



HEALTH, EDUCATIONAL, AND HOUSING FACILITY BOARD

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

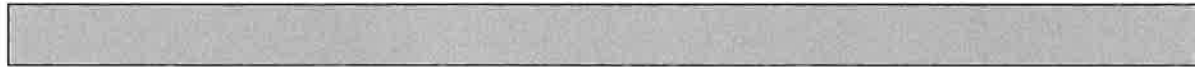
**John P. Franklin, Sr. Council Building
Assembly Room**

**1000 Lindsay Street
Chattanooga, TN 37402**

**for
Monday, March 18, 2024
12:35 p.m.**

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

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



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



MINUTES APPROVAL FOR THE FEBRUARY 19, 2024, MEETING

On motion of Dr. Skates, seconded by Mr. Johnson, the minutes of the February 19, 2024, monthly meeting were unanimously approved as submitted.



PUBLIC COMMENTS

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



RESOLUTION

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

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 CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. (THE “COMPANY”) MILL TOWN RESIDENTIAL PROJECT FOR OPERATION OF A MULTI-FAMILY HOUSING FACILITY, AND TO ENTER INTO AN AGREEMENT FOR PAYMENTS IN LIEU OF AD VALOREM TAXES WITH THE COMPANY. (HEB-2024-07)

Mr. Jake Toner is present with the Chattanooga Neighborhood Enterprise. Mr. Toner is here on two separate projects for a PILOT. The PILOT projects have been approved by the Chattanooga City Council and Hamilton County Commission. Mr. Toner gave a presentation for both the Mill Town Residential Project and Lyerly Avenue Residential Project.

The Lyerly Avenue Residential Project consists of three buildings (a 10-plex, a quad-plex, and a duplex), 16 units (10 one-bed, 4 two-bed, and 2 three-bed units) of multifamily, low income housing apartment project, on property located at 1805 South Lyerly Avenue. The Mill Town Residential Project consists of four buildings (12-plex, 10-plex, and two 6-plexes), 34 units (18 one-bed and 16 two-bed units) of a multifamily, low income housing apartment project, on property located at 2461 East 18th Street.

The proposed rents and unit mix, and the proposed project budgets were discussed. The presentation is attached to these minutes. Chair Armor confirmed that it would be funded at 50%. If CNE can keep it at a higher percentage not higher rent, that is CNE's objective. Mr. Toner believes these are the rents that they will start out with. Everything is budgeted, and these rents will cover their debt payments and the requirement of the loan documents. Everything is driven by how much they borrow, and what kind of coverage they have to have.

In summary, the request is to commit to at least 50% of the units to be households at 80% or less Area Median Income (AMI) in exchange for the PILOT. The estimated initial annual cost savings of the PILOT to the projects will be \$34,000 (Lyerly) and \$59,000 (Mill Town). 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. This is the but-for test. Mr. Toner said this is the key piece in these affordable housing projects.

Chair Armor asked what effect does the federal money have on this? Mr. Toner said the federal money comes in the form of HOME funds from HUD through the City and allocation to the projects. This allows CNE to maintain a certain number of units at 50%-60% AMI rents. We have one step lower. The federal money works on it reducing further down below the 80% level.

Mr. Brian Erwin had a question regarding building costs. Does Mr. Toner have current values of the undeveloped land? The way the PILOT is written there will be a requirement from the Assessor's Office to appraise the current undeveloped land. Mr. Toner said this is the actual acquisition value of the land and is the nearest or closest amount to market value that he can give. On Mill Town, that is an estimate of market value because most of the land would be contributed by the developer in the area for any material amount, \$1,000 is the transaction value. They plug \$500,000 for the approximate land value at market rate. The other piece of property in the Mill Town was contributed by the City.

