CHATTANOOGA AFFORDABLE HOUSING FUND (CAHF)

GUIDELINES

For

PRODUCTION AND PRESERVERVATION

OF

AFFORDABLE RENTAL & HOMEBUYER HOUSING

CITY OF CHATTANOOGA
DEPARTMENT OF ECONOMIC DEVELOPMENT • HOUSING AND COMMUNITY INVESTMENT (HCI)
101 East 11TH STREET, CITY HALL, SUITE 200 • CHATTANOOGA, TN 37402 • (423)643 – 7300

Contents

Table of Contents

CHATTANOOGA AFFORDABLE HOUSING FUND (CAHF) GUIDELINES For PRODUCTION AND PRESERVERVATION OF AFFORDABLE RENTAL & HOMEBUYER HOUSING

The City of Chattanooga is seeking partners to assist in increasing the supply of decent and affordable housing for City residents through production and preservation. CAFH is a resource the City is making available to eligible entities, as leverage, partnering with the City to address affordable priorities for households earning up to 120% of area median income (AMI).

The City has established priorities for housing that include construction or rehabilitation of existing single and multifamily rental housing properties, and homeownership housing development. Housing must be for the general low/moderate income population, including special needs populations (homeless, seniors, veterans, disabled).

Applicants seeking funds to develop or renovate rental housing must ensure that the units are affordable to households with annual incomes at, or below, 80% of the area median income (AMI), as defined by HUD, adjusted for family size. Newly-constructed or renovated units developed for homeownership must be sold at prices that are affordable to purchasers with incomes at, or below, 120% of the area median income. All activities funded must be within the Chattanooga City limits.

The goal in providing assistance is to provide enough funding to each approved project to increase the availability of affordable units, or substantially improve the quality of existing units, without over-subsidizing (enriching) the development or increasing the risk associated with over-leveraging the development. The CAHF funds will only be provided as gap financing that is not otherwise available from other sources.

Applicants must demonstrate that they have or will structure projects to maximize other available financing sources, thereby limiting City funding to the lowest amount necessary to assure project feasibility and demonstrate that rent proceeds or other funding sources will allow for adequate reserves to meet capital needs for the length of the affordability period for the project.

The request should represent the gap between:

1. The total project costs, and
2. The Applicant's equity plus commercially available debt, other grants, tax credits, and capital contributions.

Applications are vetted by the Department of Economic Development (ED)'s Division of Housing and Community Investment (HCI) and presented to the Health, Educational and Housing Facilities Board (HEB) for consideration. HCI will underwrite all requests to ensure that each project is financially sustainable over its affordability period. The underwriting review evaluates, among other things, cost reasonableness, market demand, developer capacity, and the commitment of other funding.

Eligible Activities/Projects

Eligible activities include rehab and new construction of units. All funded activities will be within the boundaries of Chattanooga City Limits. The City generally requires CAHF funds be used for the hard costs of rehabilitation/construction. Applicants who wish to use CAHF funds for any other purpose will negotiate this during the underwriting process. Allowable uses will be identified in contracts and project agreements. Eligible costs include **gap** financing for:

1. Rehabilitation or reconstruction of existing rental housing –multi-family units.
2. Development of multi-unit rental housing
3. New construction for special needs populations for which open market financing is unavailable or infeasible without public or private foundation support. This category includes senior citizens, persons with disabilities, homeless (both transitional and permanent housing) homeless and chronically homeless veterans, and single room occupancy (SRO's) facilities serving those with special needs.
4. Acquisition of properties (improved or vacant) for the development of affordable housing units
5. Project-related soft costs may be awarded on a limited basis and will be at the recommendation of staff and based on need as determined during the underwriting review.
6. LIHTC projects
7. New construction or renovation of vacant units of housing for sale for homeownership. Developers must demonstrate a demand for the proposed unit(s). Speculative building is not eligible.

Development of Rental Units

CAHF funds may be requested as gap financing for rental development (renovations or new construction) for projects. Gap financing can be provided to cover eligible renovation/construction costs. To ensure the property remains affordable to qualified tenants for varying lengths of time depending upon the amount of CAHF funds provided, the City is required to ensure the property is secured by a lien/restrictive covenants coinciding with the CAHF period of affordability.

All assisted units must be leased to households earning sixty percent (80%) or less of AMI. Through to the end of the affordability, unit rents cannot exceed established HUD Fair Market rents.

Development for Homeownership

Only entities that can demonstrate (1) the need for affordable housing for homeownership is present within the proposed development area and (2) that the home(s) can be sold within nine months of development, may submit applications under this RFP. Speculative building is prohibited. Funding may be requested to assist with costs that are in excess of construction, permanent, and/or other subsidy financing and equity sources. The amount of funds invested in a homeownership housing project will always reflect the minimum amount of public subsidy necessary to achieve the maximum public benefit.

Assistance will be provided as a development gap subsidy which is determined based upon the project development budget. The subsidy must be recorded as a lien against the property. To ensure the property remains affordable to qualified purchasers for varying lengths of time depending upon the amount of CAHF funds provided, Applicant is required to ensure the property is secured by a lien/restrictive covenants coinciding with the CAHF period of affordability.

Homebuyer Eligibility Requirements

Applicants must have established underwriting guidelines to determine the appropriate amount of assistance necessary to assist the low-income buyer; assessment of a buyer's ability to purchase and remain in the home (e.g., housing and consumer debt ratios, anticipated income, and available assets); and anti-predatory lending and subordination policies. Homebuyers must receive housing counseling before receiving assistance (down payment assistance) or purchasing a CAHF-assisted unit.

A. The prospective purchaser must be low income, that is, have a gross annual household income that does not exceed 120% of the area median, adjusted for family size, as defined by the Section 8 income requirements. The CAHF program established the following timing for qualifying assisted homebuyers as income eligible:

    1. In the case of a contract to purchase existing housing, the purchasing household must be low-income at the time of purchase;
    2. In the case of a contract to purchase housing to be constructed, the purchasing household must be low-income as the time the construction contract is signed; and
    3. In the case of a lease-purchase agreement for existing housing or housing to be constructed, the purchasing household must be low-income at the time the lease-purchase agreement is signed.

