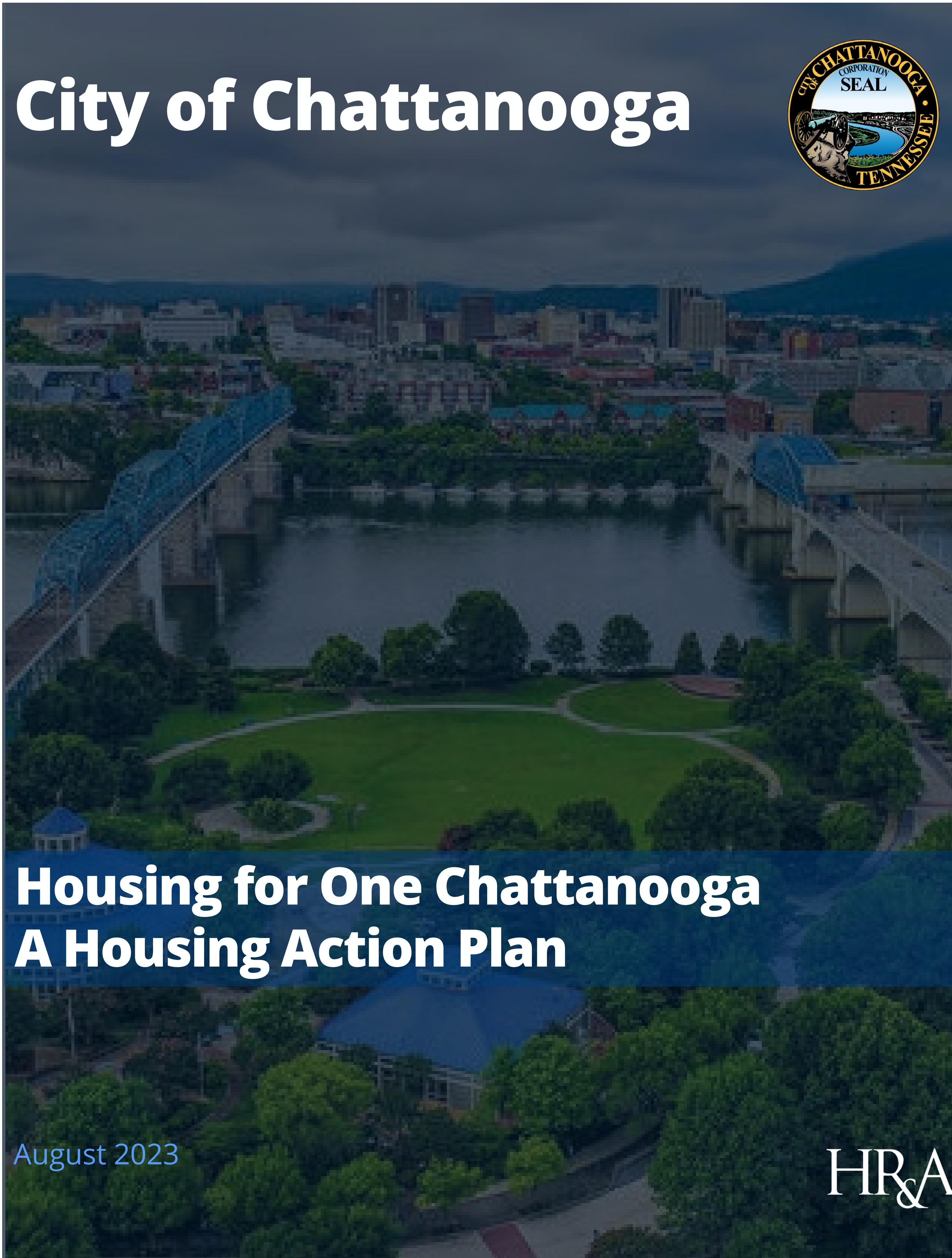

City of Chattanooga

Housing for One Chattanooga
A Housing Action Plan

August 2023

HR&A

LETTER FROM THE MAYOR

August 2023

Friends,

A year ago, I challenged our team to think big when it came to addressing the affordable housing issues facing our city. At that point, Chattanooga faced a sizable deficit of affordable housing units; today that is even more true, and if we aren't intentional about our housing priorities, it is likely we could see a deficit of upwards of 7,000 affordable housing units by 2030. The rising cost of housing is outpacing area median income, and macroeconomic forces continue to put a strain on working Chattanoogans.

