



HEALTH, EDUCATIONAL, AND HOUSING FACILITY BOARD

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

**John P. Franklin, Sr. Council Building
Assembly Room
1000 Lindsay Street
Chattanooga, TN 37402
for
January 22, 2024
12:35 p.m.**

Present were Board Members: Hicks Armor (Chair), Gregg T. Gentry (Vice-Chair), Richard Johnson (Secretary), Johnika Everhart, Brian Erwin, Hank Wells, and Dr. Patti Skates. Absent was Andrea Smith.

Also, present were Phillip A. Noblett (Counsel to the Board); Vickie Haley (Finance); Jake Toner and Martina Guilfoil (CNE); and Sandra Gober (Community Development).



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



Chair Armor introduced and welcomed the newest board members: Dr. Patti Skates and Hank Wells. We are blessed to have both members.



MINUTES APROVAL FOR THE NOVEMBER 20, 2023, MEETING

On motion of Mr. Johnson, seconded by Dr. Skates, the minutes of the November 20, 2023, monthly meeting were unanimously approved as submitted.



There was no one from the public wishing to make a comment.

RESOLUTION

On motion of Mr. Gentry, seconded by Mr. Wells,

A RESOLUTION RATIFYING THE CHAIR'S ELECTRONIC SIGNATURE ON NOVEMBER 14, 2023, OF AN ENGAGEMENT OF AND DISCLOSURES BY UNDERWRITER RAYMOND JAMES RELATING TO THE DGA SHALLOWFORD BOND PROJECT. (HEB2024-01)

This resolution makes Chair Armor's signature legal and this resolution is belt and suspenders of the action taken.

The motion carried.

ADOPTED-January 22, 2024

RESOLUTION

On motion of Mr. Johnson, seconded by Dr. Skates,

A RESOLUTION RECOMMENDING A PILOT TERM OF TEN (10) YEARS (PLUS AN OPTION FOR ANOTHER TEN (10) FOR NEW, MIXED, INCOME-RESTRICTED AND MARKET RATE CONSTRUCTION TO CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC., FOR THE PROJECT LOCATED AT 2003 BAILEY AVENUE, CHATTANOOGA, TN 37404, CONSISTING OF APPROXIMATELY TWENTY (20) ONE (1) BEDROOM AND TWELVE (12) TWO (2) BEDROOM RESIDENTIAL RENTAL UNITS FOR APPROXIMATELY THIRTY-TWO (32) TOTAL RENTAL UNITS, BASED ON THE PILOT APPLICATION SUBMITTED TO THE ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT OF THE CITY OF CHATTANOOGA. (HEB2024-02)

Typically, a PILOT would be for ten years. This PILOT has an option for an additional ten. Usually, it is a PILOT that holds the taxes at the same level for ten years so they can financially do it, but over the next four years it increases 25% per year. The second ten years would be built into the ten years. The difference in this project is that they agree to hold half the units at 80%

rents and seven units at 60% to HOME funds that are available. They are agreeing for a total of 20 years if they get the option. Normally, they include clawback provisions in an agreement like this that if they do not complete that, it is something the Board would consider if there was an option.

Mr. Erwin had a question about HOME fund requirements. Ms. Sandra Gober spoke about the HOME funds. These funds come directly to the City of Chattanooga from HUD. The City provides the funding to the non-profit organization in the development of the project, in exchange for accepting the money and using it into the project they are required by the regulations to keep the units affordable at certain rents to households at certain income levels and in this instance because of the amount we are putting into the project, it is a 20-year requirement. The rents and the income levels are established by HUD.

Mr. Johnson asked if there was anything on the block at Bailey Avenue now, existing structures? Ms. Gober said no, this is new construction. Dr. Skates asked how many are at 80% rate and how many at 60%? Ms. Gober explained that the seven that they are financing, those seven definitely will be at 60% and actually two of them will be even at 50%. Ms. Martina Guilfoil and Mr. Jake Toner will talk about how the other 30 will balance the income and limits that they are willing to place on the balance. With the PILOT, they are required that at least 50% of the units are always at 80% and lower.

Mr. Gentry asked if this was the first time we have done a 20 year or is there some historical precedent? Attorney Noblett stated this was done for Patten Towers as well.

PRESENTATION

Ms. Guilfoil explained that the 20-year came up because there was the Shallowford Road project was asking for 20 years. They thought it made more sense because it mirrors their affordability restrictions. If you drive across town and you see some of the affordable housing developments falling into disrepair, part of the challenges that you are limited by HUD on the rent increases but operating expenses are going up so how do you marry how much money you are taking in and how much you are having to put out in operating. The 20 year PILOT will actually help resolve the restrictions on raising rents to cover increased costs. With the PILOT, you have less operating expenses going into paying taxes so you have more revenue coming in. It is easier to maintain the rent restrictions.

