Course Description and Objective

Financing Economic Development focuses on the tools and programs available to economic development practitioners to address capital needs for businesses and economic development projects. After an introduction to the role of financing in the economic development process, capital markets and how capital market imperfections result in financing gaps, the course provides a foundation in how firms and development projects are financed and the interpretation and analysis of business financial statements to understand capital needs and evaluate the ability to support financing. The third part considers policies and institutional models to address these capital gaps and stimulate private investment in community and economic development. Program management is the focus of the fourth part of the course where issues of program design, operations and capitalization will be reviewed. Finally, students will be introduced to public finance tools and their application to economic development. Throughout the term, we will also look at examples of how development finance tools and policies are being applied to address sustainable development goals such as increased energy efficiency and renewable energy industry development.

The course objective is to provide students with a comprehensive overview of economic development finance practice in the United States and develop a knowledge base and skills to either be a development finance practitioner or apply economic development finance approaches to other fields of planning and community development. Students can expect to gain the following knowledge and skills from the course:

1. An understanding of the operation of private financial markets and their limitations in serving economic development finance needs.

2. Familiarity with the public policies, program models and institutions that can be used to expand capital availability and address community development and business finance gaps.

3. An understanding of different business capital needs and the appropriate financial instruments and institutions used to address these needs.

4. An introduction to interpreting and analyzing business financial statements.
5. Tools to evaluate and structure financing plans for firms and real estate projects.

6. Knowledge of federal economic development financing programs.

7. An understanding of operational needs and best practices in managing economic development finance programs and institutions.

8. The ability to match feasible program approaches and models to address specific development financing gaps and business capital needs.

9. The capacity to identify institutional and program resources needed to implement different development finance programs and institutions.

10. An introduction to public finance tools and their economic development uses.

The course also introduces students to the application of economic development finance tools to the energy efficiency, renewable energy and cleantech sector to strengthen connections between the economic development and environmental sustainability fields.

Reading Materials and Assignments
Reading assignments are specified for each class in the course syllabus. Optional readings are listed for some classes and students are encouraged to read these materials as well. Reading assignments are from the course textbook and supplementary materials posted on the stellar course site.

Many classes include a case study discussion that applies concepts and tools from the readings to help develop analytical thinking and problem solving from a development finance perspective. When a case study is assigned, preparation for class includes a careful reading of the case to determine key facts and circumstances, to identify the critical issues raised by the case, and to prepare your ideas on these issues and how to address them.

Required Course Text:
Karl F. Seidman, Economic Development Finance (Sage Publications, 2004) is the course textbook. Copies may be purchased at the MIT Coop. It is also on reserve at Rotch library.

Course Requirements
In addition to the completion of all reading assignments and participation in case study and others class discussions, students are required to complete the following assignments:

1. Three short financial analysis worksheets exercises
2. Five case studies analyses.
3. A term project report or other deliverable.

Financial Analysis Worksheets
These worksheets are intended to extend and reinforce key financial analysis concepts and skills introduced in class. They summarize the purpose, interpretation and formulas for key calculation and require several calculations and brief comments on their interpretation and related issues. Completion of the worksheets is required but they will not be graded.

September 23: Business Financial Statement Analysis Worksheet
October 2: City Plaza Real Estate Financial Analysis Worksheet
Case Study Analyses
Five case study write-ups are listed in the syllabus. The background, financial data and assignment for each case is found in the corresponding chapter of the textbook or separate case study material. Four of the case study write-ups include financial analysis and a brief (3 page) write-up that address the specific questions posed in the assignment. The written discussion should incorporate the results of the financial analysis required in the assignment with the financial analysis or projections attached as an appendix. One case study involves the analyzing a city’s development finance system and formulating recommendations to make it more effective. The five case assignments are:

- September 25: Working Capital Loan Request Analysis (Crystal Clear Window Company)
- October 7: Employee Buyout Loan Request Analysis (Phoenix Forge)
- November 4: Development Finance System and CDFIs (Cleveland)
- November 18: Federal programs and real estate finance (Inner City Supermarket)
- December 2: Financing a development finance entity (Manufacturer’s Fund Recapitalization)