Our city's housing environment needs improvement. Currently, we're on track to have less than half the number of affordable rental units than we did ten years ago by 2030. The landscape is worse for Chattanoogans of color: Mortgage denial rates are three times higher for Black Chattanoogans than they are for White Chattanoogans.

I am proud of the progress we've made toward preserving our existing affordable housing units and building new ones, but to prevent the housing crisis our city could be heading toward, we need to supercharge efforts with a comprehensive set of tools tailored to Chattanooga.

That's why I'm thrilled to unveil the City of Chattanooga's Housing Action Plan - a strategic framework that lays out a path toward providing affordable, quality housing for every Chattanoogan, regardless of who they are or where they come from. For the first time in our city's history, we now have a playbook to help us advance our goal of ensuring anyone who wants to call Chattanooga home can do so without being severely cost-burdened.

Prepared by HR&A Advisors, experts in the field of housing and economic development, this plan is the result of more than six months of research and years of discussions and planning. It is the culmination of an intensive market analysis and housing needs assessment that took a comprehensive inventory of our current situation. And it is also just the beginning. Here are the tools we need - some new, some already underway, some already deployed - to build a housing environment that works for everyone.

In Service,

Mayor Tim Kelly

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Executive Summary

EXECUTIVE SUMMARY INTRODUCTION

The Housing for One Chattanooga Action Plan will serve as a guide to the City and its partners as they work together to make this a city where every Chattanoogan has an affordable place to call home.

The Chattanooga Housing Action Plan (HAP) is intended to be a living document to be used by City staff, elected officials, and the **community to guide affordable housing policies and investments over the next five years.** It builds on the vision and goal laid out in the One Chattanooga Plan released by the City in May 2022 (more information below). The recommendations outlined in the Plan will enhance and expand the City's existing affordable housing toolkit.

Like many cities across the country, **Chattanooga is facing an affordable housing crisis.** Housing supply has not kept pace with the city's economic and population growth, leading to a decline in housing affordability. Fewer households can access homeownership, and rents are rising faster than incomes for most households. Furthermore, the system to provide affordable homes is constrained by limited public funding, state law, and a lack of regional partners.

In response, **Mayor Tim Kelly announced a $100M initiative to invest in affordable housing solutions,** seeded by a historic $33M in 2023 alone. These investments will ensure that every Chattanoogan has a safe, quality, and affordable place to call home by creating and preserving thousands of workforce housing units over the next five years.

In May 2022, the City released the first iteration of its One Chattanooga Plan that "describes the strategic direction, key priorities, values and initiatives that define a vision of a community where all Chattanoogans can thrive and prosper." The Plan lays out the following vision, goal, and priorities for housing affordability in Chattanooga.

