



**HEALTH, EDUCATIONAL, AND HOUSING FACILITY BOARD**

**City of Chattanooga, Tennessee  
MONTHLY MEETING MINUTES**

**John P. Franklin City Council Building  
Council Assembly Room  
1000 Lindsay Street  
Chattanooga, TN 37402**

**for  
June 27, 2022  
12:30 p.m.**

Present were Board Members: Gregg T. Gentry (Vice-Chair), Richard Johnson (Secretary), Charles D. Paty, Alexa LeBoeuf, and Andrea L. Smith. Absent were: Hicks Armor (Chair) and Johnika Everhart.

Also present were Phillip Noblett (Counsel to the Board); Sandra Gober and Tony Sammons (Community Development); Jermaine Freeman (Economic Development); Martina Guilfoil and Jake Toner (CNE); and John Wilson (Times Free Press).

Mr. Gentry called the meeting to order, confirmed the meeting advertisement, and established that a quorum was present to conduct business.



**MINUTES APPROVAL FOR THE MAY 16, 2022, MEETING**

On motion of Mr. Johnson, seconded by Mr. Paty, the minutes of the May 16, 2022, meeting were unanimously approved as submitted.

Mr. Johnson complimented Ms. Manalla because the last meeting was very complex. Mr. Johnson read over the minutes twice, and she did such a nice job of really capturing the essence and spirit of everything. Mr. Johnson would like to go on record as to thanking her really for all of her fine work that she does and appreciates her efforts.



## **PUBLIC COMMENTS**

There was no one from the public wishing to comment.



## **PRESENTATION OF THE ANNUAL PILOT REPORT**

Ms. Sandra Gober stated this is the annual update on the PILOT program and projects that have been approved by the HEB Board. This presentation covers all of the housing PILOTs that have been approved to date.

There were three resolutions that have been passed or approved for the housing PILOT. Each resolution sort of updates the most recent PILOT which is Resolution No. 28783 adopted September 20, 2016. It is increasing the number of affordable units that are required for a project to be approved for a PILOT. The 2016 under Mayor Berke resolution, increased the projects requiring 50% of the units to be affordable at 80% AMI. All of the projects are required to be located in the City of Chattanooga.

This update is the current status of each PILOT approved and indicate whether or not the property is currently in compliance with the PILOT requirements. Please also see attached the Annual PILOT report presented to the Board.

## **RESERVE AT MOUNTAIN PASS**

The most recent PILOT approved is the Reserve at Mountain Pass. This was approved in 2021 and is 100% affordable, 240 units, and located in south Chattanooga off of Central Avenue. The project is currently under construction. They broke ground in June 2022. The expectation is that construction will be complete December 2023. The PILOT period for that project is 2024-2040. The investment on that project was \$52 million. It is underway with no issues at this point to report.

## **MAI BELL II**

This project is located at 1715 Union Avenue and is a \$5.7 million investment of 26 PILOT units. The majority of the units at the end of the day will be affordable but 26 of them will be labeled as PILOT units and of the 26 units, in addition have some of the HOME funds in the project which is going to require that at least eight of those units are made available to households even at lower than 80% AMI. The construction started in 2021 and its target completion date is this coming December.

### **BATTERY HEIGHTS APARTMENTS**

This project is located at 3401 Campbell Street. The renovation is expected to be complete in October 2022. They have had some challenges with the renovation namely because of supplier challenges with construction workers. Under this project is renovation and is a state project of \$5.5 million investment, and the PILOT period is 2022 to 2035. The compliance status currently is an existing project that was receiving assistance from THDA/Low Income Housing Tax Credit (LIHTC). They were already preparing to submit reports to THDA with regard to the occupancy indicating that the majority of the residents were low-income tenants.

### **BAYBERRY APARTMENTS**

The Bayberry Apartments are located at 2300 Windsor Street, 2330 Wilson Street, and 1101 Arlington Avenue over in east Chattanooga. This is also a renovation with 163 affordable units, all PILOT units, and all of the units are affordable, the lowest at 60% AMI. The renovation was complete in 2017. The compliance status is that they are compliant per the THDA/LIHTC filing.

### **CHESTNUT FLATS**

The developer for this project is Elmington Chestnut Group LP. In 2019 this was transferred to Mount Auburn, and in March 2022, it was transferred to Starwood Realty. The project is located at 2108 Chestnut Street and the new construction was completed in October 2019. This is a \$22 million project with 199 total PILOT units. The PILOT period is from 2019 to 2033. This project was left off of the presentation.

