

**CITY OF CHATTANOOGA**  
**RESIDENTIAL PAYMENT IN LIEU OF TAXES (PILOT) PROGRAM**  
**FACILITATED THROUGH THE HEALTH, EDUCATION, AND HOUSING FACILITY BOARD OF**  
**THE CITY OF CHATTANOOGA (“HEB”)**  
**GUIDELINES AND APPLICATION**

The Residential PILOT Program is a financial incentive that is designed to encourage multi-family rental development for public benefit, by “freezing” property taxes on a project at the predevelopment level for a predetermined period of time. The title to the property is transferred to the Health, Educational and Housing Facility Board of the City of Chattanooga (HEB), and the developer makes payments in lieu of the payment of property taxes that would otherwise be payable on the property.

<b>Minimum/Maximum Total Project Size (Cost)</b>	Developments with costs, including acquisition, construction, and soft costs, that exceed \$5 million.
<b>Funding Format:</b>	PILOT awards reduce tax expense over a number of years, thus reducing operating costs, resulting in increased capacity to access development capital and improved long-term operational viability, expanded borrowing, and operating capacity.
<b>Incentive Duration:</b>	Projects are <b>capped at ten (10) years for new construction</b> developments and <b>fourteen (14) years for renovation</b> projects.
<b>Eligible Use(s):</b>	<b>Rental Housing</b> <ul style="list-style-type: none"> <li>● Renovation</li> <li>● New Construction</li> </ul>
<b>Eligible (funded) costs:</b>	Building renovations, site improvements, or new construction
<b>Minimum/Maximum # of Units (per project/address)</b>	Minimum project size - \$5 million, no established minimums or maximums per unit.
<b>Project Location:</b>	All units must be located within the Chattanooga city limits
<b>Application Process:</b>	Applications are accepted at any time. Applications are vetted by the Department of Community Development (CD) and presented to Chattanooga City Council, Hamilton County Commission, and the Health, Educational and Housing Facilities Board (HEB) for consideration. Projects should be on a timeline to begin construction within 2 years of the date the incentive is granted.
<b>Application Fee/Other costs:</b>	Application Fee payable to City of Chattanooga:\$3,500 Closing Fee payable to Health, Education and Housing Facility Board:\$15,000
<b>Eligible Applicants:</b>	For-profit and non-profit entities
<b>Eligible Occupants of Units:</b>	Fifty percent (50%), or more of the residential units must be occupied by tenants with incomes that do not exceed eighty percent (80%) of the Area Median Income (AMI).
<b>Minimum Period of Affordability:</b>	10 years for new construction, 14 years for renovated properties
<b>Application and Guidelines</b>	<a href="http://www.chattanooga.gov/economic-community-development/community-development">http://www.chattanooga.gov/economic-community-development/community-development</a>
<b>Contact</b>	Sandra Gober: (423)643-7332; Email: <a href="mailto:Sgober@chattanooga.gov">Sgober@chattanooga.gov</a>

# CITY OF CHATTANOOGA

## RESIDENTIAL PAYMENT IN LIEU OF TAXES (“PILOT”) PROGRAM

### GENERAL BACKGROUND AND GUIDELINES

#### Purpose

The Residential Payment-in-Lieu-of-Taxes (PILOT) Program is available to developers to preserve or develop, quality, affordable housing for low or moderate-income households. The PILOT is a financial incentive that is designed to encourage multi-family rental development, for the benefit of the community, by “freezing” property taxes.

The incentive must be essential to the project. PILOTs serve as a development tool for projects that would not be financially feasible but for the incentive which sets the taxation on the post-development/project based on the pre-development assessed value. Taxes on the “development/property” are frozen at the predevelopment level for a predetermined period.