Mr. Johnson asked if they propose doing these projects simultaneously or one, then the other. Mr. Toner said they will probably stagger the starts of these. Maybe two months depending on how the financing comes through. They have loan commitments, but in timing and processing work, they are starting a third project hopefully next month. Then will start Lyerly after that and close with the same financial institution (inaudible). In terms of budget, with regard to timing, is there a contingency in terms of supply chain and pricing? Mr. Toner said they have a hard commitment. He does not have a signed construction contract yet but have a hard commitment on the Lyerly project and we have as firm as we can get a commitment where their contractor has gone through and reviewed all of the numbers and said he is still good on the Mill Town. Mr. Toner also has a construction contingency in the budget.

Mr. Johnson asked what is currently there? Mr. Toner said on the Lyerly project CNE purchased four blighted properties and they needed to be knocked down. They are vacant. The other property is vacant.

Mr. Toner said he was prepared for a question regarding what incomes coincide with 80% AMI. A one person family is \$44,600, two person is \$51,000, three person is \$57,000, and four person is \$63,700, and the HOME units correspond to a one person family of \$33,480, two persons at \$38,220, three persons at \$43,020, and a four person \$47,760. These do fluctuate and are adjusted as the AMI adjusts. These numbers were pulled in February. Mr. Toner said the \$44,600 is 80%. That is the income that will be needed to qualify for as a one person household.

Attorney Noblett wanted to point out in the PILOT Agreement, there is a specific term of the Payments in Lieu of Ad Valorem Taxes would be paid under this to the City and County covers the school taxes for the entire term. This is a 20-year PILOT. There is a clawback provision in the agreement in the event they fail to meet the affordability requirement. Mr. Toner is aware of that. CNE is also audited by the City for all HOME units.

Ms. Everhart had a comment that \$44,600 is something that most people cannot afford. We are going to push people out -- the elderly, people impoverished, because they certainly cannot afford those rates. Ms. Everhart said that may just be a part of the process. We have inflation and things cost. The realities are that the average American cannot afford -- Ms. Everhart had a

bachelor's degree and was make \$30,000 a year at Blue Cross, probably making \$15 an hour. As a person who is in the community and for the community, Ms. Everhart hates to hear that. So many people, even smart people, even people with educations are not going to be able to meet those standards. Ms. Everhart said that with regard to being pushed out, that these areas that we are talking about typically contain housing for people that are low income. With the models that we are now implementing, not just this model, but these models are going to impact people. Because financially it is going to be a hardship. We are headed towards another recession anyway. Financially, everybody is going to have to do what they have to do to make it work whether that be the combined incomes and try to live together. It certainly is going to impact the dynamics.

Chair Armor said that he has been involved with CNE for a long time in different ways. Like the Housing Authority, CNE sees itself as trying to provide housing. This is more than redeveloping areas that are below standard. How do we respond to that? Chair Armor's daughter has a master's degree that is making \$15 an hour. She has a master's degree from a known university and cannot find a job – she has a degree in Marine Biology, and we do not have an ocean here. But she has a master's degree, great GPA, and a high school and college, and she cannot get a job here, so she could not afford this either. How do we achieve – 80% of the AMI, we have a whole lot of people below that who are educated.

Ms. Martina Guilfoil with CNE spoke at this point and does not disagree at all with what Chair Armor is saying. Ms. Guilfoil said they would want their rents to be as low as possible. What happened was that during COVID when the market was what it would be when people were earning a lot more money, our median incomes have gone up, but the people who are earning \$15 an hour, their incomes have not gone up. You see this big difference, when we opened the Mae Bell 1 in 2017, our 60% rents were \$630, that rent today is now \$900.

One of the challenges CNE has been that we are not going to tell the people that are still at the Mae Bell who could afford the \$650 a month rent, now I could raise their rents to \$900, \$950, and still be within the HUD guidelines, but those people cannot afford it. It puts pressure on CNE in terms of operating of how they make up the difference and that's the challenge the Board takes seriously and how they cover that. They are always talking about what is their market rent. Their market rent is not the \$1,400 that downtown is getting, their rents are somewhere, and it depends on the building. One of the answers that they have is the Mae Bell because the costs were like they were in this budget in 2017. We try to do incremental increases so now it has become their market rents there at \$850 are probably \$875 or \$900. The people there that are making \$15 an hour can still afford it. One way that they have addressed the challenges not on these but the Bailey project, they were able to get project based vouchers so that somebody can pay 80% of their income and they can get a higher rent.