### **PATTEN TOWERS**

The renovation on that project was complete in March, but if you live in Chattanooga, you were aware of the fire that also took place just as they were about to get the Certificate of Occupancy. They had a setback on that. But the renovations from the fire have been completed. The total reporting units are all PILOT units and all affordable to households at 60% or below.

### **RIDGEWAY APARTMENTS**

The Ridgeway Apartments are located at 1230 Poplar Street which is on the west side. The renovation was completed in 2019, and there are 120 total PILOT units. This project is also affordable to households at or below 60% AMI. The renovation is complete. The project is compliant per THDA/LIHTC filing.

Under Resolution No. 27968, 20% of the units were required to be affordable and this resolution was adopted August 5, 2014.

### **MARKET CITY CENTER**

The construction was completed on September 2017, PILOT period being 2017 to 2031. This is a project under which a staff person under the Housing Community Investment goes on site and reviews the documentation, the rent roll, as well as the application for the tenants to show that they are indeed eligible to occupy the units. Under this project, 25 of those units are required to be affordable to households at or below 80% AMI.

### **1400 CHESTNUT**

The construction was complete in 2019. There is a total of 200 units and 40 of those are affordable to households at or below 80% AMI. The compliance review on this was conducted in December 2021 and based on that review, they are compliant with the requirements.

### **MACLELLAN BUILDING**

There are 89 total units of which 19 of those were required to be affordable to households at or before 80% AMI. The renovation was complete in 2017 with a PILOT period of 2016 to 2034.

### **VUE ON 5<sup>TH</sup>**

The renovations were complete in 2019 and was new construction. Based on the review, which was done very recently in May 2022, the project is compliant with 13 of the units being occupied by eligible households.

### **PASSENGER FLATS**

This is a project that was located near the Choo-Choo through Choo-Choo Partners LP. In 2018, they actually required to be pulled out of the PILOT. The year ended 2018 for this project.

Under Resolution No. 23253, adopted January 8, 2022, the requirement was that the project had to be located in a downtown footprint. There were no income requirements for the units. The PILOT projects developed under that resolution are:

- 1) Bread Factory Lofts;
- 2) MK;
- 3) St. John's Apartments;
- 4) UTC 2;
- 5) UTC 3;
- 6) Walnut Commons; and
- 7) Frazier Place.

The Jaycee Towers is a little exceptional in that the HEB did not approve this. This was actually completed and done through the Chattanooga Housing Authority. All of the units under this project are affordable. The household for this that are implemented is 50% and below.

**Questions:**

Mr. Johnson asked, what are roughly the parameters inclusive of downtown Chattanooga? Would that be – that’s not East Lake and not Alton Park. What is the definition? Ms. Gober stated there is actually a map that outlines the footing. Ms. Gober does not have that map, but under the most recent one, is it anywhere in the City is Chattanooga? Mr. Johnson’s understanding is -- and we only have one property that was Passenger Flats that they decided to terminate. Were they not in compliance? Is that something we had to initiate from the attorney’s office or is this something that they did of their own? Mr. Noblett stated they voluntarily chose to terminate that because they thought they could make more on the market than they could on low to moderate income. They pulled out of the tax benefit that they received as a PILOT and chose to do that on their own.

Mr. Johnson would like to thank the Department of Economic Development, that we really had no one to legally get after, and speaks well of your due diligence. It frankly speaks well of the Board and the attorney’s office that we take it very seriously and we have not had anyone that has not been non-compliant that really did not create any issues whatsoever. Is that accurate? Mr. Noblett stated so far. We are taking today as it comes. So far, we are doing well.

Mr. Noblett stated that one that was left out was Chestnut Flats, and the reason Mr. Noblett was trying to bring that up is that is at 2108 Chestnut Street. It has been transferred to two different groups since it started. It started out as Elmington Group, then it was Mount Auburn, and most recently this body acted on it in March which was transferred to Starwood Realty. According to your review of that property as of December and April of 2020, there have been reviews each time, and it was appropriate. It was a \$22 million investment, and it had completed construction in 2019. It goes through 2033. In that regard, that is a benefit for the City at least in providing 199 PILOT units there.

Mr. Gentry stated we appreciate Ms. Gober’s great work in accomplishment of the report provided today.



## RESOLUTIONS

On motion of Mr. Johnson, seconded by Ms. Smith,

### A RESOLUTION TO AMEND CERTAIN REQUIREMENTS, GUIDELINES, AND RELATED DOCUMENTS OF THE AFFORDABLE HOUSING FUND. (HEB2022-06)

Mr. Noblett stated this is a resolution where the Board was asking them to come up with some sort of Affordable Housing Fund application information and guidance to people. Ms. Gober has worked on that preparing an overview. There may need to be more changes.