When a project is approved for a PILOT the title to the property is transferred to the Health, Educational and Housing Facility Board of the City of Chattanooga (“HEB”), which is exempt from property taxes normally paid to the City and to the County. As long as the property is owned by HEB the developer makes payments in lieu of property taxes that would otherwise be payable on the property. The annual payments equate to the assessed value of the unimproved property in the base year. **The Hamilton County Schools portion of the property taxes are excluded from the incentive and must be paid as assessed, each year.**

#### Eligible Applicants

Experienced nonprofit and for-profit developers are eligible to apply. Applicants with no experience in construction, real estate development, or use of public funds may apply if partnered with an experienced developer.

#### Minimum Project Requirements

To be eligible for a PILOT, at a minimum:

1. The proposed development must be a high-impact project within the City of Chattanooga. A High-impact project:
  - a. Is a development with costs, including acquisition, construction, and soft costs, that exceed \$5 million, in total,
  - b. Is catalytic and essential to the economic viability of a neighborhood or community,
  - c. Meets the design characteristics of the neighborhoods in which it will be located, and
  - d. Is a project for which the developer is able to demonstrate the necessity of the incentive to the overall project.

2. The values of the building renovations/new constructions and site improvements must be equal to or greater than sixty percent (60%) of the total project costs (acquisition, construction/renovation, site improvements, other hard costs, and soft costs).
3. Upon completion, at least 50% of the units must be reserved as affordable housing. To maintain the units as affordable housing, developers must adhere to the following rent and occupancy requirements for the prescribed period of the PILOT agreement.
  - a. The rents for the affordable units cannot exceed the annual HUD-published Fair Market Rents (FMR), based on the number of bedrooms. If a project receives federal or state project-based subsidies and the tenant pays no more than 30 percent of his/her adjusted income for rent, the maximum rent may be the rent allowable under the project-based subsidy program.
  - b. The units must be leased to income-eligible households. The household income of eligible applicants and/or occupants must be below 80% of the area median income (AMI).

## PILOT Duration

All projects are **capped at ten (10) years for new construction** developments and **fourteen (14) years for renovation** projects. The duration for which a PILOT qualifies is based on the criteria outlined in the charts below. The calculation begins with the proposed number of affordable units (primary) and additional years can be added for other components.

PRIMARY COMPONENT	
Number of Affordable Units in Project	Maximum Years # of Years for PILOT
20-50	4 Years
51-75	5 Years
76+	6 Years

SECONDARY PROJECT COMPONENTS	
Project Components	Maximum # of Years for PILOT
50% or more of Projects' Units are Reserved for Households at 80% AMI and Below	6 Years
Historic	2 Years
Rehabilitation	2 Years

OTHER PRIORITY AREAS THAT THE PROJECT ADDRESSES	
Priority Area	Maximum # of Years for PILOT
<b>Transit Connectivity:</b> The project is located within ¼ of a mile of one or more stops for bus lines usable to building occupants. This will help ensure connectivity to job centers, workforce development opportunities, and basic necessities.	1
<b>Environmental:</b> The building is certified as an environmentally friendly project through LEED, Greenlight, or another certification program.	1
<b>DBE/WBE Participation:</b> The developer encourages DBE/WBE participation in the development.	1
<b>Workforce/Upward Mobility:</b> Not required - but developer makes upward mobility program available to tenants. This may be provided through a non-profit partnership. The program must be provided to the tenants free of charge.	1

**Calculating Maximum Number of Years**

- **PRIMARY component - Number of affordable units in the project:** A project may only qualify in this section once.
- **SECONDARY Project Components:** A project may qualify for up to three secondary components.
- **PRIORITY AREAS.** A project may qualify for up to four of these components.

**The years are added together to determine the total term of the tax freeze. All PILOTs will be capped at 10 years for new construction and 14 years for rehab projects.**

**Application/Approval Process**

Nonprofit and for-profit developers may submit applications at any time. The application can be found at: <http://www.chattanooga.gov/economic-community-development/community-development>. Community Development (CD) Department staff will consult with applicants prior to submission to provide guidance on the application. The typical process is as follows.

