

Unit II–Go/No Go: The Process of Community Development Finance

Learning Objective

To introduce the factors that help determine whether a community development project is a “go” or “no go.” These factors include the business plan, financial information and environmental context.

Business Plan

Once you understand the fundamentals of community development finance that were discussed in Unit I, you can begin to build a business plan for your community development project. A business plan helps participants evaluate the merit of a project and provides lenders and investors with information they need to decide whether to fund the project.

Why Are Business Plans Important?

- They build commitment.
- They clarify why people are working together.
- They uncover expectations, aspirations and potential pitfalls.
- They assign responsibilities to each person involved in the project.
- They outline goals and benchmarks.

Key Elements of a Business Plan

Finance planning includes the element of making a business case for the development project you are attempting. Key elements of a business case for a community development finance plan are:

Business context. What is happening, internally and externally, to the community or organization that merits attention and is driving the need for the community development project and finance plan?

An example might be that the number of adults ages 25-44 in your community has been declining every year.

Problems or opportunities. What aspect of the current situation calls for action? In considering problems or opportunities, you should ask what the market demand is for the project. Gather data and information that describe the assets available either within the community or are available to the community to use.

The problem could be that the trend toward fewer young adults has led to weakening job growth. The opportunity could be the creation of an environment that will retain and attract educated and skilled young adults.

Implications of ignoring. What is the consequence of not addressing the problem or opportunity?

Current businesses are likely to move to where they can find young adults in the labor force; businesses that require educated and skilled young adults in the labor force will not open, expand or move to the community. This could lead to a decline in the housing market, school enrollment and retail business.

Desired outcome. What is the desired outcome of the community development project?

The desired outcome is for a strong labor pool for current and new businesses.

Benefits. What are the specific advantages or gains that will result from achieving the desired outcome?

The benefits might be rising household income levels, tax base and bank deposits.

Financial Information: What Exactly Is a Lender or Investor Looking for?

A lender or investor typically will request the following information to determine whether to finance a community development project:



Basics about Applicant

- Structure of the organization (nonprofit or for-profit corporation, limited liability corporation, sole proprietorship, etc.).
- History/experience.
- Financial statements.
- Self-analysis. This information about your current situation and performance could include an annual report, the board of director's strategic assessments and plans, and current operating statistics.

Budget

- Copy of proposed lease or purchase agreement for buildings, land, etc.
- Estimated operating expenses for the proposed project.
- Plans and specifications. Very specific plans on each phase of the project must be prepared up-front.
- Substantiating amounts—actual estimates from contractors, suppliers, etc.
- Amount of investment from the developer for the project.

Management

- Do the management of your organization and the manager of the proposed project have the capability and credibility to get the job done?
- If a property manager will oversee the ongoing operations when the project is finished (such as for rental properties), what is his or her experience level?

Financial Capacity

- Are cost overruns covered?
- Can loans be paid if there are cash flow problems?
- Can interest payments be met if sales are not brisk?
- Is there a secondary source of funds?

- What are the projections for cash flow and other financial indicators?
- What are the ongoing operating expenses of the organization, and are funds designated to cover them?
- If you are proposing a housing project, are you factoring in a vacancy rate of at least 10 percent?
- Will the proposed project lead to rental income consistent with current market conditions?
- Is there a reserve and replacement fund to cover repairs?

Appraisal

- Does the appraised value of land, buildings or equipment support the lender’s investment in the project?

Quality of Design

- If you are proposing a building project, have you included adequate security and parking, as well as logical and efficient floor plans?
- Even if your project isn’t a building, you must show elements of good design—remember the mitigation, flexibility, etc., that you learned about in Unit I?

New Sources of Money

Lenders and investors with capital looking for good projects are growing in number and type. As you look for sources of money, the business plan should consider a scan of the market for finance partners who may find your project attractive because it provides the outcomes they are seeking.

■ **Exercise:** Who are some of the new lenders or investors who may bring money to a community development project?

(Examples: Pension funds, insurance companies, large corporations, private developers, community development corporations, revolving loan funds, housing trust funds, social investment funds, community foundations or venture capital funds.)

Environmental Context: What Other Factors Can Affect Your Project?

Let's look at the factors outside of your organization that might play a role in whether your project will be successful. You will be asked to list and evaluate these factors to come up with the environmental context for your project. A fringe benefit of going through this process is that you will then have a foundation for a marketing plan.

Macroenvironmental Factors

Macroenvironmental factors are those conditions over which you or your organization would have little, if any, control. Nevertheless, these factors would have an impact on you or your organization. Although you won't have control over these "macros," you still must pay attention to them in deciding how to proceed. Examples of such factors include economic trends, the current state of technology and the weather.