Ms. Gober stated that at the last meeting when there was a discussion regarding the 60% versus the 80% for affordable rental units, the intent is to ask for changes to the guidelines to accommodate that which is updating the affordable guidelines for changing rental from 60% to 80% and for homeownership actually amending the requirements to change the income limits from 80% and raising it up to 120% AMI to accommodate low class housing. This was during 2020-2021 before it was actually approved and allowed us to utilize some of the funding to assist households with rent utility assistance. It was passed and approved and want to incorporate those requirements and guidelines. The document can also outline the criteria in the manner in which is a requirement which assistance can be provided in those circumstances. That was not incorporated in the guidelines and just really improved for us to be able to do it, but we never adjusted the application to again reflect the criteria for such a program where we received an application for funding.

Currently, and this was part of the discussion also, was the limit on which an applicant can apply for. They currently had it at \$500,000 but again, in light of the challenges having with affordable housing, it is not just Chattanooga but nationwide. Just having the flexibility to be able to evaluate each application by application or project by project and determine the actual need with regard to what is feasible to be used into a project. If we are talking about some of the larger projects, \$500,000 the max, it really would not be feasible. More than likely, if we are looking at density and larger projects, we need to be able to really, in some instances, probably exceed that \$500,000. We just wanted the flexibility to be able to evaluate each request project by project and utilizing the standard underwriting procedures and that will be articulated and laid out in the application. The date also would be the underwriting criteria to evaluate each project to determine the maximum need for the project.

The other changes Ms. Gober would like to accommodate in the guidelines and the requirements is really just to structure it so that it does accommodate applications for plans and studies. Right now, the way the guidelines and the application are really written more towards construction-type projects, and it needs to be a set-criteria clearly articulated in there to accommodate scoring and evaluation of project requests for funding. Plans and studies are unique activities which the program does allow, but it is just to articulate it in the guidelines real clearly.

Mr. Gentry asked the 60% and 80% change is up to 80%, its 80% will not be hardwired and that would be discussion and negotiations if there is set aside at 80% versus 60%. It will give flexibility to go up to 80% but not necessarily 80% on every project, every unit within a project, is that correct? Ms. Gober stated yes.

Ms. LeBouef stated the change in parameter is the 25 to 2,500. There is no longer any parameter, it is open for discussion, it is not limited by minimum or maximum anymore. Ms. Gober said exactly.

Mr. Johnson asked relative to the funding format, is he correct in, he believes, in the past there was some federal funding at no interest, forgivable loans, but that was during COVID. So those are really not available now. That is why they were taken out? Ms. Gober asked Mr. Johnson to repeat that because she could not hear clearly. Mr. Johnson stated that on the funding format, you struck through the no interest/no payment loan and his understanding was those were available from a federal level during COVID but now they are no longer available. Ms. Gober stated the change for that is really also to accommodate and provide a flexibility. Some of the projects no doubt could not make the funding available as a grant. It is more likely a study or homeownership, sometimes the funding will be made available as a grant. Just depending on the project, itself, it allows us to use the funding either as a grant, no interest loan, or amortizing loan. Just having the ability to evaluate and underwrite each project sort of on its own and then based on that, we would determine should the funding used as a grant loan or forgivable loan.

Ms. LeBouef had a question on the application process. This was really helpful and liked the parameters, it is very clear to apply it. Ms. LeBouef did not know in the application process what is communicated to applicants in terms of timelines and how that has been viewed by Ms. Gober and then what the timeline is for it to come before the Board for a process of applying the criteria. What is that current timeline? Ms. Gober stated that this is really just a summary. The application is a 10-page document and does outline the prospects in which we accept and vet applications. The updated version will even more clearly be outlining those kinds of things. The current application does not accommodate. We accept the application on an ongoing basis, that the applications were vetted and reviewed by the City staff and presented to the HEB on the third Monday.

Mr. Noblett asked Ms. Gober if she was going to be bringing back some related documents in the future. Ms. Gober stated at the next board meeting, she should be able to have that document. She is anticipating that it will be a 20-25-page document as it is going to be comprehensive and outline all of the criteria and to accommodate more so for the types of applications that we can receive under the program. It is more structured for construction, and we need to be able to ask some additional questions depending on the type of application that we are receiving.

The resolution was unanimously adopted.