B. The homebuyer must obtain fee simple title to the property or a 99-year leasehold.
C. The prospective homebuyer must occupy the property to be purchased has his/her principal residence.
D. All homebuyers must complete a minimum of 8 hours of homeownership education program from a qualified homebuyer education trainer prior to purchase.
E. In underwriting the permanent mortgage, the new housing payment must not exceed 29% of gross monthly income. The total household debt, including the new housing payment, must not exceed 41% of the gross monthly income.
F. The homebuyer must make a contribution from his or her own funds equal to one percent (1%) of the purchase price of the property.

Ineligible Applicants

Ineligible applicants include:

1. Organizations that have an incomplete, stalled CAHF project, prior to submitting their proposal.
2. Organizations that cannot demonstrate adequate financial and organizational capacity to take on the proposed project.
3. Non-profits that have been in existence for less than one year.
4. Organizations that are not in good standing with the City relative to; other City grants, property taxes, storm water fees, and code violations.
5. Organizations that do not own, with clean title, or have a binding sales contract for proposed property.
6. Organizations that are listed on the federal, state, county, or city debarment list.

Eligible Applicants

HCI will accept proposals from public agencies, for-profit, and nonprofit developers with documented capacity to construct/rehab and operate housing that benefit low-income families. Applicants must be either the current owner of the property or, at the time of application, have a binding contract to purchase the property.

Applicants must demonstrate financial and organizational capacity to undertake and complete projects and adhere to long-term rental management and compliance and/or affordable homeownership programs. Capacity assessment varies by project size, scope, complexity and type of development entity.

Applicants and applicants' team members must be in good standing with HCI on all previous grants. Any applicant, developer, or general contractor with outstanding management or compliance issues with the City/HCI, other public agencies, or is on the federal, state, county or city debarment list may not be allowed to participate.

Applicants and applicants' team members must disclose any pending lawsuits, judgements and/or other orders of satisfaction which could potentially impact the proposed project, along with unpaid taxes, liens, defaults on debt, and property code violations.

Forms of Assistance & Terms

Assistance may be provided in the form of performance based (0% interest) grants, repayable only upon sale of the asset or another capital event, or fully repayable interest bearing loans. In return for the City's assistance, participants agree to certain long term (7 - 20 years) rent and occupancy restrictions. Restrictive Covenants will be used to ensure the long-term affordability and other program requirements.

Interest Rate: If gap financing is provided in the form of a loan, interest rates will vary based on the level and type of investment made by the City and the program funding. Determination will occur during the underwriting review.

Grant Position: In most cases, the City grant position will be junior to senior debt; however the City reserves the right to have a position senior to other sources of financing. Restrictive covenants will be recorded in higher priority than any first lien to ensure the long-term affordability and other requirements.

CAHF financing is on a cost reimbursement basis. Disbursements during construction/rehab are limited to the reimbursement of the actual eligible costs that have been incurred. Ten percent (10%) will be retained at the end of the project, to be released when a Certificate of Occupancy is received.

Selection Criteria

All projects will undergo underwriting and feasibility analysis. Underwriting involves the analysis of project assumptions and risks to determine if the public investment is reasonable and the project can be expected to meet all applicable program requirements for funding and during the period of affordability. HCI will review project concept and design for suitability for the targeted populations(s) and financially sustainable over the affordability period.

The underwriting and feasibility analysis also evaluates cost reasonableness, market demand, developer capacity, project timelines, the commitment of other funding, the adequacy of the funding to complete the construction or rehabilitation and, for rental projects, to sustain operations over the required period. Exceptional proposals will provide all information required for reviewers to accurately assess and score these components of the proposed project.

Project/Development Information

Exceptional proposals will present an overall narrative and sufficient details on development for adequate feasibility analysis - location, market demand, ownership, project cost, sources and uses of funding, proposed units, demonstrated need for CAHF gap financing, financial and personnel capacity of applicant, project timelines, proposed target population and long-term sustainability plan.

Proposals must include:

1. A defined scope of work, including preliminary design plans and site plans, including details on:
    a. plans for energy efficiency / sustainable practices
    b. complying with accessibility requirements and other applicable building codes
    c. use of cost-effective green building measures (if applicable)
    d. innovation or benefit through the project design, compatibility with surrounding uses, or services for targeted population(s)
    e. units and rent levels that justify the requested resources
2. Detailed cost estimates from qualified source(s) ensuring that all project costs are reasonable

3. Detailed budget - sources and uses of funds
4. Operating pro-forma covering period of affordability
5. Development timelines (realistic)
6. Site control documentation
7. Documentation/details on zoning
8. Documentation demonstrating that all property taxes are current
9. Details on proposed targeted population to be served, (MOU)/ alliances with providers of social services
10. All applicable Third-Party Reports, including but not limited to:
    a. Post construction/rehabilitation Real Estate Appraisal
    b. Phase I Environmental report (Phase II if needed)
    c. Property Condition Report (rehab only)
    d. Market Study
    e. Land Survey

Project Location

Acceptable proposals must demonstrate that the designated project site is suitable for affordable housing and the targeted population(s). The applicant must have site control or an option to purchase at the time of application. Acceptable sites are free of adverse environmental conditions, have appropriate zoning for the type of development proposed and must be in such condition that acquisition is possible within a reasonable date of application. If a site has an adverse environmental condition, it must be possible to mitigate the condition through reasonable measures. Acceptable proposals must demonstrate that the development will not create undue concentrations of poverty. Exceptional proposals are near schools, parks, commercial areas, public transportation, services, and jobs. Proposal information will provide details on:

1. Accessibility to local transit.
2. Proximity to grocery stores, pharmacies, and other amenities
3. Proximity to general medical services.
4. Proximity to employment opportunities
5. Public/private revitalization efforts in the area
6. Whether project is located outside of the 100-year flood plain

Neighborhood Market Assessment

Before committing funds to a project, the current market demand in the neighborhood in which the project will be located must be assessed, addressing two key issues: pricing and absorption.

The market assessment must include an analysis of all available comparable housing in the target area of development, an explanation of why the current available stock is not suitable and thus justification/need for the proposed development.