The answer is we need more money. The City needs more money for affordable housing so the HUD dollars are limited. Every HUD dollar that you use in a project creates all these sets of regulations and gets more and more expensive and more difficult to use that money on smaller projects. In the Housing Action Plan, they talked about a dedicated source for affordable housing through the Housing Trust Fund or some mechanism that can be unrestricted, more flexible dollars because it costs what it costs to build and we would love to have lower rents but who is going to make up that difference between what it costs and what rents we are trying to hit. The challenge

is what do we do when median incomes keep going up and how many people to your point are making \$44,000 a year that can afford an 80% apartment and then you back out car payments, student loans, and all of sudden they may qualify for the apartment but they can't really because they don't have enough income left over to make the rent payment.

Homelessness is a housing problem. People can't afford even affordable rents. As a community we need to talk about longer term. What is the strategy, how are we going to bring more resources in, because we are not keeping up with the pace with the number of units. CNE collectively has put in about 300 units into operation and fortunately 15% of their portfolio is at 30% AMI. Because we take vouchers. When you are asking about supply issues, insurance issues, operating costs go up regardless of inflation but our rents can only creep up and we do not want to have that huge – we are strategically community based board, how do we keep rents affordable? And how do we get other support to do that.

Chair Armor said that what Ms. Guilfoil said explains something. It explains the disparity of income. The challenge CNE has is making a project work based on cost. The issue is there is a housing cost crisis that does not allow low income to have a house that CNE dwelling that they would like to have. Ms. Guilfoil talked about COVID in that a lot of people moved here. When you work remote you might have east or west coast salaries, then came to Chattanooga that increases our AMI whereas our wages may not have risen. That has an effect on raising the AMI even though the salaries may not have increased.

After further discussion, what Ms. Everhart is hearing from Ms. Guilfoil is that she is aware of what is happening and doing the best you can. We have a problem that there are going to be a lot of people who cannot afford it. Ms. Everhart has a heart for the indigent and maybe did not have the opportunity to have all the resources that she had. Ms. Guilfoil said it is resources. Ms. Smith wants to have a solution for constituents. There are explanations we can take back to people.

Mr. Erwin said in looking back at the proposed rent rate and also the data provided by Zumper.com, he understands that the rent rates are derived from the budget, were they look at the 80% of what you identify as a Zumper for the affordability element. Zumper.com as of November 2023, a one-bedroom was \$1,439 in the downtown area, two bedroom \$2,100. The affordable numbers are 80% in the spreadsheet portion and \$1,195 is an 80% calculation as allowed by THDA. The Zumper numbers are the market rate.

Ms. Smith questioned Lyerly being in the downtown area. Mr. Toner said that it is considered in the mountain bowl. It is inside the mountain. That is how they draw the map.

The motion carried.

ADOPTED

RESOLUTION

On motion of Dr. Skates, seconded by Ms. Smith,

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 CHATTANOOGA NEIGHBORHOOD ENTERPRISE, INC. (THE "COMPANY") LYERLY AVENUE RESIDENTIAL PROJECT FOR OPERATION OF A MULTI-FAMILY HOUSING FACILITY, AND TO ENTER INTO AN AGREEMENT FOR PAYMENTS IN LIEU OF AD VALOREM TAXES WITH THE COMPANY. (HEB-2024-08)

Ms. Everhart needed clarity on this resolution. This project being different financially. The Bailey project has housing vouchers on it and these do not. Lyerly and Mill Town do not have vouchers. The Chattanooga Housing Authority vouchers are limited and no more are available.