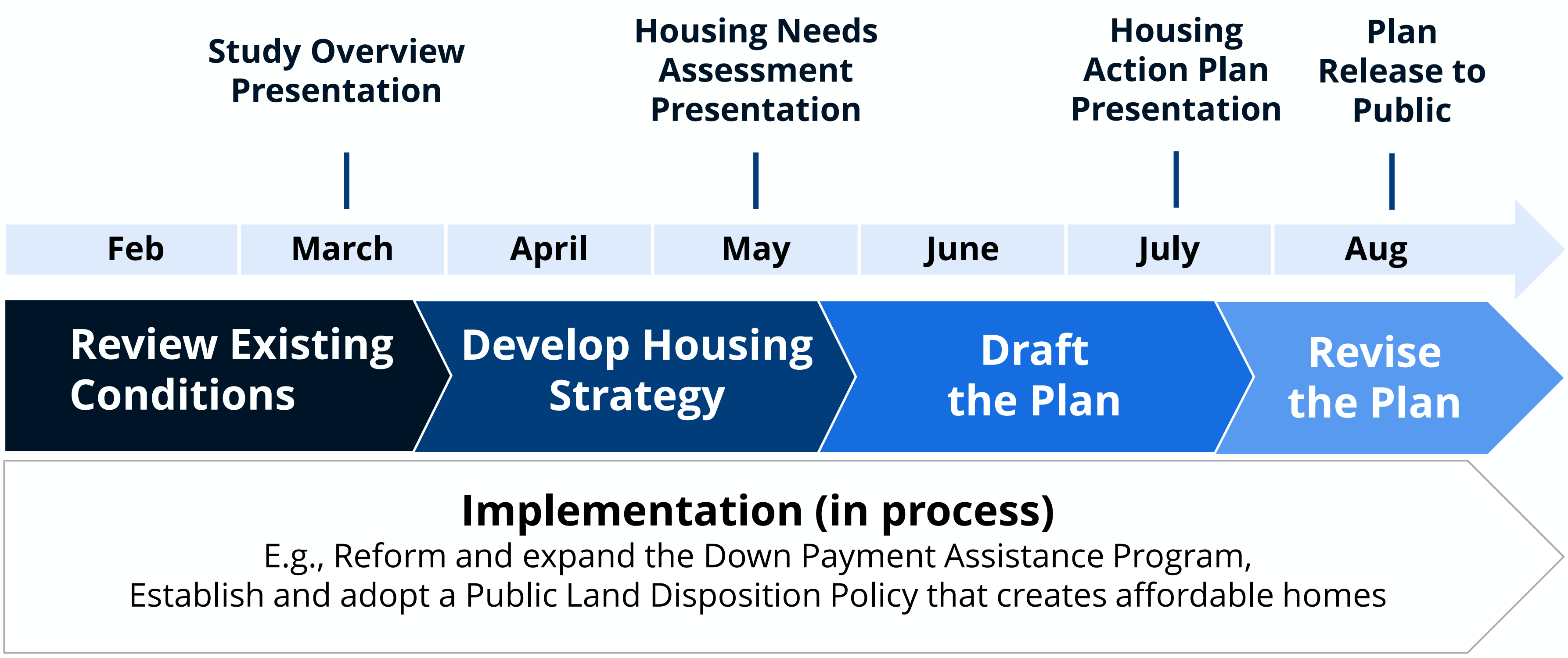
HOUSING FOR ONE CHATTANOOGA	
VISION	Where Every Chattanoogan Has an Affordable Place to Call Home
GOAL	The City of Chattanooga will increase the supply of housing affordable and accessible to all Chattanoogans, through an approach that is practical and tailored to each neighborhood.
PRIORITIES	1. Expand housing inventory across the city. 2. Diversify the range of capital options available for workforce housing development. 3. Preserve existing affordable and workforce housing. 4. Reduce the number of households experiencing homelessness. 5. Prioritize land for workforce housing in transitioning neighborhoods.

Source(s): One Chattanooga Strategic Framework

EXECUTIVE SUMMARY INTRODUCTION

This Chattanooga Housing Action Plan (HAP) was developed over the past 7 months in parallel with new policies and programs.

In response to a growing need for affordable housing, the City of Chattanooga undertook a seven-month housing planning process to evaluate conditions in the city today and create a plan to build and preserve housing for all. To that end, **the HAP lays out recommendations to increase the impacts of the City's affordable housing policies and investments and an approach to provide consistent streams of funding to meet housing affordability goals.** The HAP was completed in four major phases as shown below.



In parallel with the preparation of this plan, the City has been refining and implementing some of the key recommendations, along with its partners. For instance, using American Rescue Plan Act (ARPA) funding, the City redesigned and launched a new down payment assistance (DPA) with the Chattanooga Neighborhood Enterprise (CNE) in June 2023. The City is also in the process of developing a new public land disposition policy and reforming its Payment-in-Lieu-of-Taxes (PILOT) program to provide additional support for affordable housing development.

EXECUTIVE SUMMARY HOUSING NEEDS

Housing development in Chattanooga has not kept pace with its population and economic growth, leading to a new and growing housing affordability problem.