This project is part of an 84 package, three project deal, that has a variety of layer sources, which is how you get to affordability with ARP funding, funding from the Benwood Lyndhurst Foundation, HOME funds, and the PILOT.

Mr. Jake Toner spoke at this point. This is one of three projects that are packaged together. There are three separate buildings. This is a little over a half-acre land (4 x 50-foot lots consolidated); three buildings are (two 10-plexes and a 12-plex); 32 total units (20 one-bed units and 12 two bed units); 25 off street parking spaces, 9 on street, 1 accessible, and 4 bike spaces (39 total). The presentation is attached to these minutes showing the proposed rents and unit mix, proposed project budget, and summary.

Ms. Everhart asked if they were taking Section 8 vouchers. Ms. Guilfoil said yes, they accept Section 8 vouchers, but also this project is the first time they will actually have nine vouchers from CHA which will help people come in at 30% of their income up to 80%. Mr. Toner said this is project based and across the whole portfolio they also use Section 8, but is on a case by case basis.

In summary, the request will commit at least 50% of the units to households at 80% or less AMI. The projected initial annual cost savings of the PILOT will be \$53,000. The only way to replace this money without the PILOT is to raise rents. Without the PILOT, CNE cannot build this project and hold these rent levels. Without this PILOT, this deal does not work. Everything else in the layer of financing is negotiable and movable.

Mr. Johnson asked when do you hope to break ground? The permits are in hand. If the financing comes together and there are no delays, they will close on the 7th of February, but guess it may be another week. Ideally, the middle to third week of February they are ready to go. HOME funds approval will be on the 6th. Mr. Johnson asked if there were contingencies in place. Yes, they have construction contingencies in the budget and also these numbers have been updated several times over the course of this project. They have been validated by the contractor. Prices have increased significantly.

Mr. Erwin asked regarding once the property is constructed and leases are established with the residents, are those leases 12 month terms? Mr. Toner said yes. Dr. Skates asked how long will be construction? The budgeted timeline is 18 months plus a six month lease up. Mr. Toner has asked for 24 months on initial construction debt. Mr. Toner's hope is that it will come in significantly shorter. Mr. Toner will be happy within 18 months.

The motion carried.

ADOPTED-January 22, 2024

RESOLUTION

On motion of Mr. Wells, seconded by Mr. Johnson,

A RESOLUTION AUTHORIZING THE HEALTH, EDUCATIONAL AND HOUSING FACILITY BOARD OF THE CITY OF CHATTANOOGA, TENNESSEE, TO TAKE TITLE TO CERTAIN REAL AND PERSONAL PROPERTY, TO EXECUTE A LEASE AGREEMENT TO LEASE SUCH PROPERTY TO THE CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. (THE "COMPANY") FOR THE PROJECT LOCATED AT 2003 BAILEY AVENUE AND TO ENTER INTO AN AGREEMENT FOR PAYMENTS IN LIEU OF AD VALOREM TAXES WITH THE COMPANY. (HEB2024-03)

Attorney Noblett explained that the Lease Agreement does include provisions to consider an option for an additional ten years, but it is not automatic and includes provisions for clawbacks in the event that it is not done as agreed. This body has the authority under law to be able to have title to the property so there are no taxes. PILOT stands for Payments in Lieu of Ad Valorem Taxes. That payment will be made not to the full value of the property during the term of this agreement but based upon the PILOT payments.

There being no further discussion, the motion carried.

ADOPTED-January 22, 2024

DISCUSSION OF BYLAWS

Mr. Jermaine Freeman is not present but was attempting to come speak about things they are wanting to have as potential changes to the Bylaws. Attorney Noblett explained that we have a nine member body. The issue was that it only took four to do business. It takes four to do any action which is on page three of the Bylaws. A requirement is that it should take five yes or five no votes to adopt any action by the Board.

Chair Armor discussed the issue of the Bylaws that if it says four votes, it does not mean that you can take a vote without a quorum. Attorney Noblett said no that it is not saying that. If there are nine people, you have to have five for a quorum. If on that same day, there are five people and the vote is three to two, there is not four so the majority would not rule. Attorney Noblett said yes. Where you could use it to do business, it now can hinder you from doing business because it will now allow a simple majority.

Attorney Noblett explained, do you want to allow something less than a quorum of the Board to affect the vote of the Board? Some of the boards Attorney Noblett has dealt with deal with the aspect that you are saying you have to have a minimum of a quorum of the body. So, five members will be able to have action taken. If you do not get that on the first time, then you come back at the following meeting to try to see if you can get a quorum at the following meeting based upon either reconsideration or review at the next meeting. If you do not get it then, then it does not pass.

Mr. Gentry explained you have to have five for a quorum, so three of the five is a quorum, so you can have three or at least four. If you go to nine, it requires five. Attorney Noblett thinks that a majority of people have to act and if you do not get that at the meeting, then what do you do?