1. Potential applicant completes an **Intent to Apply** form and schedules a meeting with the CD Department staff. The form is available on the website noted above. The completed form is submitted to CD prior to the meeting.
2. The potential applicant meets with CD to discuss the proposed project. The purpose of this meeting is to obtain and provide preliminary information and guidance to assist the potential

applicant in determining if it is feasible to proceed with the application process. The applicant is instructed to, at minimum inform the community and the councilperson representative to try to have community and support from the councilperson representative before submitting the application.

3. The applicant completes the application and submits it, along with the application fee to CD.
4. Applications are reviewed by the CD staff. **Completed** applications are reviewed within 30 business days of being received. The proposed project will be reviewed for project delivery, income levels served, number of affordable and total housing units provided, need for subsidy, length of affordability term, architecture, and contextual compatibility, and other pertinent factors to ensure that the tax freeze is for the benefit for the community. Each project will be reviewed on its own merits but must meet all the minimum project requirements outlined above.
5. If the review deems the project to be feasible CD assists the developer, to the greatest extent possible, in the process of getting the proposal presented to the City Council, Hamilton County Commission, and HEB for approvals. **Approval of the PILOT requires affirmative votes from all three.**
6. The steps for approval, although they can vary for many reasons, are as follows:
  - a. The Mayor and/or the City Council's ECD Committee Chairman are briefed on the project.
  - b. CD requests permission to have the item added to the Council Agenda for Council approval. The request has to be made at least four weeks prior to the date of the desired vote. The applicant has an opportunity to present its project to the City Council prior to the date of the vote. City Council approvals take place on Tuesday evening of each week.
  - c. Paralleling the City Council process for approval, the applicant is also seeking approval from the Hamilton County Commission, ideally to coincide with the timing of City Council approval. Hamilton County Commissioners meetings take place on Wednesday morning of each week.
  - d. Final approval comes from the HEB. The HEB meets on the 3rd Wednesday of each month.
7. If the project is approved by the Chattanooga City Council, the HEB, and the Hamilton County Commission, a PILOT closing and final approval meeting will be arranged by the HEB. The closing will include the transfer of title and the tax-freeze will be registered with the City of Chattanooga and Hamilton County.

## Underwriting Policy

In considering approving a project under the PILOT Program, the City must evaluate the proposal to determine that the PILOT is necessary to provide quality affordable housing that is financially viable for the entire affordability period while providing a reasonable level of profit or return on the owner's or developer's investment. This evaluation will include, at a minimum:

- An assessment of the current market demand in the neighborhood in which the project will be located,

- The experience of the developer,
- The financial capacity of the developer,
- An examination of the sources and uses of funds for the project and a determination that the costs are reasonable; and
- Firm, written financial commitments for the project.

The City may rely upon the guidelines developed and/or evaluations conducted by other agencies, such as when Low Income Housing Tax Credits (LIHTC) or other HUD program funding, are used.

Along with, and inclusive of, a completed application, applicants seeking a PILOT are required to submit:

1. Commitment letters with all terms and conditions for the following:
  - a. Mortgages
  - b. Grants and/or other governmental assistance
  - c. Subordination agreements
  - d. Bridge (interim) loans
  - e. Investment tax credits (historic, low-income, if applicable)\*Note: The proceeds from the sale of tax credits must be identified as a source of funding.
2. Copy of partnership agreement (if the applicant is a partnership), which indicates the cash contributions by the general partners and/or limited partners.
3. Documentation to verify the sources indicated in the application, including:
  - a. Earnest money agreement, option or closing statement for land and/or buildings.
4. Construction cost estimate.
5. Construction contract or preliminary bids.
6. Agreements governing the various reserves which are capitalized at closing (to verify that the reserves cannot be withdrawn later as fees or distributions).
7. Appraisal (to substantiate the value of land and property after rehabilitation/construction).
8. If low-income housing tax credits are utilized, documentation on the syndication costs (legal, accounting, tax opinion, etc.) from the organization /individual who will syndicate and sell the offering to ensure that the project can support the fees necessary to syndicate/fund the project. All assumptions in the offering should be verified in the supporting documentation.