MODEST AFFORDABLE HOUSING ECOSYSTEM	Chattanooga's affordable housing ecosystem is constrained by limited public funding, state law and a lack of regional partners.	**$575,000** Average local funding for housing, 2019-2021 (Chattanooga Affordable Housing Fund)
DECREASING RENTAL AFFORDABILITY	Chattanooga's median rent increased 30% since 2020, while the income level of the median renter grew by about 13%, resulting in growing housing cost burdens among renter households.	**107→90→*50*** 90 affordable homes for every 100 households making <$35K in 2021, down from 107 in 2016 and on track for 50 by 2030
DECLINING ACCESS TO HOMEOWNERSHIP	Until recently Chattanooga was a city where homeownership was attainable for a household earning the median income, but that is no longer true.	**— 6,100** Decrease in owner households earning less than $100K, 2011–2021
INCREASING HOMELESSNESS	Chattanooga has seen a dramatic increase in homelessness since the start of the COVID-19 pandemic and does not have enough emergency shelter beds or supportive services to address this issue.	**+500** Additional unhoused persons from 2020 to 2022
CROSS-CUTTING INEQUITIES	Black households in Chattanooga face greater barriers to accessing homeownership and less affordable rents at all income levels.	**12% vs 4%** Mortgage denial rates for Black vs. White households making $100k to $150k

EXECUTIVE SUMMARY GOALS

The Housing Action Plan is centered around five key goals that respond to the central failures in Chattanooga's housing market.

BUILD THE HOUSING ECOSYSTEM	All housing policies necessarily involve public-private partnerships. Chattanooga can only address its housing challenges if its capacity and the capacity of its partners is at a scale equal to the challenge it faces.
INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES	The decline in the number of affordable rental homes must be reversed to achieve the City's vision for its housing market and to support prosperity for all Chattanoogans.
EXPAND ACCESS TO HOMEOWNERSHIP AND PROTECT EXISTING HOMEOWNERS	Until recently Chattanooga was a city where the American Dream was accessible to households earning the median income and it must be again to build community wealth.
WORK TO MAKE HOMELESSNESS RARE, BRIEF, AND NON-RECURRING	To address homelessness, the City must create systemic change that will reduce housing instability by aligning investments in affordable housing and supportive service delivery.
MOVE TOWARDS HOUSING ACCESS FOR ALL CHATTANOOGANS	Addressing disparities in Chattanooga's housing market must be a component of all the housing policies it adopts.

EXECUTIVE SUMMARY HOUSING TOOLS

Due to the constraints of Tennessee law, the City of Chattanooga will have to rely primarily on subsidy programs to meet its growing housing needs and achieve its stated goals.

Local governments have a limited but critical set of levers that shape the health of their housing markets. Using three key tools, they can set policy and regulation for what types of homes can be built where, how local public funding is spent, and what services are provided.