In addition, a description of the target neighborhood and the available amenities (schools, transportation, recreation, medical, retail, etc.) will be assessed. The applicant is encouraged to provide any other information that they feel helps in proving a legitimate need for the development. The market analysis will:

1. Evaluate general demographic, economic, and housing conditions in the community.
2. Delineate the market area by identifying the geographic area from which the majority of a project's tenants or buyers are likely to come. This may or may not coincide with census tract or neighborhood boundaries.
3. Quantify the pool of eligible tenants or buyers in terms of household size, age, income, tenure (homeowner or renter), and other relevant factors. Not all residents of the market area are potential or likely tenants or buyers of any given project.
4. Analyze the competition by evaluating other housing opportunities with an emphasis on other affordable rental developments or sales opportunities in the market area, including those financed through either the CAHF program or other federal programs.
5. Assess the market for the planned units and determine if there is sufficient demand to sell the CAHF-assisted housing within nine months of construction completion or to rent the CAHF-assisted housing within 18 months of project completion.
6. Evaluate the effective demand and the capture rate, usually expressed as a percentage (the project's units divided by the applicant pool). The capture rate is the percentage of likely eligible and interested households living nearby who will need to rent units in the proposed project in order to fully occupy it. The lower this rate, the more likely a project is to succeed.
7. Estimate the absorption period. Plan how many units can be successfully leased or sold each month and how long it will take to achieve initial occupancy/sale of the HOME units and stabilized occupancy for the project as a whole.

For small projects, applicants may be able to provide this information without the need of procuring an outside vendor to conduct the assessment. Large developments (more than five (five units) will require an independent market study.

In some cases, other funders may require independent market studies. The City may accept the independent market study prepared for another funder if the study meets the requirements of the City. However, the City must review any market studies or assessments and make its own conclusions about the likelihood of project success. The City will not simply accept the conclusion of another source as its sole evidence of market demand.

If project is a mixed-income project, the Developer must use its best efforts to distribute units reserved for Low Income Families, Very Low Income Families, and Extremely Low Income Families among unit sizes in proportion to the distribution of unit sizes in the property and to avoid concentration of these families in any area or areas of the property.

Cost Estimates

HCI must review and approve written cost estimates for construction and determine that costs are reasonable. Construction contract(s) and construction documents must describe the work to be undertaken in adequate detail so that cost reasonableness can be determined and inspections can be conducted. HCI, or its representative, will conduct progress and final inspections of construction to ensure that work is done in accordance with applicable codes, the construction contract, and construction documents. Project work write-ups must be in sufficient detail to determine the required rehabilitation work including materials.

Major systems which include structural support, roofing, cladding and weatherproofing (windows, doors, siding, and gutters); plumbing, electrical; and heating, ventilation and air conditioning must be evaluated for estimated remaining useful life upon project completion. Replacement reserves must be established and monthly payments made to the reserve that are adequate to repair or replace systems as needed during the period of affordability.

For all rehabilitation or construction projects, a detailed breakdown of anticipated costs based on estimates (write-ups) and construction budget, prepared by a qualified, licensed or certified third party building inspector, general contractor, architect, structural engineer, or other qualified individuals must be provided. This report must show that the planned improvements will bring the property into compliance with all building codes as well as the Department's Minimum Property Standards for Rehabilitation. The report must be dated no more than six months prior to application. The Department may utilize its own vendor or employees to verify information presented in order to establish cost-reasonableness.

Organization/Developer Capacity & Experience

Two elements of underwriting analysis related to the applicant/developer include: – (1) the experience and the capacity of the developer (including the entity staff and project team) to implement and complete the project and (2) the fiscal soundness of the developer to meet its financial obligations and risks of the project. Acceptable experience and financial capacity will be evaluated based on the size, scope, and complexity of the project. Viable proposals will come from development teams with the technical and managerial experience, fiscal capacity, knowledge and skills to successfully undertake and complete the proposed development.

Longevity

Any agency that applies has a requirement to have been in existence for a minimum of three years.

Capacity

Capacity assessment varies by project size, scope, complexity and type of development entity. Developer capacity and fiscal soundness will be evaluated on information demonstrating, but not restricted to:

1. Applicant's prior experience with development of properties similar to proposed project, including such details as acquisition of real property, rehabilitation, marketing, leasing and maintaining affordable/subsidized rental housing.
2. Qualifications and experience of proposed staff and strength of the development team. The City reserves the right to refuse funding a project if prior experience with the City was unfavorable.
3. Sufficiency of financial resources. The applicant's overall financial condition and its ability to fund cost overruns or other costs not included in the CAHF grant amount (liquidity/net worth).
4. Demonstration of entities ongoing financial viability
5. Ability to manage additional projects if other developments are in progress.

6. History of partnership with support service providers if the proposal is serving specific target populations. The organization's experience serving that population must be clearly stated.

Operational Capacity

In assessing the experience of the applicant/developer, to determine whether the entity has the technical and managerial experience, knowledge, and skills to successfully undertake and complete the development and adhere to long-term requirements, the City will consider both prior experience and current capacity of the entity. In considering this, the City will take into account:

1. The corporate or organizational experience of the development entity;
2. The experience of the staff assigned to the project and overall quality of the development team;
3. The prior experience of the individuals compared to their roles in the proposed project;
4. The applicant's/developer's track record in the development and management of affordable/subsidized housing;
5. Entity's ability to efficiently maintain the additional property/asset; and
6. Entity's ability to adequately provide services to proposed target population(s) (if applicable)

For rental projects, a developer/owner needs specific skills and capacity including property management, asset management, service provision (as applicable), and special financing skills.

For homebuyer projects, the development team must demonstrate its capacity to market and sell the units. This may involve the addition of a realty professional to the team, or evidence that in- house staff have the capability to oversee the advertising, unit showing, intake, and processing of potential buyers.

Financial Capacity

When determining whether the developer has the financial capacity to undertake the project, the City will examine financial statements and audits to determine the developer's net worth, portfolio risk, pre-development funding, and liquidity. Applicants/developers with limited financial resources may only be considered for projects where cash needs will not exceed the developer's net or liquid assets. The City will review information submitted to determine whether the applicant/developer has:

1. Adequate financial management systems and practices; and
2. Sufficient financial resources to carry the project to completion or through initial lease-up, as the case may be.