Term Project
The term project entails a team of students working on a finance project for a client. This fall, for the eighth time, most term projects are focused on financing issues related to economic and neighborhood development in New Orleans. Several of these clients have worked with MIT students in the past. Two of the term projects are outside New Orleans and provides opportunities to work on finance problems related to energy efficiency and international development. A brief description of each project and client is included in a separate attachment handed out with the syllabus. Only one team may work on a project. A list of the team members and the projects will be selected by September 23th. A brief (1-2 page) project work plan is due on October 2nd. The week of November 11 to 15 will be devoted to field research for the New Orleans projects with one representative from each team. The field work will include meetings with clients, interviews with key stakeholders and other field research. The final written project and/or other deliverable are due on Friday December 13th.

Grading
Grading will be based on each student’s demonstration of their knowledge of the course material and capacity to apply this knowledge to projects, programs and development finance needs. All course work will be considered in determining grades, with class participation in all case study discussions accounting for 1/3 of the grade, the five written case study assignments for 1/3 and the term project for the final 1/3.

Academic Misconduct
Students are expected to act responsibly and honestly in completing all coursework. Cheating, plagiarism, deliberate interference with the integrity of the work of others, fabrication or falsification of data, and other forms of academic dishonesty are considered serious offenses with disciplinary penalties that may include a failing grade for the class, and possibly suspension from the institute. Never (1) turn in an assignment that you did not write yourself, (2) turn in an assignment for this class that you previously turned in for another class, (3) falsify or misrepresent information for a
term project; or (4) present material from another source as your own writing or work in a term project report. Students may work together to complete analysis and discuss issues for the case studies, but each student must write-up their own case study analysis based on their personal interpretation and judgment of the case assignment. Term project deliverables are group projects based on collaborative work among the team members; students are encouraged to share ideas and to incorporate the work of other team members into their part of the project. Each student is expected to make a significant contribution to the project and not rely on the work of other team members to complete the project and obtain this portion of their grade. Please see me if you have any questions about what constitutes plagiarism or academic misconduct.
## CLASSES AND READING ASSIGNMENTS

### PART I: COURSE INTRODUCTION/CAPITAL MARKETS AND ECONOMIC DEVELOPMENT FINANCE

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<thead>
<tr>
<th>Class #\Date</th>
<th>Topics</th>
<th>Readings</th>
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<tr>
<td></td>
<td>Course Overview</td>
<td><em>Definition of Economic Development</em>&lt;br&gt;Role of Finance in Economic Development</td>
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This class provides an overview of the course content and objectives, and discusses the definition of economic development and the role of financing in the economic development process.

This class covers the institutional structure and operations of private capital markets, including the direct "public" markets and the "private" markets of financial intermediaries. Discussion of these markets will emphasize their economic development role, which institutions are most important for community-based economic development and the capital market failures and imperfections that occur in private capital markets. These market failures define the financing gaps that economic development finance programs and institutions are designed to address. A two-part framework for interventions to address capital market failures and financing gaps will be discussed. This class also introduces approaches to thinking about how capital markets and development finance relate to large systems that influence how well capital advances development goals.
PART II: BUSINESS FINANCING

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<th>Class #</th>
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<th>Topics</th>
<th>Readings</th>
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<tr>
<td>3.</td>
<td>Sept. 16</td>
<td>Business Finance Needs</td>
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<td></td>
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<td>Business Financing Instruments</td>
<td>1. EDF, chapter 2</td>
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<td>3. Bates, <em>Use of Bank Credit to Finance Small Firms</em></td>
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This class looks at the many instruments used to finance business enterprises, emphasizing the difference between debt and equity, the varied forms of debt financing, and the advantages and disadvantages associated with different financing instruments. The appropriateness of different financing instruments for various stages of business development and capital needs is also discussed along with the distinct capital needs and issues faced by small firms. Empirical data on how small enterprises are financed will be compared to the expectations based on capital market and firm development stage theories. Finally, we will review the basic finance terms and calculations related to debt and equity instruments.

