

Columbia University
Architecture, Planning and Preservation
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Monday, 6:30-8:30pm

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Public Financing of Urban Development PLA4620

Public Financing of Urban Development will be an introduction to how public entities (cities, states, public benefit corporations) finance urban development on a pay as you go budget basis and by issuing public securities. We will start with an examination of how public entities leverage limited capital resources through the issuance of debt, including a review of statutory and political considerations as well as limitations put on such debt. We will discuss how the current economic conditions, debates about Federal programs/debt and credit market disruptions effect investment in development and the funding of governmental activities in procuring capital goods and funding infrastructure improvements. We will explore the limitations of tax exempt financing and the kinds of development that can qualify for such financing. By examining different kinds of financial tools we will review how investment is made in mass transit, health care facilities, schools, public utilities, airports and housing. The class will also delve into rating agency requirements, security disclosure rules, current market dynamics and the mechanics of offering bonds for public sale. Students will have an opportunity to discuss criticism of public financing as well as look at failures and bond defaults. Students will be expected to review offering statements and related financial information for actual finance transactions being marketed in the public markets. The course will consist of a mix of lectures, guest lectures from practitioners, class discussion, and group presentations. Students will be evaluated on a short paper delivered prior to mid-term, a group project that will be a presentation to the class on a topic that relates to public finance, a final paper and class participation.

Text:

Bond Market Association, Neil O'Hara (ed.), The Fundamentals of Municipal Bonds (6th Edition), 2011.

January 27 - Week 1 – Introduction and Overview

- Class objectives, student introductions, class expectations
Why a class on public finance? An explanation on how debt is needed to build most projects. We will discuss the difference between financing projects in capital budgets and using debt. We will discuss the scope of the class and additional topics that may be covered based on class interests. We will review some of the current economic issues that are affecting municipal finance.

February 3 - Week 2 -- Municipal bonds and how can they be used to finance urban development. Public Issuers, statutory framework and limitations.

- Fundamentals of Municipal Bonds, chapters 1-2;

- Robert A. Caro, *The Power Broker*, ch. 28, “The Warp on the Loom” (downloaded onto Courseworks).
- New York State Housing Finance Act, Sections 41-44 of Article 3 of the Private Housing Finance Law, <http://law.justia.com/newyork/codes/2010/pvh/article-3/>
- Dennis Zimmerman, “Tax-exempt Bonds” in *The Encyclopedia of Taxation and Tax Policy* <http://www.urban.org/UploadedPDF/1000542.pdf>

Additional resources:

- An Investor's Guide to Municipal Bonds (background on bonds and related topics); http://www.newbridgesecurities.com/pdf/ClientDiscl/Investors_Guide_to_Municipal_Securities.pdf
- The Securities Industry and Financial Markets Association, “An Investor’s Guide to Bond Basics,” <http://www.investinginbonds.com/learnmore.asp?catid=2&id=62>

February 10 – Week 3 –Bond Finance and Current Questions Regarding the Availability of Bonds: Basic bond structures and related tax issues. The most important aspect of municipal bonds is that they are generally tax exempt. Not surprisingly the federal government puts limitations on this subsidy. We will examine some of the major aspects of such limitations and what impacts these have on states, municipal governments and issuers. We will discuss some of the incentives and disincentives in the issuance of debt. We will also review recent concerns about changes in the American tax system and how that could impact state and local finance.

- *Fundamentals of Municipal Bonds*, chapter 9
- IRS, “Tax Exempt Private Activity Bonds Compliance Guide,” 2004; pages 1-14, <http://www.irs.gov/pub/irs-pdf/p4078.pdf>
- IRS, “Introduction to Tax Exempt Bonds”, http://www.irs.gov/pub/irs-tege/teb_phase_1_course_11204_-2module_a.pdf
- New York Times, Linda Greenhouse, “Court Upholds Tax Exemptions for Municipal Bonds”; May 20, 2008; <http://www.nytimes.com/2008/05/20/business/20bizcourt.html>
- National Commission on Fiscal Responsibility, Co-Chairs Proposal; http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/CoChair_Draft.pdf
- Wall Street Journal, Jeannette Neumann, “Plan Would End Tax-Free Status for Muni Bonds”, December 2, 2010, <http://online.wsj.com/article/SB10001424052748703865004575649032489743958.html>
- The Bond Buyer, Lynn Hume, “Muni Backers Will Fight for Tax-Exempt Interest, December 2, 2010, http://www.bondbuyer.com/issues/119_479/deficit-reduction-commission-tax-exempt-interest-1020576-1.html

February 17 – Week 4 – Documenting a transaction: bond documents, participants and making a deal happen. Today’s class will be an examination of municipal finance transactions and the nature of offering debt into the public markets. We will review reading an Official Statement which is a disclosure document distributed to inform potential purchasers about the bonds being sold. We will also discuss EMMA, MSRB and the role of disclosure.