General categories of macroenvironmental factors include:

Economy. Effects of inflation, business cycles, employment trends, retail and commercial activity, construction activity and availability of capital.

A housing developer might list the following macro factors: lifestyle choices that people make, the trend toward smaller families and the aging of the population.

Demographics. Effects of trends in size, age distribution, education, diversity, income and geographic distribution of the population.

Social and cultural factors. Changes in consumer values and lifestyles that affect the purchasing behavior of the target market.

Politics/law. Effects of regulation and legislation.

Technology. Changes in technology affecting not only products and services but their delivery.

Natural environment. Ecological or other natural concerns—flooding, earthquakes, pollution, etc.—that may affect the organization’s markets or operations.

Microenvironmental Factors

These are smaller things in the immediate area that we may have some control over yet still affect the organization’s ability to make community development finance decisions. Even though these factors are “micro,” they sometimes are as important to consider as the “macro” factors. The “micros” can also sometimes make possible projects that the “macro” factors would seem to rule out.

Microenvironmental factors of which you need to keep abreast include:

Markets. You should profile consumer markets that you plan to target in your project.

Customers. Be sure to profile your potential customers or clients, along with their needs, buying behavior and attitudes toward the project and your organization.

Competition. You must know your major competitors’ strengths and weaknesses, along with the sizes and trends in their market share.

Public affairs. Be aware of your reputation in the public arena. If the people you are trying to serve have doubts about your organization or proposed project, your objectives might be difficult to achieve.

The aforementioned housing developer, for example, might think the future is bleak, given the macro factors. But after considering the micros, the developer might decide that there is a demand for homes with more bathrooms and fewer bedrooms or might realize that there is not much competition in building assisted living housing for senior citizens.



Applying What We've Learned in This Unit

Let's put together a "situation analysis" for the community development opportunity that you picked at the end of Unit I. In real life, many people will hopefully undertake this analysis; they will come from the ranks of those working with you on your project. For example, the lawyers will deal with the legal section, those with marketing experience will deal with the market factors and so on.

On the following pages are eight sets of factors that you would want to analyze in real life. For this practice exercise, you have the option of taking the easy road or a "challenging" road. For those who pick the latter, fill in the "unmet needs," "assets" and "opportunities" for each set of factors. For those who want just a taste of this process, a shorter exercise has been provided at the end of this unit for you to lump together all the "unmet needs," "assets" and "opportunities" for your project. No matter which road you take, read the exercise in its entirety before writing down your answers. We've listed some questions for each category of factors to help get you thinking in the right vein.

In addition, we've given sample answers, based on a hypothetical plan for building an addition to a public library. In this scenario, we are pretending that proponents of the project want to use a design, materials and craftsmanship that match the original historic structure. Thorough answers for this hypothetical example are given for the first group of factors; shorter answers are given for the other factors.

No. 1–Economic Factors

You may want to ask yourself the following when considering your answer:

- A. What is the general economic condition in the labor and housing markets?
- B. Is there a skilled labor shortage?
- C. What activity is there in the retail and construction sectors?
- D. Are there areas of the economy that are lagging behind?
- E. What is the availability of capital, credit and financial services?
- F. How many financial institutions serve the area?

■ **Unmet Needs:** (For the library addition, the unmet needs might include an architect experienced in historic preservation and design, more costly building materials, and the sort of skilled labor and craftsmen who are not easy to find. We also will need a construction loan at a low interest rate and permanent financing with a monthly payment that is reasonable. An experienced person to provide oversight and supervision on the entire project is required, too.)

■ **Assets:** (For the library example: A graduate of the local high school is now an architect who lives in a nearby city and works for a design-build firm that specializes in historic reproduction and preservation. Building materials can often be replicated using modern components and techniques that match and sometimes surpass the original materials. Skilled labor from the local high school industrial arts class may be trained by the architectural staff to do some

of the specialized work. Interest rates are low at this time and, along with public funds and the library's endowment, will guarantee favorable conditions and terms of financing.)

■ **Opportunities:** (For the library example: Hire the town alumnus and his firm as the architect and project manager. Use building materials that match or complement the original materials. Enter into a training and work agreement with the local high school to use labor from the industrial arts class. Staff from the design/build firm will supply on-site training. Take advantage of low interest rates and use public funds and the library's endowment to guarantee favorable conditions and terms of financing.)

No. 2–Demographic Factors

You may want to ask yourself the following when considering your answer:

- A. What are the educational attainment levels in the area?
- B. How do age and social class affect the community?
- C. Does the number of lower-income households suggest a need for specific community services?
- D. Does the community have a non-English speaking population?

■ **Unmet Needs:** (For the library example: programs for children and senior citizens, multilingual services, Internet access and other services for low- and middle-income population.)