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In this session, basic accounting principles are reviewed and the three primary financial statements produced by accounting systems are explained: the balance sheet, the income statement, and the cash flow statement. The difference between cash and accrual accounting and the relationship of financial statements to business cash flow is a key theme for this class.

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<tr>
<td>5.</td>
<td>Sept. 23</td>
<td>Analyzing Finance Needs II: Evaluating Firms for Financing Financial Statement Analysis</td>
<td>1. EDF, Chapter 4</td>
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<tr>
<td></td>
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<td></td>
<td>2. Community Development Venture Capital Association, <em>Measuring Impact Toolkit</em></td>
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This class expands on the understanding of financial statements to develop analytical tools used to evaluate the financial needs of companies and find appropriate financial instruments to meet these needs. A comprehensive framework for evaluating a firm for economic development financing is discussed and key financial analysis tools are introduced: ratio analysis, common size financial statements and forecasting cash flow and debt service capacity.

**ASSIGNMENT:** Complete the Business Financial Statement Analysis Worksheet

**TERM PROJECT PREFERENCES ARE DUE**
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<tr>
<th>Class #/Date</th>
<th>Topics</th>
<th>Readings</th>
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**CRYSTAL CLEAR WINDOW COMPANY CASE ASSIGNMENT DUE**

This class focuses on working capital financing needs to understand what working capital is and why it is important to a business. The difference between "cyclical" working capital needs and "long-term" working capital needs will be discussed along with the issues involved in evaluating a firm's need for working capital debt and extending working capital financing. A written analysis of the Crystal Clear Window Company financing request is due today and will provide a case example for exploring these topics. The range of financial instruments and institutional sources for working capital will also be reviewed.

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<th>Class #/Date</th>
<th>Topics</th>
<th>Readings</th>
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<tbody>
<tr>
<td>7. Sept. 30</td>
<td>Fixed Asset Financing</td>
<td>1. EDF, Chapter 6, pp.111-123</td>
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<td>2. Cambridge Biotech Case Study</td>
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Fixed asset financing is essential for the growth and expansion of businesses. The greater uncertainty and longer repayment terms make it more difficult for firms to secure such financing. We will look at the role of fixed asset financing in business growth, the unique issues in financing longer term capital needs, and, and the evaluation of a firm to extend fixed asset financing, using the Cambridge Biotech Case study to gain insight into these issues.

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<tr>
<td>8. Oct. 2</td>
<td>Real Estate Financing</td>
<td>1. EDF Chapter 7</td>
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This class provides an overview of the real estate development process and financing issues, including key needs for economic development oriented real estate projects, the financial statements used for real estate projects, analyzing a project’s capacity to support debt and equity, and the different financial instruments and sources of real estate projects.

**ASSIGNMENT:** Complete the City Plaza Financial Analysis Worksheet

**TERM PROJECT WORK PLAN DUE**

**NO CLASS OCTOBER 8th Columbus Day Holiday**

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<th>Class #/Date</th>
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**PHOENIX FORGE CASE ASSIGNMENT DUE**

To strengthen skills in evaluating a firm's financial needs and capacity to support financing, this class is devoted to an analysis of the Phoenix Forge case, using a role play enactment of a Community Loan Fund Board meeting to consider the Phoenix Forge loan request.