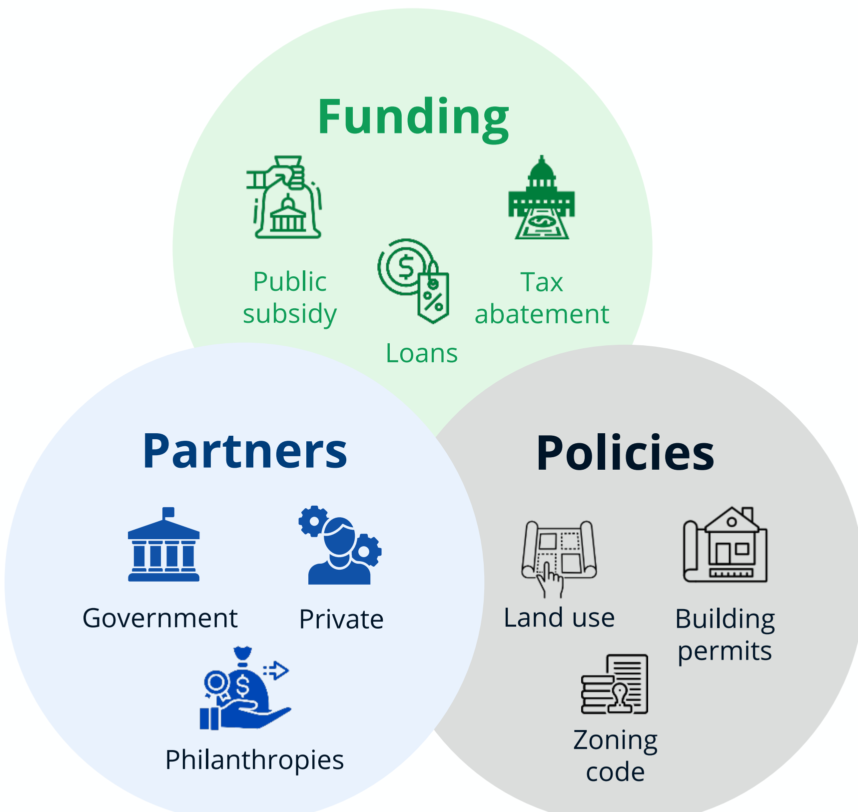
LAND USE	Land use regulations shape **where housing is located, what housing looks like, and how much housing is built.** Land use tools can reduce displacement, increase housing supply, and stabilize housing costs. **Land use tools cannot meet the needs of the lowest-income households.**
SUBSIDY	Subsidy tools **close the gap between what a household can afford and the cost to develop and operate housing.** Public subsidy can be costly but is necessary to make the development and preservation of homes affordable to lower-income households feasible.
TENANTS' RIGHTS	Tenants' rights tools **help low-income renters hold power over their housing and can mitigate displacement but will not create new housing.** Tennessee state law restricts what can be done to protect tenants' rights, but municipalities can focus on minimizing displacement with preservation initiatives and emergency assistance.

The City of Chattanooga must leverage both subsidy tools and land use tools to address its housing challenges. Under land use, **there are few land use tools suitable for use in Chattanooga because Tennessee state law** places significant limitations on these. For example, state law has prohibited local governments from adopting voluntary inclusionary housing options such as density bonuses to encourage affordable and workforce housing construction. In addition, using tenants' rights protections to protect current occupants will not be feasible affordable housing tools in Chattanooga (e.g., right to counsel, rent control, or just cause eviction) because these types of laws and regulations are preempted by the state. Therefore, the **City will need to rely predominantly upon investing public subsidy to create and preserve affordable homes.** The Housing Action Plan outlines recommendations to guide the City's use of affordable housing tools.

EXECUTIVE SUMMARY BUILD THE HOUSING ECOSYSTEM

The City should dedicate recurring funding for its Housing Trust Fund and enhance partnerships to build overall capacity to successfully run housing programs and scale impact.

HOUSING ECOSYSTEM



Source: HR&A Advisors, Inc.

Recommendations

1. Fully fund and strategically use Chattanooga's **Housing Trust Fund (HTF).**
2. Adopt a new **public land disposition** policy and process.
3. Update local **tax increment financing (TIF) policy** to include housing affordability requirement.
4. Revise **zoning regulations** and development approval processes.
5. Scale up **City staffing capacity** to align with existing and new housing programs.
6. Strengthen **partners** such as local developers, lenders, philanthropies, and nonprofit organizations.

Building a well-functioning housing ecosystem requires the three cogs of funding, partners, and policies to work in tandem. The City and its partners operate multiple programs with a **modest amount of federal entitlement dollars ($2.4M annual average),** producing and preserving roughly 160 units per year (excluding PILOT). The City has also dedicated roughly $5M of federal COVID relief funds towards housing programs (rental, homeownership, and homelessness).

Additionally, the City has **dedicated local resources to housing production and preservation.** In 2019, the City instituted the **Chattanooga Affordable Housing Fund (CAHF)** which has provided $2.3M for the production and preservation of rental and homeownership housing in the years since. In 2022, Mayor Tim Kelly committed $33M in funding to leverage an affordable housing fund, hired the City's first Chief Housing Officer, and commissioned this plan to guide the City's efforts in building and preserving affordable homes in Chattanooga.