■ **Assets:** (For the library example: growing numbers of children and youth in the area, increasing ethnic diversity.)

■ **Opportunities:** (For the library example: Demand for all programs and services is high. In addition, recent immigrants could help design and implement new multilingual programs.)

No. 3–Social and Cultural Factors

You may want to ask yourself the following when considering your answer:

- A. How does being a homeowner vs. a renter affect community attitudes?
- B. What value is placed on tourism, the arts and historic preservation?
- C. Are lifestyle patterns changing?

■ **Unmet Needs:** (For the library example: new services such as those that target changing lifestyles. Services might include Internet access and a latch-key program.)

■ **Assets:** (For the library example: strong historic preservation and Main Street development programs.)

■ **Opportunities:** (For the library example: The addition would reinforce the importance of historic preservation and create space for new services, such as Internet access, a latch-key program and a multipurpose room.)

No. 4–Political and Legal Factors

You may want to ask yourself the following when considering your answer:

- A. Has the shift of programs from the federal to the state level altered the availability of money?
- B. What is the legal status of development organizations that have an impact on project formation?
- C. What influences and pressures are at work in the community?

■ **Unmet Needs:** (For the library example: Legal work must be done. Endowment restrictions need to be reviewed. Community support for addition must be drummed up.)

■ **Assets:** (For the library example: Mayor and town council are supportive.)

■ **Opportunities:** (For the library example: new state legislation for innovative library services.)

No. 5–Technological Factors

You may want to ask yourself the following when considering your answer:

- A. How accessible are computers with Internet access in the area?
- B. Is there a community information network in your area?
- C. How is technology impacting lifestyle, work and commuting patterns?

■ **Unmet Needs:** (For the library example: more computer training and online access for the public at large. Also, historically accurate and affordable stone masonry is needed for the addition.)

■ **Assets:** (For the library: Local nonprofit receives grant to build computer training center and create a community information network. Synthetic building materials can replicate hand-cut stone for less money.)

■ **Opportunities:** (For the library: Offer wireless Internet service in partnership with nonprofit training center and school district. Nearby company specializes in replicating stone in historic applications using synthetic materials.)

No. 6–Natural Environmental Factors

You may want to ask yourself the following when considering your answer:

- A. Are there ecological concerns with industry, farming or economic development?
- B. Is the area likely to be affected by natural disasters?
- C. What is the quality of air and water?

■ **Unmet Needs:** (For the library example: Assessment of asbestos and ground water. Trees more than 100 years old will have to be cut down to make way for the addition.)

■ **Assets:** (For the library: Topography allows natural drainage. Bedrock close enough to the surface for foundation footings. Trees can be milled, and furniture built by local craftsmen.)

■ **Opportunities:** (For the library: Incorporate lumber from trees into library furniture.)

No. 7–Market Factors

You may want to ask yourself the following when considering your answer:

Customers (or Clients or Constituents)

- A. Who are your customers?
- B. Is there a customer base to support the project?
- C. Will your customer base change or remain the same?
- D. Do you have profiles of customer-buying behavior?

Markets

- A. What are the size, growth and geographic distribution of the market?
- B. What is the profitability of current markets?
- C. What parts of the market are available?

Competition

- A. Are there any competitors for resources or financing?
- B. What strengths or weaknesses can be found among the competitors?
- C. Have comparisons been made?

Intermediaries

- A. Are there entities to collaborate with that can deliver products or services for you?
- B. Are there plans to enhance their capabilities?
- C. What are the cost, reliability and effectiveness of intermediaries?

■ **Unmet Needs:** (For the library example: Disenfranchised families don't have access to Internet or to reading programs.)

■ **Assets:** (For the library: large target audience. Library is centrally located.)

■ **Opportunities:** (For the library: There isn't a competitor. Target audience already uses library and has favorable attitude toward library. This support could be leveraged to attract more users to the facility and to expand future services.)



No. 8–Public Relations Factors

You may want to use the following when considering your answer:

- A. How does the community plan and pursue its community development objectives?
- B. What public concerns have an impact on community development finance?
- C. How many nonprofit organizations work in community development?

■ **Unmet Needs:** (For the library example: Address people who want to preserve the 100-year-old trees. Construction trades say the addition can't be built as planned.)

■ **Assets:** (For the library: State library association supports addition.)

■ **Opportunities:** (For the library: Enlist schoolchildren and parents in support of the addition.)

The Easy Road

If you opted to take the easy approach to this exercise, use these pages to lump together all of the “unmet needs,” “assets” and “opportunities” for your project.

■ *Unmet needs*

■ *Assets*

■ **Opportunities**

Notes:

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Summary

Now that you have a good idea of the people needed to successfully finance your project (Unit I) and the processes (Unit II), we can move on to exploring different ways to come up with the money.