**No Class October 9th**
 PART III: PROGRAM MODELS AND FEDERAL RESOURCES

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<th>Class #</th>
<th>Date</th>
<th>Topics</th>
<th>Readings</th>
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<tbody>
<tr>
<td>10.</td>
<td>Oct. 16</td>
<td>Private Market Interventions I: Guarantees and Credit</td>
<td>1. EDF, Chapter 8</td>
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<td></td>
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<td>5. US DOE Loan Programs Office web site. Browse programs and funded projects: <a href="https://lpo.energy.gov/?page_id=2">https://lpo.energy.gov/?page_id=2</a></td>
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</table>

Loan guarantee programs are one of the most common tools used to expanded capital availability to businesses through private capital markets. This class reviews the different guarantee forms, the major guarantees programs and what research indicates about their impact and best practices. We will also look at recent developments in federal loan guarantee programs: (1) Department of Energy loan guarantee program for alternative energy projects; and (2) the State Small Business Credit Initiative created under the 2010 Small Business Jobs Act of 2010. A case study of the Emerging Technology Fund is used to explore design issues for loan guarantee programs.

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<th>Class #</th>
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<tr>
<td>11.</td>
<td>Oct. 21</td>
<td>Private Market Interventions II: Banking Regulation</td>
<td>1. EDF, Chapter 9</td>
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</tbody>
</table>
Capital markets are heavily regulated and these regulations influence capital availability and how development finance practice can expand access to capital. This class provides an high level overview of equity market and bank regulations and their relevance to economic development finance. Special attention is given to the emerging issue of crowdfunding and its emerging regulations and the history of the Community Reinvestment Act, its impacts on bank capital availability, and questions about its current impact and limitations. We will also look at Community Development Banks as vehicle for expanding capital availability using South Shore Bank as a case example.

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<tr>
<th>Class #</th>
<th>Date</th>
<th>Topics</th>
<th>Readings</th>
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</table>
| 12. Oct. 23 | Program Models I: Revolving Loan Funds | 1. EDF, Chapter 10 and Chapter 17, pp 406 to 410  
3. Climate Leadership Academy Network, Case Study: Philadelphia Greenworks Loan Fund  
<table>
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<tr>
<th>Class #\Date</th>
<th>Topics</th>
<th>Readings</th>
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</table>
| 13. Oct. 28 | Program Models II: Venture Capital Angel Investment | 1. EDF, Chapter 11  
2. National Governor’s Association: *State Strategies to Promote Angel Investment for Economic Growth*  
4. *Money Tree Q2 2013 US Cleantech Venture Funding*  
5. Hargadon and Kenney, *Venture Capital and Clean Technology: Opportunities and Difficulties*  
7. **Optional:** Ezugo Nwosu, *An Overview of Different State Angel Tax Credit Programs in the US*, April 2010 |

Venture capital and equity-like investments are a more recent and growing model of economic development financing, especially to support technology based business and commercial development of new technologies and products. Our discussion will include the unique nature of these financing sources, issues involved in managing venture capital funds, the experience of state policy and then newer community development venture capital funds and recent trends and issues associated with venture capital investing in renewable energy and clean technology. This class will also cover the growing interest and initiatives around angel investment.

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<tr>
<th>Class #\Date</th>
<th>Topics</th>
<th>Readings</th>
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| 14. Oct. 30 | Program Models III: Community Development Financial Institutions (CDFIs)  
- Community Development Credit Unions  
- Community Development Loan Funds | 1. EDF, Chapter 12  
5. A Abramowitz, B. Edwards and G. Melford, *Community Development Finance in Los Angeles: Challenge and Responses*  
6. Cleveland Finance System Case Study |

Community based and controlled financial institutions have been a small but rapidly growing source
of development finance. These institutions, referred to as Community Development Financial Institutions (CDFIs) are privately funded through local deposits or philanthropic support or both. We will review the two major institutional models: credit unions and loan funds, the particular benefits, issues and constraints inherent in these models, and the emergence of large multi-faceted CDFIs that combine a core financial intermediary with other related development and policy functions. The Los Angeles study reviews CDFIs’ collective contribution to addressing housing and economic developments needs on a city wide basis and provides a way to look at the effectiveness of CDFIs as an institutional policy to pursue community and economic development goals. The Cleveland CDFI Case provides an opportunity to look at how this city facing significant might apply the CDFI model in light of changing market conditions and economic development priorities.