Chairman Armor said that the housing vouchers would allow them to have more rents at or below the 50% level, even lower than what we have. The PILOT is the same, but the vouchers are not available.

Mr. Erwin intends to vote in favor of this PILOT, however, wanted to voice that because that they are Chattanooga Housing Authority vouchers involved with this particular PILOT program, as a real estate broker, he represents many sole proprietor, landlords, single family property, multifamily property, and these rents seem quite high based on information, local comps, the area in particular. A 20 year tax deference seems very generous and wants to make sure that we are going in the right direction.

Mr. Johnson would like to say that this is what this board does. We should view this as an investment in that housing it is going to make it affordable for some but not everyone. Chair Armor said comments can be under other business.

The motion carried.

ADOPTED 6 YES/1 NO (Everhart)

OTHER BUSINESS

Security and Evacuation Plans

In the event of a disaster or situation we would know how to get out and where to go. The security should be in the public meeting to tell everybody in private. We will need to provide access to the Council meeting room, which is protected. Either the left door or right door.

If there are people in the audience, both of those exit doors are available. There generally is a person here for all of the Council meetings. Mr. Johnson asked if we need a Sergeant at Arms. There will be an announcement by the Chair that the meeting is adjourned. If the meeting is adjourned at that point in time, the people in the audience would be going to the rear and the people up here would be going there (up front).

Questions on the two PILOT projects

Chair Armor said there was a recognition of a number of people on this Board that there may be a dilemma in the community for housing that the Housing Authority and CNE recognize more than committee volunteers who approve projects. When you look at the percentages of the AMI, should we send a comment to the Council of the Board's concern to Mr. Erwin's comments that the City is not just approving PILOT projects or housing projects but that from the Board's perspective that CNE to address projects that can address the needs of the community whatever they are.

There are people who do not have someone to pay their rent for them. Where would you be if things had not occurred in your life. Chair Armor supervises people like that and understands what you think. Sometimes you can do things that seem correct but where we are doing it and what the need is we are not hitting the need. We may want to draft something by the Board to send to the City Council that from my perspective and looking at projects in the last year, they are doing the best they can to make them financially feasible, that without the PILOT then this project would not be available. It shows that there is a need that you cannot make it work financially if there are people in those needs categories that are either homeless or without because theirs is not being met or does not fit a formula for CNE or a housing project but still is a need for families with multiple children. There is a homeless crisis that we see a need to be addressed. Chair Armor with the help of Attorney Noblett will draft a letter to the City Council and the Mayor if the Board decides to do that.

Mr. Erwin thinks that is valuable, but the Council knows that their constituents are seeking housing opportunities and they are putting that on this Board to review some of those items. Mr. Erwin thinks it is important to share with them that the Board is reviewing it and still does not think it is affordable. Chair Armor met with the Mayor three months ago on a number of things and talked about this and knows that he has public housing on his radar screen but if we had enough at the bottom to take care of some of the most vulnerable, I think that is what we need to do.

Mr. Johnson said that he is proud of this Board because we do have varying degrees of opinions which he thinks are all well-respected and well-placed. It is very obvious to everyone that this Board takes the responsibilities to the taxpayers even though we are appointed by our respective council. We ultimately owe it to the taxpayers and constituents involved and thought this particular program is going to hit distinct demographic needs assistance as well and certainly as we get to other demographics that it is not hit. It certainly would not hurt to re-affirm that we know what our role is and take it very seriously and would like to see more projects that fall on the spectrum we are committed to.

Dr. Skates sees two things. One is that it is not just here in Chattanooga. It is all over. The second is that Dr. Skates is afraid it is going to get worse. After further discussion, Mr. Wells confirmed there will be a draft at the next meeting of the letter to the City Council and Mayor Kelly.



After further discussion, a motion was made to adjourn the meeting by Ms. Everhart, seconded by Ms. Smith, and the meeting adjourned at 1:25 PM.