If the documentation is not adequate and does not support the costs as stated, the City will request additional documentation or a second opinion and/or reference from an appropriate source, such as another construction cost estimator, architect, or lawyer.

**CITY OF CHATTANOOGA**  
**RESIDENTIAL PAYMENT IN LIEU OF TAXES (“PILOT”) PROGRAM**  
**EVALUATION AND SCORING SHEET**

	New Construction	Renovation
Development Type		
Maximum total # of years allowable	10	14
Number of PILOT years applicant is requesting		

High-Impact Project?	Yes	No
Total project costs greater than \$5 million		
Applicant’s information demonstrates project is catalytic and essential to the economic viability of neighborhood or community		
The proposed project meets the design characteristics of the neighborhoods in which it will be located		
Through the information presented, the developer demonstrates the necessity of the incentive to the overall project		

<b>Building Renovations/New Constructions and Site Improvements &amp; Total Project Costs</b>		
A. Value of the building renovations/new constructions and site improvements	\$	
B. Total project costs (acquisition, construction/renovation, site improvements, other hard costs, and soft costs)	\$	
C. A/B	%	
Is the value of the building <b>renovations/new constructions and site improvements</b> equal to or greater than sixty percent (60%) of the total project costs (acquisition, construction/renovation, site improvements, other hard costs, and soft costs)?	Yes	No

<b>Project’s Unit Composition</b>		
A. Total number of units in the project		
B. Number of units that will be reserved as affordable		
C. A/B	%	
Will a minimum of 50% of the total units be reserved as affordable housing units?	Yes	No

Primary Component		
Number of Affordable Units in Project	Maximum Years # of Years for PILOT	Number of Years Project Qualifies For
20-50	4 Years	
51-75	5 Years	
76+	6 Years	
Total eligible years under this component		

Secondary Components		
Project Components	Maximum # of Years for PILOT	Number of Years Project Qualifies For
50% or more of Projects' Units are Reserved for Households at 80% AMI and Below	6 Years	
Historic	2 Years	
Rehabilitation	2 Years	
Total eligible years under this component		

Other Priority Areas That The Project Addresses	
Priority Area	Maximum # of Years for PILOT
<b>Transit Connectivity:</b> The project is located within ¼ of a mile of one or more stops for bus lines usable to building occupants. This will help ensure connectivity to job centers, workforce development opportunities, and basic necessities.	1
<b>Environmental:</b> The building is certified as an environmentally friendly project through LEED, Greenlight, or another certification program.	1
<b>DBE/WBE Participation:</b> The developer encourages DBE/WBE participation in the development.	1
<b>Workforce/Upward Mobility:</b> Not required - but developer makes upward mobility program available to tenants. This may be provided through a non-profit partnership. The program must be provided to the tenants free of charge.	1
Total eligible years under this component	
Total - All	



**CITY OF CHATTANOOGA  
RESIDENTIAL PAYMENT IN LIEU OF TAXES (“PILOT”)  
PROGRAM APPLICATION**

**I. APPLICATION SUMMARY**

<b>Applicant Information and Contact Form</b>	
Name of Individuals(s) or Legal Entity:	
Mailing Address for Entity:	
City/State/Zip Code	
Name/Title of Primary Contact	
Phone No. of Primary Contact	
Email of Primary Contact	
Other Contact Information	
Other Contact Information	
Other Contact Information	
Other Contact Information	
<b>Project Information</b>	
Street Address	
City/State/Zip Code	
Map/Lot Number	
Current Number of Units	
Number Units Upon Completion	
Number of Affordable Units	
Total Project Cost	
Number of Years Being Requested for PILOT	
Project’s Expected Start Date	
Type Development	New Construction _____ or Renovation _____

## II. APPLICATION DETAILS

### A. Brief Summary on Proposed Project

1. Briefly and concisely, describe the proposed project. Include a brief description of the end product, the need for the project, the beneficiaries, total project costs, sources and uses of funding, project timeline, the experience of the applicant/developers, the plan for long-term sustainability, and the need for a PILOT.