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<tr>
<td>15.</td>
<td>Nov. 4</td>
<td>Program Models IV: Microenterprise Development</td>
<td>1. EDF, Chapter 13</td>
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<td>6. Optional: Burrus, Innovations in Microenterprise Development in the US,</td>
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CLEVELAND CDFI SYSTEM ANALYSIS CASE WRITE-UP DUE

The capital and technical assistance needs of very small businesses pose special challenges. Over the past two decades, numerous programs have been developed to support the creation and financing of "micro-businesses" as strategies to alleviate poverty, assist the unemployed and stimulate local job and income generation. In this class, we will examine the primary micro-business development and lending program models as well as review key operating issues and principals. Taub’s article on the Arkansas Good Faith Fund and Sevron’s assessment of microenterprise program impacts offer differing views of the economic development contribution of microenterprise programs while the Lawrence case study raises questions about effective strategies to heighten the impact of microenterprise programs.
This session provides an overview of federal economic development programs administered by the Economic Development Administration, the Small Business Administration, HUD, the Office of Community Services (in the Department of Health and Human Services) and the US Treasury CDFI Fund. Special attention is provided to the New Markets Tax Credit program, which has become a major funding source for business and real estate development projects. We will also discuss the broader trends and applications of NMTC to economic development organizations and as national policy. The Inner City Supermarket Case provides an example for examining the advantages and issues related to using different programs and issues posed by utilizing federal programs within an overall project financing plan.

**NO CLASSES NOVEMBER 11 AND 13 – NEW ORLEANS FIELD WORK**

**PART IV: PROGRAM MANAGEMENT**

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<tr>
<th>Class #\Date</th>
<th>Topics</th>
<th>Readings</th>
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| 17. Nov. 18  | Issues in Program Management: Program Planning and Design | 1. EDF, Chapter 16  
3. National Governor’s Association, State *Clean Energy Finance Guidebook*, pp. 19 to 37  

**INNER CITY SUPERMARKET FINANCING CASE STUDY WRITE-UP DUE**
The first step in developing successful economic development finance programs is defining clear goals and designing a program to achieve these goals on a sustainable basis. In this session on program planning and design, we consider how finance programs relate to an organization's mission and strategy, how market analysis can be conducted and inform program design and how operational, institutional and financial factors influence program design. The Massachusetts Business Development Corporation provides a case example to examine the use of market analysis and program planning for economic development finance organizations. A larger understanding of city and regional level capital availability condition is also important to sound program design and the 2007 study for the Appalachian Regional Commission provides an example of this type of large scale capital analysis. Design issues and methods faced in the term projects will also be discussed.

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<tbody>
<tr>
<td>18. Nov. 20</td>
<td>Issues in Program Management: Marketing and Origination</td>
<td>1. EDF, Chapter 17</td>
<td>2. Rural Enterprises Finance Case Study</td>
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<tr>
<td></td>
<td></td>
<td>Underwriting &amp; Structuring Investments</td>
<td>3. The Triple Bottom Line Collaborative, CDFIs and Triple Bottom Line Lending, pp. 3-15.</td>
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<tr>
<td></td>
<td></td>
<td>Servicing &amp; Portfolio Management</td>
<td>4. Optional: A. Berger, M. Barrera L. Parsons and J. Klein Credit Scoring for Microenterprise Lenders</td>
</tr>
</tbody>
</table>

The core competency in operating loan funds is making good decisions on which loans or investments to make and effective oversight of these deals to help keep them on track and resolve problems. This class will focus on these activities, including the options for organizing and managing these functions and best practices in the field and approaches to incorporating more comprehensive “triple bottom line” metrics into investment decisions. Effective program management with limited resources—typical of public sector and community organizations—is prominent concern along with linking financing programs to other economic development resources. The Rural Enterprises case will be used to explore challenges and effective practices in managing development finance operations.