Chair Armor says that it raises the majority – simple majority. It is redefining simple majority. If five votes are here, then we can do business, but typically, it would allow three of the five to conduct business. Here, if we could not get a fourth vote, then you really cannot pass them.

There was discussion about the issues with a quorum. Ms. Everhart asked if there could be a parameter if it is priority business. Attorney Noblett explained that the state law requires only a seven member board for HEB. Here the City Council thought it good to have someone from each district and the IDB. Chair Armor asked who chooses priority? Ms. Everhart asked about deadlines.

After further discussion about simple majority, Attorney Noblett explained that the City Council has in their Charter the requirement that it takes five votes to pass something. Mr. Gentry explained the majority process. Attorney Noblett explained the cons which would be if you are dealing with a bond issuance. The bond folks want to make sure that it is the body that has approved this issuance and they want a certification that it has passed.

After further discussion, Mr. Gentry explained that we have five members here with a quorum, the minimum is five. If it is a four to one vote, there is no movement. The Board members discussed further whether five would carry or defeat. The Board members liked five yes and five no. The Board decided to have a redline version of the Bylaws for discussion at the next meeting with also Mr. Freeman's changes. Also, page four needs to be corrected about the third Monday of the meetings.



OTHER BUSINESS

Dr. Skates was interested in the education piece of this Board, and there was discussion about Gateway. Chair Armor explained that it depends on what comes before the Board. The housing piece is the majority. The education piece is fair. Attorney Noblett explained the school tax portions in PILOTs. It was decided that there will be an educational session about the Board to be held before next month's meeting.



After further discussion, the meeting adjourned at 1:25 PM.

Respectfully submitted,

Handwritten signature of Richard A. Johnson in blue ink.

Richard A. Johnson, Secretary

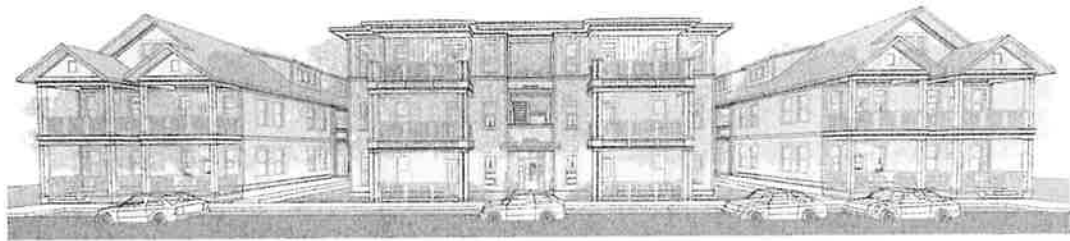
APPROVED:

Handwritten signature of Hicks Armor in blue ink.

Hicks Armor, Chair

2003 Bailey Avenue: PILOT Presentation

November 28, 2023



Project Overview

- 0.558 acres of land (4 x 50-foot lots consolidated)
- Three buildings (two 10-plexes and a 12-plex)
- 32 total units (20 one-bed units and 12 two bed units)
- 25 off street parking spaces, 9 on street, 1 accessible, and 4 bike spaces (39 total)

Proposed Rents and Unit Mix

Rents & Unit Mix	BRs	Units	CHA Vchr	Rents	80% Units	Rents	HOME High	Rents	HOME Low	Rents
	1	20	4	\$ 858	11	\$ 1,195	4	\$ 858	1	\$ 685
	2	12	4	\$ 989	6	\$ 1,434	2	\$ 989	0	\$ 818
Totals:		32	8		17		6		1	

RENT RESTRICTION SUMMARY			SQUARE FOOT SUMMARY		
	#	%		#	%
CHA Vchr	8	25%	CHA Vchr	5030	26%
80% Units	17	53%	80% Units	10489	54%
HOME High	6	19%	HOME High	3516	18%
HOME Low	1	3%	HOME Low	503	3%
Total @ 80% or less	24	75%	Total @ 80% or less	19538	100%
Total Units	32	100%	Total Res Sqft	19538	100%

According to Zumper.com as of 11/13/23, average Chattanooga downtown submarket rents are \$1439 for a one bed and \$2100 for a two bed

Proposed Project Budget

USES - Development Budget		
Acquisition & Related Costs	\$	228,000
Building, Site, Off Site	\$	4,299,000
Soft & Financing	\$	1,373,105
Total Development Uses	\$	5,900,105
SOURCES - Development Financing		
Construction Loan	\$	3,642,105
HOME Funds	\$	630,000
Land	\$	228,000
CNE Cash + Outside Equity Contributions	\$	1,400,000
Total Development Sources	\$	5,900,105

Summary

- The request is to commit at least 50% of the units to households at 80% or less Area Median Income in exchange for the PILOT.
- The projected initial *annual* cost savings of the PILOT to the project will be \$53,000.
- The only way to replace this money without the PILOT is to raise rents.
- Without the PILOT, CNE cannot build this project and hold these rent levels.