Project Portfolio

Applicants will be assessed based on their portfolio of relevant projects. Things that will be considered include whether the applicant has other similar projects in their portfolio, all properties are up to code and taxes paid, past foreclosures, and vacancy rates.

Past Performance

The City takes past performance on HUD-funded projects into consideration when evaluating applications. In doing so, consideration is given to whether an applicant has previous experience with HUD funds, compliance issues on previous projects, and reporting history.

Project Feasibility, Costs & Financing (Sources & Uses of Funds)

This is one of the most critical sections of the RFP. Applicants/developers should review carefully and provide required information/documentation, as requested. Before committing CAHF funds, the City will evaluate the proposed project to ensure that funds are invested such that the project is likely to be undertaken, completed, and succeed over time. To verify this, the City will assess all of the assistance that has been, or is expected to be, made available to the project.

The City will take into account all the factors relevant to project feasibility, which may include, but are not limited to: total development costs and available funds; impact CAHF restrictions such as eligible costs, maximum subsidy limits, cost allocation, and rent/utility allowance limitations; rates of return to owners, developers, sponsors, or investors; resale or recapture limitations for homebuyer projects; and the long-term needs of rental projects and tenants.

Information the City must receive and review in order to assess and underwrite a project include:

1. A sources and uses statement (development budget); and
2. An operating pro-forma. For homebuyer development projects, the form of a sales and revenue plan will take place of the pro-forma.

Sources and Uses Statement

Applicants/developers must complete and submit a project development budget with support documentation to verify the sources and uses indicated. The project budget must show:

1. All Sources (both private and public) of funds with dollar amounts) and timing of availability for each source, and
2. All Uses of funds (for example acquisition costs, site preparation and infrastructure costs, rehabilitation/or construction costs, financing costs, professional fees, developer fees and other soft costs) associated with the project.

Sources of Funding

Prior to committing funds to a project the City must ensure that all financing sources are in place. Consequently, the following is required to be submitted for all project sources:

1. Firm commitment letters with all terms and conditions for all mortgages, grants, bridge (interim) loans and investment tax credits (historical, low-income, if applicable);
2. If the applicant is a partnership or limited liability corporation, a copy of the partnership agreement or operating agreement, which will indicate the cash contributions by the partner(s) or member(s); and
3. If equity is committed by the developer or owner(s), evidence of available equity funds.
4. Documentation of donations – land, goods, and services

Uses of Funding

Uses are the project costs that are budgeted to be paid during the development phase. The City must review all costs of the project because the determination of the amount of CAHF assistance needed is based on the gap between uses and other sources. Even costs not being paid with CAHF funds must be necessary and reasonable, as the inclusion of excessive costs inflates the apparent need for public subsidy in a project.

In the review of the sources and uses statement, the City will assess the detailed breakdown of costs, including all hard and soft costs of the project, and review documentation or explanations of the basis of the calculation. Applicants must provide project budgets in sufficient itemized detail to evaluate not only the sufficiency of the budget but also to evaluate whether project costs are reasonable both on a line item basis and in the aggregate.

Note that for projects with tax credits to be sold, the proceeds from the sale of these credits must be identified as a source of funding.

Applicants must provide documentation for all line item costs in the budget, including:

1. Acquisition documentation, such as purchase agreement, option or closing statement and appraisal or other documentation of value;
2. Construction cost estimate, construction contract or preliminary bid(s);
3. Contracts, quotes or other agreements substantiating key professional costs and the basis for estimating other soft costs and working capital items, including capitalized reserves;
4. Agreements governing the various reserves which are capitalized at closing (to verify that the reserves cannot be withdrawn later as fees or distributions);
5. A third-party appraisal (to substantiate the value of the land and the value of the property after rehabilitation or the structure being built);
6. If LIHTC 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.
7. Note that for homebuyer projects, some of the costs – such as realtor fees, closing costs and some of the developer fees – will not be incurred until the closing and might be paid out of closing proceeds. Also, since in the development phase, loans such as construction loans are repaid at time of sale from sales proceeds. The estimation of the period to sell and close on the units is an essential part of the analysis. Again, this is affected by the ready presence of buyers under agreement or in the counseling/screening pipeline.

Operating Pro Forma

Applicants proposing rental projects must furnish a development budget, operating budget, and an operating pro forma (project income and expense statement), in years corresponding to the period of affordability, at minimum.

The City will evaluate the reasonableness of the financial assumptions of the project to establish minimum total per unit operating costs. The sufficiency of both specific line items and total operating costs will be evaluated. The long-term operating projections over the period of affordability should be based on reasonable assumptions and demonstrate that the project can cover expenses and debt service throughout the affordability period.

The operating pro forma will be reviewed to ensure the cash flow projections are realistic in light of economic conditions. The cash flow projections should be neither unduly conservative nor overly optimistic. It is the City's role to balance the need for public subsidy to make the project viable while safeguarding the investment of CAHF funds in the project by ensuring that projected income and expenses are reasonable, and provide resources that are sufficient for the property's upkeep and planned capital repairs during the affordability period. Long-term operating projections should also be based on reasonable assumptions about how revenues and operating costs are expected to change over time, and demonstrate the project is expected to operate within normal operating parameters throughout the affordability period.

Sales Plan - Homebuyer Projects

In lieu of an operating pro-forma, homebuyer developers must provide a sales plan, which will be evaluated as a component of the market assessment. This plan includes the developer's anticipated cash flow and timing of when and how units will be sold. The City is only accepting applications from eligible entities that provide relative assurance that the units can be sold to eligible buyers within nine months of completion. Speculative building is prohibited.

Projected Expenses

All operating costs must be in sufficient detail to compare line items against properties that are similar in physical type and size, so that the City may determine whether the planned expenditures are sufficient and reasonable. The operating budget should include any general management expenses, maintenance and operating costs, any project paid utilities, taxes, insurance premiums, and adequate deposits to replacement reserves. In most cases, evaluation of total operating costs should be summarized in "per unit per year" amounts rather than as a percentage of projected revenue.