While the City has been deploying resources to scale up its impact, it must increase its local funding to sustain and expand the creation of affordable homes. It is **critical for the City to dedicate a recurring funding stream to capitalize its Housing Trust Fund, CAHF, and establish policies and process to dispose public land for affordable housing development.**

With the City's funding and policy support, its **private and nonprofit sector partners can and should make investments in staff and systems to build their capacity** to deliver and manage affordable housing. Together, dedicated resources, enabling policies, and strong stakeholder partnerships will result in improved affordable housing outcomes.

EXECUTIVE SUMMARY INCREASE THE NUMBER OF AFFORDABLE, QUALITY RENTAL HOMES

The City of Chattanooga should provide funding and policy support to increase the development of new affordable rental homes and preserve those that already exist.

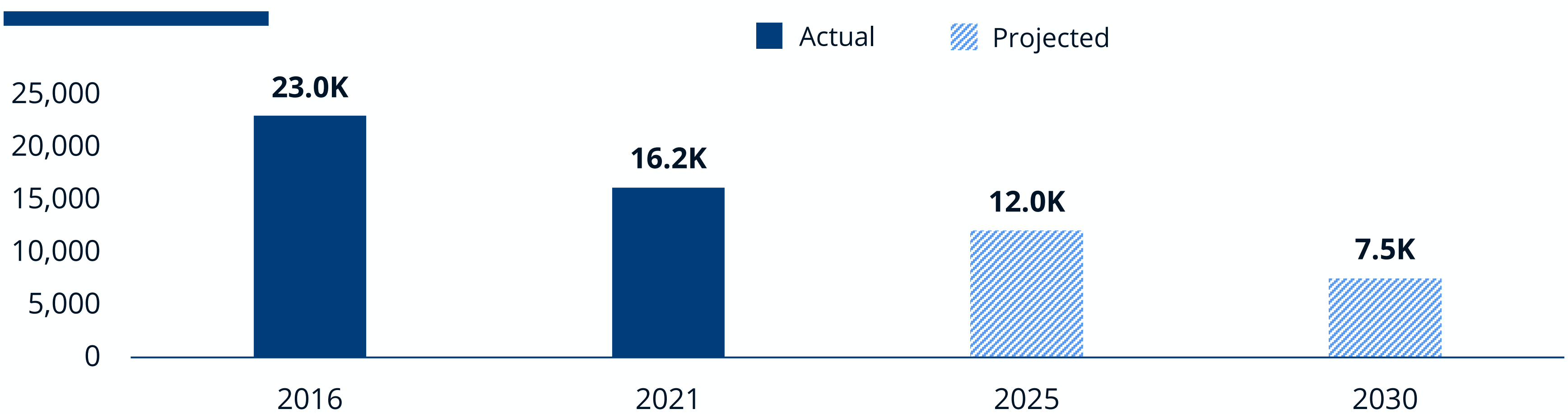
Recommendations

1. Support **LIHTC development** by providing gap financing, engaging with the state, and streamlining local approvals.
2. Reform the **PILOT program** to increase citywide affordable housing supply.
3. Launch **Revolving Loan Fund (RLF)** to provide acquisition and long-term financing to preserve existing affordable rental homes.

Chattanooga has invested its federal entitlement dollars into affordable rental housing for lower-income households for many years. The City has historically provided gap financing to Low-Income Housing Tax Credit (LIHTC) developments with federal funds, but there is no streamlined process. It also runs a payment-in-lieu-of-taxes (PILOT) program, but it needs to be restructured to increase the incentive for housing development for greater impact.

Chattanooga's increasingly competitive rental housing market has led to increased cost burdens on renters. Low-income renters are particularly at risk of displacement as fewer and fewer affordable rental options remain; the **number of rental homes renting below $875 has fallen from 107 to 90 over the last 5 years.**

RENTAL HOMES AFFORDABLE TO HOUSEHOLDS MAKING <$35K (2016, 2021, 2030)



Source(s): ACS 2016 and 2021 5-Year Estimates, HR&A Analysis

It will be **critical for the City to continue to subsidize rental housing production and preservation.** To encourage new construction, the City should support LIHTC development and reform its PILOT program. To preserve existing affordable rental housing, the City should launch a Revolving Loan Fund that can provide quick strike financing for the acquisition and rehabilitation of naturally occurring and subsidized housing.