### B. Details on Applicant/Developer

1. Briefly and concisely, provide background information on the applicant and guarantors, including development experience, financial capacity, if any, and all other relevant information that may need to be considered while reviewing the application. State the names of the applying entity's representative(s) and any other financial guarantors of the Project and their addresses and telephone numbers if different from above. Please disclose whether any applicant, guarantor, or any other person involved with the project is currently engaged in any civil or criminal proceeding. Also, disclose whether any individual involved with the project has ever been charged or convicted of any felony or is currently under indictment.
2. Provide the following information and documentation:  
The legal name of the business
  - a. Director/President of the organization
  - b. Articles of Incorporation and current bylaws
  - c. IRS 501 c (3) determination letter (if non-profit)
  - d. Type of Organization, (corporation, a general partnership, Limited Liability Corporation, etc.)
  - e. List of Board of Directors (Include address and telephone numbers). List officers and their positions
  - f. Current organizational chart
  - g. Federal Tax ID# or Social Security # of owners
  - h. Name any of the following that will be involved with the Project (with the address and phone numbers):
    - i. Legal Counsel for the Applicant
    - ii. Architects and Engineers
    - iii. Contractor, if known

### C. Project Details

1. **Description and scope of the project, acquisition/ construction/rehabilitation goals.** Please provide:
  - a. An assessment of the current market demand in the neighborhood in which the project will be located,
  - b. Details on proximity to amenities – services, transportation, and employment opportunities

- c. Legal description of real estate
  - i. Are any assessments presently under appeal? If so, describe status of the appeal.
  - ii. Will the Project result in the consolidation or subdivision of any present tax parcel?
- d. Map of the site
- e. The total acreage of the parcel(s) on which the building, parking, etc. will be constructed or renovated
- f. Photographs of the site including buildings and other significant structures
- g. Description of known or suspected environmentally significant site condition(s)
- h. Description of required Historic Review (if applicable)
- i. A description and evidence of site control – (Site control can be exhibited through an option to purchase, purchase contract, or executed deed)
- j. Architectural drawings for:
  - i. new construction
  - ii. if a renovation, attach architectural drawings and any available history on existing building(s).
- k. Total square footage of the proposed new or renovated unit(s)/building
- l. Total square footage, if any, to be used for non-residential rental
  - i. If applicable, the nature of any non-residential rental uses
- m. Number of residential units, please include mix of unit type (1 BR, 2 BR, etc.) and number of income-restricted and market rate.
- n. The number of units that will meet the Handicap Building Codes and Standards (“HBCS”) and the Americans with Disabilities Act (“ADA”) requirements (if applicable)
- o. Income levels to be served (specify the number of units at each income level).
- p. Details on the number of years the unit will remain affordable (period of affordability).
- q. Description of any supportive services (if applicable)
- r. Detail management plan for housing, when completed
- s. List of any properties managed by the proposed management company that have been in default in the last ten (10) years. (if applicable)
- t. Statement or list of any outstanding uncorrected noncompliance issues for properties managed by the proposed management company (if applicable)
- u. Relocation plan and statement of proposed relocation assistance (if project is a renovation, as applicable)