1. Most operating costs (e.g. water/sewer rates or lawn mowing) do not vary based on how much tenants are paying in rent.
2. Management and other fees to the owner should be reasonable for the local market.
3. The identity of interest (also referred to as related party) relationships with contracted property management, repair/rehabilitation contractors, or other project vendors must be disclosed.
4. Minimum replacement reserve deposits should be specified based on the characteristics of each project. Reserve needs may vary based on the type of physical product, the target population, and whether the building is newly constructed or rehabilitated.
5. Any debt service or other funding/reserve requirements related to 'secondary' financing in mixed financed deals, if applicable.
6. Cash flow will be evaluated both as a "debt coverage ratio" and as a percentage of operating costs and debt service. The City will use information provided in Worksheet

Projected Income

Operating revenues must be based on achievable rent levels, reasonable vacancy and collection loss, and conservative estimates of non-residential sources of incomes. The City allows 2.25% for annual income increases 3.00% for expenses, 5% as the vacancy rate, and $500 for replacement reserve. If the developer uses other estimates, supportable explanations must be provided.

1. In most projects, non-residential revenue from fees/late charges, commercial income, interest, laundry/vending, or other similar sources likely will be modest, therefore should be projected conservatively.
2. Vacancy projections should reflect local market conditions and account for both physical vacancy and collections loss.
3. The rate of projected growth for rental income, other revenues, expenses, and vacancy rates should be appropriate to the local market and regulatory limits.
4. Net Operating Income (gross revenue minus operating expenses) should be sufficient to cover debt service obligations and mandatory replacement reserve funding and generate reasonable but not excessive Cash Flow throughout the period of affordability. If deficits are projected, the CAHF subsidy may be increased to reduce amortizing debt and the deficit reserves might be funded from other sources.

Developer Return on Investment

The profit or return must be analyzed and determined to be reasonable. This analysis includes profit that is projected to flow to the developer as operating cash flow from rental projects, sales proceeds from homebuyer units and any other professional fees being paid to the developer or related entities. Developers and owners may financially benefit from CAHF-assisted projects in several ways:

1. **Developer Fees:** These are fees charged by the developer as a part of the project cost to compensate for the risk, time and effort to build and sell or lease the property. Developer fees are allowed under the CAHF program, but the City is only providing funding for hard construction costs. Nevertheless, the City must review these fees and determine that they are reasonable. In reviewing the effect of the development fee on the total project cost, the City may set limits on the developer fee that differ from other funding sources (e.g. LIHTC underwriting standards).

   The City will review developer fee schedules or ranges based on the local market and take the following into consideration:
   a. The scope and complexity of the project being developed;
   b. The size of the project;
   c. The relative risk the developer is taking;
   d. The costs a developer will incur from the fee as compared to those being charged as project costs;
   e. The fees that are regularly and customarily allowed in similar programs and projects; and, Other fees the project is generating for the developer and its related entities

2. **Sales Revenues:** Developers of for-sale properties may keep some or all of the sales proceeds, as negotiated City.

3. **Cash-Flow:** Assuming that the rental property is properly structured and financed, successfully attracts residents, and is effectively managed; the project likely will have net cash-flow after the payment of debt service. Cash-flow is distributed to the owner and/or investors as a return on their original investment.

4. **Tax Benefits:** Rental owners and/or investors can also benefit from tax savings—a reduction in the income taxes they owe due to tax losses or tax credits.

5. **Equity Appreciation:** Over time, the value of the rental project sponsor/owner's ownership share in the project will increase as debt financing is paid down (due to the portion of debt service that is applied to the loan principal), and depending on market conditions, the property appreciates in value.

6. **Identity of Interest (IOI) Roles:** Some developers may also own construction companies and if this company is used for the CAHF project, the construction firm may earn reasonable profit and overhead as a component of the development budget. If the rental property owner also operates a property management company contracted to service the property, the developer may earn fees from those activities. These and other IOI contracts require additional review and they must be clearly disclosed, priced at arm's-length rates, and subject to cancellation if the IOI contractor does not provide acceptable service.

The City uses these standard for determining a limit for overall returns and cash flow distributions to ensure that owners do not receive excessive gains/profits from the project as a result of CAHF and other public subsidies.

Overall Evaluation

The following will be used in conjunction the project ownership structure, property operations, the financial statements of the owner and guarantor (if applicable), to evaluate project feasibility:

1. Whether information is adequate to demonstrate that the development is feasible in terms of costs, sources and uses, and financial thresholds:
    a. Debt coverage is equal to or above 1.20
    b. All loans/debt plus City investment less than 95% of "as proposed" value
2. Construction cost per unit and total cost per unit relative to similar properties submitted under this RFP and in the marketplace.
3. CAHF request per unit relative to similar properties submitted under this RFP.
4. Sources of leverage - proof provided
5. Whether pro-forma income and expenses appear reasonable
6. Developer Rate of Return on Investment - reasonable rate of return based on comparable, current market rates

For thorough and adequate evaluations, applicant's proposal should sufficiently detail:

1. Project budget
2. All funding sources supported with letters of credit/commitment - Projects that can demonstrate/document commitments for all funding needs by award date will be prioritized
3. All sources of debt and anticipated debt with details on terms
4. Pro forma over the life of the project
5. Post construction/rehabilitation real estate appraisal
6. Level of expected profit/return to owner/developer for size, type, complexity of project (Other information/documentation may be requested by the City.)

Project Feasibility, Costs, and Financing

1. Project budget
    a. Budget shows sources for all funds and availability
    b. Budget outlines uses for all funds
    c. Budget is balanced
    d. Documentation is included for all funds
2. Sources of funds
    a. Are total funds adequate and timely in their availability to cover development costs at all phases
    b. Are funding sources committed?
3. Uses of funds
    a. Are costs necessary and reasonable?
    b. Are costs allocated to CAHF eligible?
    c. Are all costs documented?
    d. Does the ongoing pro forma/sales plan show positive cash flows
    e. Are projected expenses reasonable?)
    f. Are minimum replacement reserves specified?