**ADOPTED-June 27, 2022**

On motion of Mr. Johnson, seconded by Ms. LeBoeuf,

A RESOLUTION ALLOCATING FIFTY-FIVE THOUSAND DOLLARS (\$55,000.00) TO CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. TO HAVE A HOUSING AFFORDABILITY ANALYSIS CONDUCTED THROUGH HR&A ADVISORS, INC. (HEB2022-07)

Ms. Martina Guilfoil stated that this is a really timely study especially what Ms. Gober was saying. One of the challenges that they have had for years is what is the appropriate subsidy. When products come to the Board, they want to know are they over-subsidizing, is this too much, is the project going to be viable, ongoing, based on the amounts of subsidies.

Subsidies will vary based on the amount of the subsidy. Subsidies will vary based on a one bedroom or three bedrooms, it will vary based on a model. CHA has a different model than CNE which is different than the LIHTC projects that we were just talking about. Ms. Guilfoil was really interested in, how can we define what this looks like, and how do we build the framework? How do people know what the rules are? Right now, there really is not a rule and go in and kind of negotiate around what sounds like a good subsidy but whether or not that is what it is going to cost me to build or not.

HR&A has come to Chattanooga before, and actually coming to town this week, and doing some work with RiverCity Company on downtown economic analysis. They are very well experienced in the affordable housing area. They have done these sorts of studies across the country, and what they will do is come into town and talk to a lot of people, look at CNE's cost, and also look at other costs, not just CNE. They are going to look at what other different subsidy models, what does it cost to build, and just mentioned unit size for example, is that a different number? What she really is interested in as well is as we look at neighborhoods and affordable housing development, CNE's model is really to go into neighborhoods and surgically insert small format and missing level projects -- duplexes, quadplexes, six-plexes. They are getting ready to build a ten-plex on Bailey Avenue, and then the small format apartment building, the Mai Bell, is the biggest thing they have built so far is 47 units versus the big LIHTC projects are like 150 units. Those take a different sort of subsidy of different models. It is all important as we look at, how do we start really building and getting velocity of affordable units in Chattanooga? We have to know what all these models are so we can build out a framework. They are going to look at all of that and look at what are some financing vehicles out there.

For example, CNE can get four percent or below prime with a CIT community that has been tax credit offered through the state, and the bank, which is up until two weeks ago, zero percent financing. Now we are paying half a point or one point on all of their money. That really helps lower the subsidy required but for a profit developer, would not have that available. Based on the model that is being put forth, the subsidy is going to change.



For governing bodies, what are some other cities compared to Chattanooga are doing? We can look and say here are some other models that folks are doing, does it make sense, or do we do something different that you can compare. Also, from her perspective, what she is interested in from a policy level, and she thinks the City will be too. The Low-Income Housing Tax Credit Program at the state has been very disadvantaged to Chattanooga. It has been very hard to fit not impossible to get 9% tax credit money to the City for over ten years. Whatever the guidelines they are working under, how can we influence that maybe with the Mayor and Oscar Brock is working on policy. They really want to go to the state and start putting pressure on THDA and other forces to say we need our fair share here in Chattanooga to build out. As prices have gotten more and more expensive, land is more and more expensive. How we layer and bring as many resources to the table as possible is so critical. That is really what this study is meant to be to come back and say from a reputable organization here is something that we can talk through and at least we have data, but then we can discuss what makes sense for the City. That is what the study is and hoping that the Board will fund it.

### **Questions:**

Mr. Johnson thanked Ms. Guilfoil for preparing this, and he read it quite thoroughly, thought it was very well done, and answered a majority of his questions. Mr. Johnson likes the fact that you wanted to have some market assumptions or bench lines. Mr. Johnson also likes the fact that the state knows we have done our due diligence for the most part. Mr. Johnson thinks the Office of Economic Development, particularly as it relates to housing and community investment, he would imagine that you guys are for this set.

Mr. Freeman stated we are. We support studies for a couple of different reasons. We think studies can help provide some updated market information as described. We like HR&A. They are working on a project with HR&A Advisors. They have applied for a Tennessee Opportunity PILOT Grant from the State of Tennessee from the Department of Human Services. Mr. Freeman was really impressed with the team that HR&A brought to the table and put together to work with them. HR&A would be a great partner. They are also involved in the HR&A workshop that Ms. Guilfoil mentioned with RiverCity Company and will be attending that later this week.

Mr. Freeman stated as a side note, he thinks one of the things the City would like to do and the Department of Economic Development would like to do, which does not necessarily be covered in the scope that CNE is working on, is we would also like a sort of comprehensive list of approach of other capital sources that could be used as part of capital stacks for housing developers. Often times there is a reliance on the City of Chattanooga to lead in terms of providing incentives and resources for affordable housing development, and we are certainly willing to do that, however, there are also other financing tools and options that are available beyond the City scope. As part of an ongoing affordable housing effort, we will eventually probably become involved with a request to do sort of a more robust study that analyzes and can identify other sources of funding that are not traditionally used by affordable housing developers in this market. They are very supportive of this project and believe that CNE being a leading partner in affordable development in our City, is an opportune time for this to be done.