- *Fundamentals of Municipal Bonds*, chapters 3,4 and 8
- New York City Comptroller, “Chronology of a Typical New York City Bond Financing,” <http://www.comptroller.nyc.gov/bureaus/pf/dealchron.shtm>
- New York State Housing Finance Agency, 55 West 25th Street Official Statement (see Courseworks)

- IRS, Understanding Bond Documents, <http://www.irs.gov/pub/irs-tege/eotopick96.pdf>

February 24 --Week 5 – Capital Budgets, fiscal practices and the role of municipal bonds. Generally states and localities are unable to finance capital improvements without incurring indebtedness. We will review capital debt, look at practices in New York City and New York State as well as issues related to back door debt issued by public authorities. We will also discuss current budget difficulties that most states and localities face.

- NYC Independent Budget Office, “A Guide to The Capital Budget”
<http://www.ibo.nyc.ny.us/iboreports/IBOCBG.pdf>
- Report of the State Budget Crisis Task Force, Executive Summary, 2012,
<http://www.statebudgetcrisis.org/wpcms/wp-content/images/Report-of-the-State-Budget-Crisis-Task-Force-Summary.pdf>
- Citizens Budget Commission, “New York's Public Authorities: Promoting Accountability and Taming Debt”;
http://www.cbcny.org/sites/default/files/reportsummary_authorities_06012006.pdf
- NYS Department of Budget, “FY 2015 Capital Program and Financing Plan” (please focus on the Executive Summary)
<http://publications.budget.ny.gov/eBudget1415/capitalPlan/CapPlan.pdf>

Guest Lecturer, Kent Hiteshow, Senior Managing Director; JPMorgan Securities, Inc.

March 3 - Week 6 – Credit Analysis and the Rating Agencies

- Moody’s, “How to get a Rating”; <https://v3.moodys.com/ratings-process/How-to-Get-Rated/002001>
 - Fundamentals of Municipal Bonds, chapters 7
 - Nassau County Interim Finance Authority, Presentation to Rating Agencies (posted on Courseworks)
 - “Reforming the Raters”, Renee Courtois, Federal Reserve Bank of Richmond, Region Focus, 2009, http://www.richmondfed.org/publications/research/region_focus/2009/spring/pdf/cover_story.pdf
- Midterm – Short paper assignment due**

March 10 – Week 7 - Tax Increment Financing. TIF is another tool in financing used by segregating revenue for specific projects. NYC is using a modified TIF in financing City expenses relating to the Hudson Yards redevelopment. Chicago has been the largest user of TIFs in the country. But as with many things, there is some controversy as to whether TIF is an appropriate tool.

- Craig L. Johnson, “Tax Increment Financing” for the National Association of Realtors; pages 1-14; <http://archive.realtor.org/sites/default/files/Tax%20Increment%20Financing.pdf>
- Presentation of Hudson Yards Infrastructure Corporation to NYC City Planning Commission, July 12, 2004; http://www.nyc.gov/html/dcp/pdf/hyards/financing_for_cpc.pdf
- NYC Independent Budget Office, “Learning from Experience: A Primary on Tax Increment Financing, <http://www.ibo.nyc.ny.us/iboreports/TIF-Sept2002.pdf> The
- “Urban Revitalization and Tax Increment Financing in Chicago”; Government Finance Review, December 1999; Lori Healey and John F. McCormick;
www.gfoa.org/downloads/UrbanRevitalizationandTIFinChicago.pdf
- “Giving Away the Store to Get a Store”; Daniel McGraw, Reason Magazine, January 2006;
<http://www.reason.com/news/show/33053.html>

Guest Lecturer: Marvin Markus; Goldman, Sachs & Co.

Small Groups have been formed and topics submitted for approval

March 17 – Spring break

March 24– Week 8 -- Capital Markets, Secondary Markets, Investing in Bonds and Credit Enhancement. We will review the markets and investing in bonds. The last 5 years have been incredible years for capital markets as we learned about sub-prime mortgages, enormous leveraging of balance sheets, myriad bonds that were created to securitize many assets and then the near collapse of our financial system. We will discuss what is happening in capital markets and how the credit crisis limits liquidity and plays havoc on interest rates. We will discuss certain trends relating to the largest issuer of debt in this country: the US Department of Treasury. We will discuss the impacts of quantitative easing and how it ripples through the American economy. In addition we will discuss the role of credit enhancers in many public finance transactions. We will also discuss a bit about municipal bankruptcy and how that possibility is affecting capital markets.