## 2. ***Project Budget***

- a. Provide estimated project cost and support documentation, broken down by major categories (i.e. land, buildings, construction, equipment, soft costs, etc.) Also, include:
  - i. Construction contract or preliminary bids.
  - ii. 20-year pro-forma for multi-family rental developments (with reasonable assumptions for percentages of annual changes in rents, in income, and in expenses). Also provide information/details on:
    - 1. Real Estate Taxes – State the assumptions used to arrive at the annual real estate taxes proposed in the pro-forma
    - 2. Schedule of rent rates upon which the project’s pro forma is based

3. Proposed terms of the PILOT
  4. Any developer fees and equity share
  5. Agreements governing the various reserves which are capitalized at closing (to verify that the reserves cannot be withdrawn later as fees or distributions).
- iii. Appraisal (to substantiate the value of land and property after rehabilitation/construction). Project appraisal is to be determined by a Member of the American Institute (MAI) – Land and building(s). Appraisals should be no older than 6 months. Older appraisals will be accepted for review purposes but must be updated prior to final project approval.
  - iv. If low-income housing tax credits are utilized, documentation on the syndication costs (legal, accounting, tax opinion, etc.) from the organization /individual who will syndicate and sell the offering to ensure that the project can support the fees necessary to syndicate/fund the project. All assumptions in the offering should be verified in the supporting documentation.

3. **Project Financing** -Please provide the following:

- a. Proposed sources and uses of financing
  - i. Sources
    1. Please provide a statement/schedule detailing ALL available and anticipated financing for the project along with verification, including commitment letters, letters of intent, feasibility letters, etc., with all terms and conditions for all indicated sources.
    2. Investment tax credits (historic, low-income, if applicable)\*Note: The proceeds from the sale of tax credits must be identified as a source of funding.
    3. Provide a statement on the purpose of the PILOT request - emphasizing the public benefit and detailing why a PILOT is needed, the projected impact of the project, and proposed terms.
  - ii. Uses
    1. Please provide a statement/schedule detailing the proposed use of all funding proceeds.

4. **Project Timeline**

- a. Detail the chronological order and dates of the major phases of the project, including acquisition, financing, development, and occupancy. Include expected start and end dates. **Projects should be on a timeline to begin construction within 2 years of the date the incentive is granted.**

If the documentation is not adequate and does not support the costs as stated, the City will request additional documentation or a second opinion and/or reference from an appropriate source, such as another construction cost estimator, architect, or lawyer.

### III. ACKNOWLEDEGER AND SIGNATURE

*This application is made in order to induce grant financial incentives to the applicant. The applicant hereby represents that all statements contained herein are true and correct. All information materially significant in the consideration of the applicant is included. The applicant acknowledges that it has reviewed the descriptions of financial program for which it is applying and agrees to comply with those policies. The applicant acknowledges and agrees that the Lease Agreement and Agreement for Payments In Lieu of Ad Valorem Taxes shall not be executed until all necessary approval has been granted for the plans for the project.*

Company: \_\_\_\_\_

By (Type Name): \_\_\_\_\_

By(Signature): \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

## IV. APPLICATION SUBMITTAL

A non-refundable \$3,500.00 fee is due upon application submittal (Application Fee). A \$15,000 closing fee will be due upon closing, payable to Health, Educational and Housing Facility Board

Applicants should submit one (1) hard copy and one (1) electronic copy of the complete application, with support documentation, to the Community Development Division using the information below. Support documentation and supplemental information can be provided as attachments, labeled to correspond with relative questions/requirements.

The hard copy of the application and \$3,500 application fee, made payable to the City of Chattanooga, can be mailed or hand-delivered to:

City of Chattanooga  
Department of Community Development  
Attn: Sandra Gober  
101 E. 11<sup>th</sup> Street, Suite 200  
Chattanooga, TN 37421

The electronic version of the application and supplemental information can be emailed to: [sgober@chattanooga.gov](mailto:sgober@chattanooga.gov)

For information regarding the application contact:  
Sandra Gober  
(423)643-7332  
Email: [Sgober@chattanooga.gov](mailto:Sgober@chattanooga.gov)