Ms. LeBouef was super-excited to see this as well. Her question ties into what Mr. Freeman raised was the scope of the project because both CNE and the City are mentioned. Ms. LeBouef is curious to know about other models being looked at and putting CNE in the larger scope with the City. What do you all see as the scope and the deliverables when this matrix is built when you are looking at the available subsidies and available models? Ms. LeBouef is curious to see how it feeds up to the City strategy.

Mr. Freeman stated that one of the conversations they had for a long period of time is, what is the appropriate level of subsidy that the City should be subsidizing. For a long time, that number has been roughly \$40,000 per year. As we know, the cost of the development of housing have become more expensive, trying to land on what the appropriate subsidy level is, regardless of what the source of the funding is, whether it is affordable housing fund dollars, the General Fund, CBG, HOME, or ESG, landing on the appropriate number, and trying to decide what is the right level that the City should wisely subsidize that.

If you look at different cities and different affordable housing policies across the country, different jurisdictions have different levels of sources they fund. Part of that is because of the jurisdiction and the cost of construction and building in those jurisdictions. Mr. Freeman thinks that is a big part of the work they want to do for the Affordable Housing Fund that the Mayor recently asked of a \$100 million fund on which \$33 million will come directly from the City's budget on July 1<sup>st</sup>.

We also want to continue to work with CNE, Habitat for Humanity, and other affordable housing partners to figure out, now that we have identified what the right level of source is, what are the other pots of money that we can go after whether they are local, state, and federal, and to use in terms of building out capital stacks. Ultimately, if we want to officially use -- \$100 million is going to go fast. Ultimately, if we want to do that, we have got to also figure out ways that we can leverage and bring into Chattanooga other sources of funding that our affordable housing partners do not typically tap into.

Ms. LeBouef said yes, the matrix which she really liked would put a number to one-bedroom unit and supportability which would inform CNE's development and help the City think through the big picture at the City level. Ms. LeBouef knows, in certain parts of the City, another added factor is an environmental factor. As part of the costs, are they thinking through that where development might take place in relationship to the subsidy that it may require the capital stack study?

Mr. Freeman thinks that is a great question too and thinks that one of the things that we can work with Ms. Guilfoil on, and talk to HR&A about, is that most of the City is Brownfield. Then we should probably make sure that it be built into the average subsidy costs per household over on the Brownfield remediation costs are. Obviously, CNE is currently working on a project that is currently Brownfield, we run into that all the time and walk outside without stepping onto Brownfield, it certainly would behoove all of us to make sure that we are including the cost of Brownfield redevelopment as part of the subsidy cost. It is so common.

Ms. Guilfoil thinks that the matrix also involves a small format apartment building, LIHTC is really at 62 units which is probably the minimal size when you are trying to do a LIHTC project. There 150 units to 200 units. That is a totally different model that it might be appropriate in certain places but that is very different. She cannot access Low-Income Housing Tax Credits if she is doing a six-plex and fitting it within the neighborhood. In her mind, hopefully that is kind of what she wants to show in this matrix is different types of affordable housing and then the types of financing that is available. If you do, LIHTC or THDA has several different other programs, you are really drilling down at the end of low income and that is going to increase. That subsidy goes up and who is going to pay for that. Ms. Guilfoil is hoping that as much of that as possible will get done under this study, and she thinks one of the advantages of having HR&A do this is that when the City is ready to kind of build out its use of this \$60 million, that still has to be raised. We have a good solid foundation with what that looks like.

Mr. Noblett asked Mr. Freeman if we have \$55,000 where we can pay for this? Mr. Gentry stated that is an important question. Ms. Gober stated yes, but the current balance in the Affordable Housing Fund is more than sufficient to cover the \$55,000. Mr. Noblett wanted to make sure that this Board has access to those funds.


Mr. Gentry asked, we assume in three months after the study is complete by HR&A, that we will get either a written copy of the report and/or an update from Ms. Guilfoil, or someone else. Ms. Guilfoil stated it will be totally transparent.

The resolution was unanimously adopted.

**ADOPTED-June 27, 2022**

There being no further business, the meeting adjourned at 1:15 p.m.

Respectfully submitted,



*Richard A. Johnson, Secretary*

APPROVED:



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*Hicks Armor, Chair*