- Association of Financial Guaranty Insurers, “Business Overview of Primary Bond Insurers and Report on Involvement in U.S. RMBS and CDOs of ABS”; <http://www.slideshare.net/numbersgal/agfi-bonds-with-mortgage-backed-securities-and-collateralized-debt>
- “Fatal Seduction of the Municipal Bond Insurers” by Richard White, Investopedia, <http://www.investopedia.com/articles/bonds/08/municipal-bond-insurance.asp>
- “The Federal Reserve’s Asset Purchase Program”, a speech by Janet L. Yellen, Vice Chair of the Federal Reserve Bank Board of Governors. <http://www.federalreserve.gov/newsevents/speech/yellen20110108a.pdf>
- MSRB, “What you should know before investing in municipal bonds”; review pages at <http://www.emma.msrb.org/educationcenter/BeforeInvesting.aspx>
- Jeff Benjamin, “Detroit bankruptcy has surprising long-term implications for muni bond market”, Crain’s Detroit Business. <http://www.craindetroit.com/article/20131203/NEWS/131209950/detroit-bankruptcy-has-surprising-long-term-implications-for-muni>
- Fundamentals of Municipal Bonds, chapters 5 and 6

Guest Lecturers: Geoff Proulx, Morgan Stanley, Managing Director; and David Fanger, Moody’s Investors Service

Final Paper Topics submitted for approval

March 31 –Week 9 –Affordable Housing. Affordable housing cannot be built without subsidies. We will look at the benefits and mechanics of housing bonds. We will also review the current plans for the Government Sponsored Entities, their role in both single and multi-family housing markets and what may come next.

- Multifamily Rental Housing: Financing with Tax Exempt Bonds by Justin Cooper; Orrick Herrington & Sutcliffe LLP, 2010. <http://www.orrick.com/Events-and-Publications/Documents/2709.pdf>
- U.S. Departments of Treasury and Housing and Urban Development, “Reforming America’s Housing Finance Market: A Report to Congress”; February 2011 <http://portal.hud.gov/hudportal/documents/huddoc?id=housingfinmarketreform.pdf>

- “Comments to the President’s Advisory Panel on Federal Tax Reform by the National Council of State Housing Agencies” ; NCSHA; 2005 (posted on Courseworks)

April 7 - Week 10 – Financing New York City’s Mass Transit System

- New York City Independent Budget Office, “MTA Wants More Public Subsidies”; August 2008; <http://www.ibo.nyc.ny.us/newsfax/insidethebudget158.pdf>
- New York City Independent Budget Office, “For MTA, Tax & Fee Revenues Not Always on Track”; August 2011; <http://www.ibo.nyc.ny.us/iboreports/mtareportaugust2011.pdf>
- Report of the Commission on MTA Financing, 2008
http://graphics8.nytimes.com/packages/pdf/nyregion/20081204_MTAREPORT.pdf
- Patrick McGeehan, “Christy Halts Train Tunnel, Citing its Cost”, New York Times, October 7, 2010, <http://www.nytimes.com/2010/10/08/nyregion/08tunnel.html>
- Patrick McGeehan, “Subway Extension Draws Support, if Not Financing”, New York Times, November 23, 2010, <http://www.nytimes.com/2010/11/24/nyregion/24tunnel.html?ref=transhudsonpassengerrailtunnel>
- Metropolitan Transit Authority, “Summary of MTA Capital Program 2010-2014”
http://www.mta.info/news/pdf/cap10/exec_summary.pdf
- Citizens Budget Commission, “Recent Confusion over the MTA’s Financial Condition and What to Do About It”, 2013, <http://www.cbcny.org/cbc-blogs/blogs/recent-confusion-over-mta%E2%80%99s-financial-condition-and-what-do-about-it>
- Citizens Budget Commission, “Working in the Dark: Implementing The MTA’s Capital Plan”
http://www.cbcny.org/sites/default/files/MTA_Capital_4-Pager.pdf

April 14– Week 11 – New approaches to Public Finance. There is an explicit subsidy in municipal bonds. Are there other more efficient ways to finance capital programs?