Readiness to Proceed

A realistic/detailed project timeline must be included with the proposal. Evaluation of application, support information and timeline indicate that work can commence promptly upon receipt of award and issuance of Notice to Proceed and can reasonably be expected to be completed within the indicated timeframe. Applicants are expected to be prepared to begin construction/rehab i**mmediately** upon signing a contractual agreement with the City. At minimum, all other financial commitments will be in place, property will be properly zoned, property will be under control/ownership of the applicant, and environmental review will be completed prior to the City preparing an agreement for the funds. Funding awarded to projects that do not adhere to the construction start date may be reallocated to projects/activities that are ready to start.

Zoning

Proposed project/site must be properly zoned for the development/project at time funding is provided. The applicant is required to verify zoning prior to application submission. GIS zoning is not always current, please call 423-643-5902 to verify zoning.

Property Standards and Code Compliance

The City requires adherence to standards that will sustain quality assisted housing for at least the affordability period. Upon completion, rehabilitated or newly constructed properties must comply with all State and local codes, ordinances, and zoning requirements and local residential building codes.

The applicant must identify and plan for major systems repairs. For rental projects with 26+ units, this must be done via a capital needs assessment. The scope of rehabilitation work and replacement reserves deposits must be sufficient to ensure the useful life of essential building components throughout the period of affordability. For homeownership housing, major systems must have a useful life of at least five years upon completion.

Bidding Process and Captive General Contractor

Applicants must comply with all applicable federal, state and city procurement statutes, regulations and ordinances. The City of Chattanooga is charged with making efforts to determine that project costs are reasonable, and has two methods which we approve:

1. Bidding Process - The Borrower may choose to go through an open bidding process for selection of the General Contractor. This involves a) compiling plans, specs and a list of required qualifications, bonding requirements, etc. for the prospective contractor, b) conduct a pre-bid meeting with prospective bidders, c) advertise the bid process for two consecutive weeks, d) review, evaluate and tabulate bids, and e) obtain clearance from HCI to proceed with the selected contractor. A more complete explanation of the process will be provided by Compliance & Monitoring. Please note: General contractors must have a valid State of Tennessee Contractor's License.

2. Captive General Contractor - If the owner has the capacity to complete the construction work through a related entity as a captive general contractor, the City will pay for actual hard costs but will not pay for general contractor conditions, profit and overhead. If the construction costs are partially funded by a different federal or state program or other financing source for which general conditions, profit and overhead are eligible expenses, these costs may be paid out of the other program funds.

All subcontracts must be bid and tabulated. If the lowest responsive bidder is not selected, an explanation must be provided to substantiate the decision not to select the absolute lowest bidder. The City will not fund any construction cost savings.

Please note, regardless of the method of selection of a General Contractor, prior to award of contract, the recipient must secure approval from the HCI to ensure that the proposed contractor is cleared and eligible to perform work on any project funded by the City. Developer must provide the City with all contracts between the developer and all contractors/subcontractors on a project.

Completion Guarantee and Protection

Bonds and Insurance

Applicants/grantees/subrecipients must demonstrate not only the ability to undertake and complete the proposed project and fund cost overruns, but to ensure that the City's interest (awarded funds) is adequately protected and the City is safeguarded against any claims resulting from damage to property and or injury to persons caused by applicant/grantee/subrecipient/vendor.

Liability and Property Damage Insurance is required to safeguard the City from any claims resulting from damage to property and/or injury to persons caused by the actions of applicants/grantees/subrecipients/vendors. The applicants/grantees/subrecipients/vendors, at his own cost, must secure insurance policies that name/endorse the City of Chattanooga as an "additional insured" party.

Each project will be evaluated (based on project size, complexity, CAHF award, applicant's assets, i.e.) to determine the need/type of bond(s) required to protect the City's interest. If required, bonds must be secured by the applicant at his/her own cost. Generally, bonds may be classified as follows:

Performance Bond - This bond is a surety instrument guaranteeing that the applicant and/or contractor will perform according to the terms of the contract, and is generally in an amount of 100% of the bid for construction/renovation. This bond affords protection from nonperformance and/or non-completion of major contracts, the efforts of which could result in considerable injury to the City. Should the contractor default, the bond is cashed and the City may then utilize the funds to complete the contract with another vendor. Performance bonds are submitted upon award of the contract.

Payment Bond - This bond guarantees payment of subcontractors and suppliers providing goods and services to the general contractor, who is under contract to the City or applicant. The payment bond relieves the City of financial liens against a project should the general contractor fail to pay his/her suppliers and subcontractors. These creditors will look to the bond for payment. Payment bonds are submitted upon award of the contract.

Labor and Material Bond - Same requirements as the Payment Bond. The bond guarantee may, at the discretion of the City, be in the form of a cashier's check, bank money order, bank draft of any national or State bank, certified check, or surety bond, payable to the City. The surety on any bid bond shall be a company recognized to execute bid bonds for contracts of the Federal Government.

Letter of Credit - Preferred in the case of certain construction projects or multiyear contracts. Must be irrevocable.

Construction Draws and Inspections

During construction, HCI will perform periodic inspections and confirm work is progressing. Borrowers, Grantees/Owners (aka Developers) will certify that each draw request is for actual costs expended and must provide documentation to support such costs, including original invoices for materials and supplies, payroll for laborers and subcontractor and vendor invoices. The City will only pay for completed work and reimburse for eligible project costs. Reimbursement or draw request must include documentation that proves you have expended these funds, for example, canceled checks and credit card receipts.

Expenditures must be allowable and reasonable in accordance with federal, state, and local rules and regulations. The City will determine the reasonableness of each expenditure requested. Any change in scope during the construction process must be approved in advance. The City may request that the Developer make modifications to the disbursement request and is authorized to modify the disbursement procedures set forth herein and to establish such additional requirements for payment of funds to Development Owner as may be necessary or advisable for compliance with all program requirements.

The final request for disbursement must be submitted to the City with support documentation no later than thirty (30) days after the completion date of the Project in order to remain in compliance with the Contract and to be eligible for future funding. The City will not be obligated to pay for costs incurred or performances rendered after the termination date of a Contract.