Respectfully submitted,

Richard A. Johnson, Secretary

APPROVED:

Hicks Armor, Chair

PILOT Presentation: Two New Residential Projects

February 27, 2024



1805 South Lyerly
16 Units (duplex, quadplex, 10-plex)



2461 E. 18th Street
34 Units (12-plex, 10-plex, two 6-plexes)

Project Overview: Two Apartment Projects

- Lyerly Apartments
- 1805 S. Lyerly St.
- Three buildings (a 10-plex, a quad-plex, and a duplex)
- 16 Units (10 one-bed, 4 two-bed, 2 three-bed units)
- Mill Town Apartments
- 2461 E. 18th Street
- Four Buildings (12-plex, 10-plex, two 6-plexes)
- 34 Units (18 one-bed, 16 two-bed units)

Proposed Rents and Unit Mix – 1805 S Lyerly

**Rents &
Unit Mix**

BRs	Units	NOAH Units	Rents	80% Units	Rents	HOME High	Rents	HOME Low	Rents
0	0	0	\$ 900	0	0	0	\$ 822	0	\$ 633
1	10	0	\$ 1,200	8	\$ 1,195	2	\$ 846	0	\$ 673
2	4	0	\$ 1,500	3	\$ 1,434	1	\$ 974	0	\$ 803
3	2	0	\$ 1,800	1	\$ 1,513	1	\$ 1,200	0	\$ 923
Totals:	16	0		12		4		0	

Annual PGI \$ 230,885

RENT RESTRICTION SUMMARY

	#	%
NOAH Units	0	0%
80% Units	12	75%
HOME High	4	25%
HOME Low	0	0%
Total @ 80% or less	16	100%
Total Units	16	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 Rents and Unit Mix – MT Apartments

Rents & Unit Mix

BRs	Units	NOAH Units	Rents	80% Units	Rents	HOME High	Rents	HOME Low	Rents	
0	0	0	\$ 900	0	\$ 1,115	0	\$ 833	0	\$ 644	
1	18	0	\$ 1,200	14	\$ 1,195	3	\$ 858	1	\$ 685	
2	16	0	\$ 1,500	12	\$ 1,434	3	\$ 989	1	\$ 818	
3	0	0	\$ 1,800	0	\$ 1,513	0	\$ 1,219	0	\$ 942	
Totals:	34	0		26		6		2		
			Annual PGI							\$ 491,748

RENT RESTRICTION SUMMARY

	#	%
NOAH Units	0	0%
80% Units	26	76%
HOME High	6	18%
HOME Low	2	6%
Total @ 80% or less	34	100%
Total Units	34	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 Budgets

1805 S Lyerly

USES - Development Budget	
Acquisition & Related Costs	\$ 243,000
Building and Site	\$ 2,750,200
Soft Costs	\$ 732,311
Financing Costs	\$ 163,000
Total Development Budget	\$ 3,888,511

SOURCES of Development Financing	
Construction Loan	\$ 2,015,511
HOME Funds	\$ 808,000
Land - Benwood Grant	\$ 243,000
Lyndhurst Grant	\$ -
CNE Cash	\$ 122,000
Benwood Grant	\$ 300,000
Arpa	\$ 400,000
Total Development Sources	\$ 3,888,511

Mill Town Apartments

USES - Development Budget	
Acquisition & Related Costs	\$ 500,000
Building and Site	\$ 4,700,000
Soft Costs	\$ 1,070,500
Financing Costs	\$ 342,000
Total Development Budget	\$ 6,612,500

SOURCES of Development Financing	
Construction Loan	\$ 4,376,500
HOME Funds	\$ 1,133,000
Land - Benwood Negotiated	\$ 500,000
Lyndhurst Grant	\$ -
CNE Predev Cash	\$ 3,000
Benwood Foundation Grant	\$ 300,000
Arpa	\$ 300,000
Total Development Sources	\$ 6,612,500

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 estimated initial *annual* cost savings of the PILOT to the projects will be \$34,000 (Lyerly) and \$59,000 (MT Apartments).
- 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.