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<td></td>
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<td>3. Mary Reynolds Babcock Foundation, CDFIs: A Study on Growth and Sustainability</td>
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<td></td>
<td>4. Summary of CDFI Bond Guarantee Program Interim Rule</td>
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<td>5. Optional: Tansey, Swack, Tansey and Stein, Capital markets, CDFIs, and organizational credit risk, pp. 1-15</td>
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With limited resources and capital needs that far exceed available funds, economic development finance programs are constantly challenged to manage financial assets to maximize capital for new investments and to expand their capitalization. We will analyze tools to enhance the use of assets and expand capital and discuss how to manage assets and liabilities for maximum effectiveness,
including the new CDFI Bond Guarantee program. Financial modeling of development finance institutions will also be reviewed.

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<tr>
<td>20.</td>
<td>Nov. 27</td>
<td>Term Project Presentations</td>
<td>None</td>
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This class will be used to review and discuss term projects. Each team will make a 10 - 15 minute presentation on their term project, analysis and preliminary recommendations. The presentation will be followed by questions and class discussion. Class will begin at 9 AM to allow for 3 presentations.

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<tr>
<td>21.</td>
<td>Dec 2</td>
<td>Term Project Presentations</td>
<td>None</td>
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This class will be used to review and discuss term projects. Each team will make a 10 - 15 minute presentation on their term project, analysis and preliminary recommendations. The presentation will be followed by questions and class discussion. The last part of the class will address questions about the Manufacturer’s Fund case. Class will begin at 9 AM to allow for 3 presentations.

MANUFACTURER’S FUND RECAPITALIZATION CASE WRITE-UP DUE

PART V: MUNICIPAL FINANCING TOOLS

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<tr>
<td>22.</td>
<td>Dec. 4</td>
<td>Municipal Finance Tools I: Municipal Debt</td>
<td>1. EDF, Chapter 15, pp. 341-348</td>
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<td></td>
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<td>Industrial Development Bonds</td>
<td>2. Kozak and Hunt, <em>Structuring and Sizing Bond Issues</em></td>
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Multiple instruments are used to finance government capital expenditures, infrastructure improvements and projects. This class will provide an overview of how the municipal bond market operates and discuss the major types of municipal bond structures, their relative advantages and potential use for financing business and economic development projects. We will also review the new taxable and tax credit based municipal bonds authorized by congress to finance alternative energy and energy efficiency projects.

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<td>Assessment Districts &amp; BIDS</td>
<td>3. Genesee County Land Bank Initiative</td>
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<td>4. Institute for Building Efficiency, <em>Setting the PACE: Financing Commercial Retrofits</em>, pp. 3-22</td>
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<td>5. Optional: Association of Oregon</td>
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Tax increment financing and assessment districts are effective ways to finance projects or investments where the benefits are fairly localized and revenues to support these investments can be generated from new tax revenues or fees from this local area. The primary focus of this class will be to introduce TIF and assessment district financing and explore their application to economic development projects. The use of assessment financing to fund business improvement districts will be reviewed along with several innovative uses of TIF and assessment districts for addressing vacant land and energy efficiency and solar energy installations (PACE). We will also use the Orlando downtown TIF financing case to explore the financing and debt structure issues associated with TIF supported municipal debt.

**ASSIGNMENT:** Complete the Orlando TIF Financial Analysis Worksheet

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<th>Class #</th>
<th>Date</th>
<th>Topics</th>
<th>Readings</th>
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</table>
| 24. Dec 11 | Course Conclusion | 1. EDF, Chapter 19  
2. A. Levere, B. Schweke and B. Woo,  
*Development Finance and Regional Economic Development* | |

We will also look back over the semester's work, including the term project experiences, to identify key themes and conclusions related to economic development finance. Possible areas of discussion include: How have your views evolved on the role of financing in achieving economic development objectives? What principles should guide economic development finance activities? What can we say about best practices in designing and managing programs and institutions? Can development finance institutions survive as an alternative to conventional capital markets? What key challenges do they face?

**TERM PROJECT REPORTS DUE DECEMBER 13th.**