- Edward V. Regan, “A New Approach to Tax-Exempt Bonds: Infrastructure Financing with the AGIS Bond”, <http://www.levy.org/pubs/ppb/ppb58.pdf>
- Bond Market Association “Testimony--Hearing on Select Tax Issues 10/07/04”
www.sifma.org/workarea/downloadasset.aspx?id=18728
- CBO, Tax Credit Bonds and the federal cost of financing public expenditures
http://www.cbo.gov/ftpdocs/56xx/doc5624/07-08_TaxCreditBonds.pdf
- US Treasury, “Treasury Analysis of Build America Bonds” 2011
<http://www.treasury.gov/initiatives/recovery/Documents/BABs%20Report.pdf>
- Stephen Gandel, *Time*, “A Stimulus Success: Build America Bonds Are Working”
<http://www.time.com/time/business/article/0,8599,1939720,00.html>
- Citizens for Tax Justice, The Hidden Entitlements, 1996—Tax exempt bonds
http://www.ctj.org/hid_ent/part-2/part2-4.htm

April 21— Week 12 -- Using Bonds to Promote Economic Development. Bonds can be used as an incentive to spur economic development or redevelopment in areas that are seriously blighted or that have been decimated after an attack or natural disaster. We will review Qualified Small Issue Bonds, Empowerment Zone Bonds, Liberty Bonds and Gulf Opportunity Zone bonds.

- David W. Dunlap, “Liberty Bonds' Yield: a New Downtown”; New York Times, May 30, 2004; <http://query.nytimes.com/gst/fullpage.html?res=9D07E6D9133EF933A05756C0A9629C8B63>
- Job Creation and Worker Assistance Act of 2002, Title III, <http://thomas.loc.gov/cgi-bin/query/F?c107:1.:/temp/~c107OBILHA:e39255:>

- Richard M. Froehlich, “The Use of Tax Exempt Bonds for Community Economic Development”, 2009 (downloaded on Courseworks)
- Reconstruction Watch, (a website with a variety of pieces regarding the liberty bond program and other reconstruction efforts after 9/11). Please roam around to see the different opinions regarding the use of these resources; <http://goodjobsny.org/economic-development/reconstruction-watch>
- Stan Provus, “The Basics of Industrial Development Bonds” Council of Development Finance Agencies 2006, <http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/july2006tlc.html>
- CDFA, “Spotlight on Gulf Opportunity Zone Bonds,” <http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=gozonebonds.html>

April 28 – Week 13 -- Public Private Partnerships. What would you do if you were a government official and you needed money to pay for services and could not increase taxes? Would you sell a highway or a lottery? Sometimes governments want to raise money and don’t want to increase taxes. In those instances government officials might sell or lease infrastructure or other assets attractive to investors to get money today to cover cash shortfalls. These funds can delay tax increases or provide endowments for future goals. We will examine this growing area, including some of the international players and markets.

- Deloitte, Touche, “Closing the Infrastructure Gap: The Role of Public Private Partnerships”; [http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_ps_PPPUS_final\(1\).pdf](http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_ps_PPPUS_final(1).pdf)
- Citizen’s Budget Commission, “The Dos and Don’ts of PPPs”; December 5, 2011; <http://www.cbcny.org/cbc-blogs/blogs/dos-and-don%E2%80%99ts-ppps>
- Jeffery Buxbaum and Iris Ortiz, “Protecting the Public Interest: The Role of Long-Term Concession Agreements for Providing Transportation Infrastructure”; pages 1-16 <http://www.usc.edu/schools/sppd/keston/pdf/20070618-trans-concession-agreements.pdf>
- Regional Plan Association; “Ground Rules for a Public Private Partnership in New Jersey,” 2007; file available on Courseworks
- Tollroad News, “Corzine received \$30 billion proposal for "monetization" of NJ Turnpike with management contract”, <http://www.tollroadsnews.com/node/3028>

May 5 – Week 14 -- Defaults. What are the lessons to be learned from the great bond defaults?

- Fundamentals of Municipal Bonds, chapter 10
- James T. Bennett and Thomas J. DiLorenzo, “The Wppss Default: Not the Only Off Boondoggle”; <http://www.cato.org/pubs/pas/pa028.html>
- International Monetary Fund, “Municipal Bombs”, Finance and Development, June 2010; <http://www.imf.org/external/pubs/ft/fandd/2010/06/dodd.htm>
- Tracy Gordon, “Buy and Hold (on Tight)”, Brookings Institution, http://www.brookings.edu/~media/research/files/papers/2011/9/19%20muni%20bonds%20gordon/0919_muni_bonds_gordon.pdf
- Philippe Jorion, “Orange County Case: Using Value at Risk to Control Financial Risk” <http://merage.uci.edu/~jorion/oc/case.html>

May 9– Final Paper due