EXECUTIVE SUMMARY EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS

The City should continue its down payment assistance program, consolidate its owner-occupied repair programs, and explore other tools to improve homeownership opportunities.

Homeownership has become increasingly unattainable for all but higher-income residents. Like in many communities across the nation, housing costs in Chattanooga have risen rapidly since 2020. Over the last decade, the number of homeowners earning <$100K fell by 6,100.

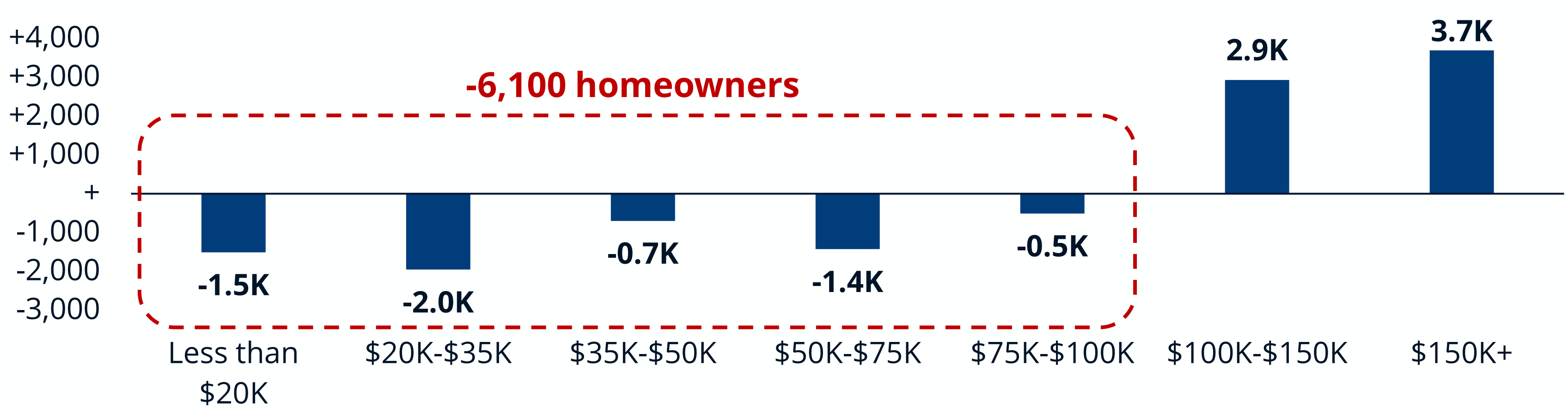
Homeownership remains a **critical way to build wealth,** and access to it is **one way to address income disparities** that have persisted over time.

As home prices continue to rise, **the City and its partners should support households,** particularly those who earn low and moderate-incomes, to access and sustain homeownership.

Recommendations

1. Increase available **down payment assistance (DPA)** provided to potential homebuyers.
2. Consolidate and streamline **owner-occupied repair (OOR) programs** to increase impact.
3. Improve **zoning** to allow for **soft density** in single-family neighborhoods**, building code and related policies** to increase the supply and reduce the cost of new for-sale homes.
4. Provide best practice examples and standard plans for ADUs and engage lenders to expand **construction financing.**
5. Expand **the availability of home improvement and purchase mortgages** from traditional lenders.
6. Encourage large companies to provide support for **employer-assisted housing.**

CHANGE IN HOMEOWNERS BY INCOME
(2011-2021)



Source(s): ACS 2011 and 2021 5-Year Estimates, HR&A Analysis

In addition to expanding down payment assistance and consolidating owner-occupied repair programs (which the City is already doing), the City should also consider updating the zoning code to allow for **"soft density"** and provide support to **broaden the impact of its ADU ordinance.** Further, it will be important to **engage private partners** such as lenders to expand the availability of mortgages, especially to underserved populations, and employers to provide down payment assistance.