Retainage: The City will retain up to twenty percent (20%) of the grant, depending on the size and cost of the project, until after the initial occupant has been approved and the Grantee/Owner has provided the City with all required tenant documentation.

Material Changes

Any material changes to the project during underwriting or construction must be reported in writing to the Department. Failure to do so may result in a Default under the grant.

Accessibility

Section 504 - All properties receiving City funds must be in compliance with Americans with Disabilities Act (ADA) and Section 504 of the Rehabilitation Act of 1973 (29 U.S.C Sec 794). HUD has established rules explaining Section 504 as it applies to housing. This pertains to new construction containing five or more units and for the rehabilitation of fifteen or more units. Section 504 requires that 5% of the units (or at least one unit) must be accessible to persons with physical disabilities. An additional 2% of units (at least one) must be accessible to persons with visual or hearing disabilities. These costs must be reflected in the Development Budget.

Covered multifamily dwellings, as defined at 24 CFR Sec 100.201 as well as common use facilities in developments with covered dwellings must meet the design and construction requirements of CFR Sec 100.205, which implement the Fair Housing Act (42 U.S.C. Sec 3601-3619). Additionally the project must comply with the Architectural Barriers Act of 1968 (42 U.S.C. Sec. 4151 et seq.), including use of Telecommunications Device for Deaf Persons (TDDS) or equally effective communication systems.

Notwithstanding the general requirement of 5% accessibility and 2% visually and hearing impaired, the City may waive this requirement for rehabilitation projects where the cost of rehabilitation is less than 75% of replacement costs. However, if this requirement is waived, the work done with any grant dollars must be made handicap accessible. Source:
http://www.hud.gov/offices/fheo/disabilities/sect504faq.cfm

Program Occupancy Rules and Restrictions

The CAHF program restricts occupancy of assisted housing to households with incomes at or below 80% AMI for rental units and 120% for homebuyer households.

Rents charged in assisted units may not exceed Fair Market Rents established by HUD. HUD establishes Fair Market Rents by unit size and metropolitan area on an annual basis. Tenant incomes and rents (which will be reduced by the utility allowance) are available on the department's website at: http://www.chattanooga.gov/communitydevelopment

Tenant Selection and Income Determination

Tenant Selection.

Owners of rental housing assisted with CAHF funds must adopt written tenant selection policies and criteria that:

1. Are consistent with the purpose of providing housing for very low and low-income households which is defined as households with income at or below 80% of Area Median Income (AMI) as defined by HUD;
2. Income must be calculated in accordance with 24 CFR § 5.609 (commonly referred to as the "Part 5 (Section 8 Program) definition"). The passbook savings rate for the calculation of imputed asset income over $5,000 shall be the same passbook savings rate utilized by the City.

   The projected annual income of each household must be determined initially and annually thereafter during the period of affordability. Income must be documented according to the acceptable forms of the documentation listed in the table below:

Income Determination Documentation	
Frequency	**Acceptable Forms of Documentation**
Initially	2 months of source documents evidencing annual income (e.g., wage statement, interest statement, unemployment compensation statement) for the household.
Subsequent Determinations	2 months of source documents
	Written statement* (and certification that the information is complete and accurate) from the household of the amount of the household's annual income and family size. The certification must state that the household will provide source documents upon request.
	Written statement from the administrator of a government program under which the household receives benefits and which examines each year the annual income of the household.

3. Are reasonably related to program eligibility and the applicants' ability to perform the obligations of the lease;

4. Give reasonable consideration to the housing needs of families that would have a Federal preference: families that occupy substandard housing; families that are homeless or living in a shelter; families that are paying more than fifty percent (50%) of their annual income for rent; or families that are involuntarily displaced.
5. Provide for the selection of tenants from a written waiting list in the chronological order of their application (as is practical), and
6. Give prompt written notification to any rejected applicant of the reason/grounds for any rejection.

A copy of these tenant selection policies must be submitted with the Project Agreement.

To assist owners and managers of CAHF assisted rental units the City provides Sample:

1. Rental Applications
2. HUD approved Lease Agreements
3. Security Deposit Installment Agreements
4. Initial Occupancy Reports
    a. Must be completed and provided to City within two weeks of lease agreement
    b. Must be signed and dated by the owner/manager
5. Long Term Occupancy Report
    a. Begins a year after initial occupancy or when the initial tenant moves out prior to the lease termination date
    b. Must be completed annually for the duration of the Affordability Period (seven to twenty years)
6. Annual Reporting Requirements
    a. The Owner/manager must submit annual reports that cover July 1 – June 30, the City's fiscal year, by the first day of August of each year through the end of the affordability period.
    b. The annual report shall, at a minimum, include statistics relating to the number of households being assisted with HOME funds; household size, racial characteristics, single head of household by gender, household income and a narrative of Project highlights.

Period of Affordability

CAHF-assisted housing must remain affordable for some period of time beyond the initial occupancy. CAHF-assisted units must meet affordability requirements for not less than the applicable period specified in the following tables, beginning after project completion and occupancy. The affordability requirements apply without regard to the term of any loan or mortgage or the transfer of ownership. If CAHF-assisted housing fails to meet the affordability requirement for the specified period, the CAHF funds are to be repaid.

1. **RENTAL HOUSING ACTIVITIES** – Minimum period of affordability in years rehabilitation or acquisition of existing housing per unit amount of CAHF funds:

Under $15,000	7 years
$15,000 to $40,000	10 years
Over $40,000	15 years
New construction or acquisition of newly constructed rental housing	20 years

2. **HOMEOWNERSHIP HOUSING ACTIVITIES** - Minimum period of Homeownership assistance HOME amount per-unit affordability in years:

Under $15,000	7 years
$15,000 to $40,000	10 years
Over $40,000	15 years

Affordability Covenants

Compliance with required periods of affordability will be imposed by restrictive covenants recorded on the property. **These covenants must be in a lien position superior to all other debt, including existing debt, and will require the existing lender to subordinate to the rent restrictions for rental projects.** The covenants will be recorded in higher priority than any first lien made by a commercial lender and will remain in force throughout the affordability period despite bankruptcy, sale, or other event transferring title. The covenants will be insured with title insurance provided by the developer.

