  Interview with Rana Forhoohar and related videos on subject

#  We will begin with <https://www.youtube.com/watch?v=4d4gmWKuli4> and watch 2-3 other related videos

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# Readings: Articles to be distributed in March 29 class

#  Rana Foroohar, Saving Capitalism – Time Magazine article, May 23, 2016 issue

#  Also available online at [www.time.com/4327419](http://www.time.com/4327419)

#  Rana Foroohar’s Op Ed “Making the Rich Richer” NY Times, 09/27/2017

# References: Rana Foroohar, Makers and Takers: The Rise of Finance and the Fall of American Business, New York: Crown Business, 2016

April 7 23) How Financialization Undermines Economic Development

# Readings: Wallace Turbeville, “Financialization and Equal Opportunity”

#  [www.demos.org/publication/financialization-equal-opportunity](http://www.demos.org/publication/financialization-equal-opportunity) – pdf to be distributed

# References: Batt and Appelbaum, “The Impact of Financialization on Management and Employment Outcomes” Upjohn Institute working paper, 13-191, 2013

# Davis and Kim, “Financialization of the Economy” – pdfs to be distributed

April 12 24) Can Adam Smith’s “System of Natural Liberty” Be Saved?

# Readings: Bruce Bartlett, “Financialization” as a Cause of Economic Malaise, 06/11/2013

#  .pdf uploaded to Sakai.

# Reference: [Kedrosky and Stangler, “Financialization and Its Entrepreneurial Consequences”](https://www.kauffman.org/wp-content/uploads/2019/12/financialization_report_32311.pdf)

# April 14 25) Guest speaker TBD

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# April 19 26) Guest Speaker TBD

# April 21 27) Fiscal Impact Analysis

Readings: TBD

April 2628)Return on & Risk of Public Infrastructure Investment

# Readings: Goldschalk and Malizia, Sustainable Development Projects, Chapter 8 – Word doc to be distributed

#  29) Course Review & Evaluation (April 26th)

Note: *Financial Reality Test* will be discussed at some point