Fair Housing

Applicants, will conduct and administer HOME activities in conformity with Pub. L. 88-352, "Title VI of the Civil Rights Act of 1964", and with Pub. L. 90-284 "Fair Housing Act", and that it will affirmatively further fair housing. One suggested activity is to use the fair housing symbol and language in Subrecipient publications and/or advertisements.

Conflict of Interest

Applicants must comply with the conflict of interest prohibitions set forth for the HOME program at 24 C.F.R. 92.356, 2 C.F.R. 200.318, and Grantee's written standards of conduct covering conflicts of interest submitted to the Department, as required by 2.05 of this contract. In the event prohibited conflicts of interest arise, Grantee must inform the Department of such conflicts of interest. Exceptions to the prohibition may be granted, on a case-by-case basis, by the Department.

Lead Safe Housing Rule

Applicants must agree to comply with the Lead Based Paint Poisoning Prevention Act's prohibition against the use of lead-based paint in residential structures and to comply with regulations with regard to the notification of the hazards of lead-based paint poisoning and the elimination of lead- based paint hazards.

2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

Applicants agree to comply with 2 CFR 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and agrees to adhere to the accounting principles and procedures required therein, utilize adequate internal controls, and maintain necessary source documentation for all costs incurred.

Property Standards

Upon completion, the HOME-assisted project and units must be decent, safe, sanitary, and in good repair as described in 24 CFR § 5.703.

Subrecipient agrees that housing that is re-constructed, or rehabilitated with CAHF funds will meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances applicable to the level of assistance at the time of project completion.

All new construction and gut rehab shall be designed to meet the National ENERGY STAR efficiency performance specifications. Also, when applicable, ENERGY STAR qualified appliances be used. All procedures shall comply with National Home Energy Rating System guidelines.

Broadband

For a new construction housing project of a building with more than 4 rental units, the construction must include installation of broadband infrastructure, except where the City determines, that:

1. The location of the new construction makes installation of broadband infrastructure infeasible; or
2. The cost of installing the infrastructure would result in a fundamental alteration in the nature of its program or activity or in an undue financial burden

Model Energy Code

The Developer must ensure that all new construction of multifamily housing units must meet the current edition of the Model Energy Code (MEC), published and maintained by the International Code Council (ICC) as the “International Energy Conservation Code” (IECC) as of 1998, contains energy efficiency criteria for new residential and commercial buildings and additions to existing buildings. It covers the building’s ceilings, walls, and floors/ foundations; and the mechanical, lighting, and power systems. MEC information can be found on the following site:
https://www.gwssi.com/learning/images/modelcode.pdf

Affirmative Marketing

Documentation of compliance with the Affirmative Marketing requirements in the Fair Housing Act is required. Applicants receiving funds must create an affirmative marketing plan in furtherance of the City’s commitment to non-discrimination and equal opportunity in housing. Affirmative marketing steps consist of actions to provide information and otherwise attract eligible persons into the available housing without regard to race, color, national origin, gender, religion, familial status, disability, gender identity or sexual orientation. Records and documentation of actions taken to affirmatively market units must be maintained. The City will assess the results of these actions.

Minority Business Enterprises/Small Business Enterprises

Entities receiving CAHF funds are strongly encouraged to use businesses that are registered with the State of Tennessee's as Minority and Women Owned Businesses. The City will provide you with a form to document MBE contractor, subcontractor and vendor names, addresses, and contract amounts.

Debarment & Suspension Status

Any parties not in good standing with the City or on local government or federal debarment lists will not be eligible to apply for funding.

Non-discrimination

Applicants must agree to comply which provide that no person shall on the ground of race, color, religion, sex, national origin, familial status, sexual orientation, gender identity, or marital status be excluded from participation in, be denied the benefits of, or be subjected to discrimination under, any program or activity funded in whole or in part with federal funds made available pursuant to the Act. The Subrecipient agrees to post in a conspicuous place available to employees and applicants for employment or service, notices setting forth the provisions of these non-discrimination clauses.

Applicants must agree, that they will not discriminate based on race, color, religion, sex, national origin, familial status, sexual orientation, gender identity, or marital status in the sale, leasing, rental or other disposition of residential property and related facilities, or in the use of occupancy thereof, if such property and related facilities are, among other things, provided in whole or in part with the aid of loans, advances, grants, or contributions agreed to be made by the City.

Documentation of Agreement

This RFP is a framework upon which requests may be submitted. A Project Agreement and other documents will be signed by the developer/subrecipient after a resolution has been approved by City Council. Among other requirements outlined in this RFP by signing the application, applicants assert that they agree/understand:

1. Commitment of grant funds will be conditioned upon the occurrence of closing with any superior lien holders or any other sources of funds determined to be necessary for the long-term financial feasibility of the project and all due diligence determined by the Department to be prudent and necessary to meet and to secure the interests of the City of Chattanooga.
2. Certified Financial Statements - Prior to signing of the project agreement, the applicant must submit signed and certified financial statements and tax returns for the past 2 years.
3. Other liens – After closing, applicant will NOT be permitted to place subsequent liens against the subject property either in priority or subordinate to City's lien. No additional debt is allowed without prior written approval by the Manager of HCI. The City's lien (debt) position can be junior to an existing lender, but the restrictive covenants must be superior to all other debt and

liens including existing debt, and will require the existing lender to subordinate to the rent restrictions. Refinancing of senior debt will be allowed only with approval of the City.

4. Insurance - Title Insurance (including restrictive covenants coverage), Property Insurance, Flood Insurance (if applicable), Builder's Risk Insurance, and Worker's Compensation will be required throughout the period of affordability. Other insurance requirements apply and are more fully described in the grant documents.
5. Applicants may not transfer ownership of the asset or refinance its debt throughout the affordability period except with the express consent of the City of Chattanooga.
6. CAHF Recapture/Resale Provisions state that if a housing project is sold, prior to the period of affordability being satisfied, either voluntarily or involuntarily, the City will recapture 100% of the CAFH funds invested in the project.