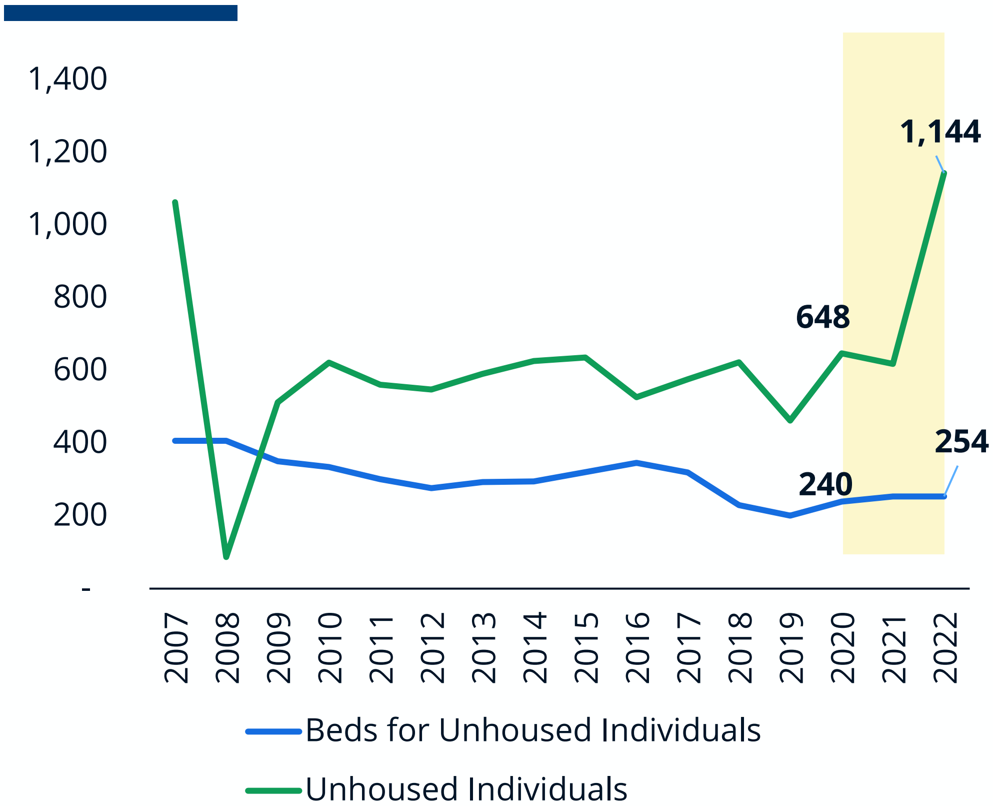
EXECUTIVE SUMMARY MAKE HOMELESSNESS RARE, BRIEF, AND NON-RECURRING

Chattanooga should develop a low-barrier housing shelter, build permanent supportive housing (PSH), and expand emergency response resources to make homelessness rare, brief, and one-time.

Chattanooga has seen a dramatic increase in homelessness since the start of the COVID-19 pandemic. The City counted an additional 500 unhoused persons from 2020 to 2022, the number of unhoused individuals doubling each year. This level of homelessness far exceeds the City's preexisting capacity to provide emergency beds, which is exacerbated by the lack of low-barrier emergency housing shelters in Chattanooga.

To date, the City has primarily utilized ARPA funds and to a lesser degree, Flexible Housing Fund dollars, to fund its rehousing work. Through a Housing First approach, the City's Office of Homelessness and Supportive Housing (OHSH) and its community partners have **successfully housed +2,000 individuals since Mayor Kelly took office.** OHSH has conducted extensive landlord engagement and direct outreach to secure services for unhoused individuals. It has been successful in expanding its pool of landlords that will accept vouchers.

BEDS FOR UNHOUSED VS. UNHOUSED INDIVIDUALS (2013-2022)



Recommendations

1. Open a **low-barrier shelter** that makes shelter more accessible to those in need, eliminating obstacles to shelter and homelessness services.
2. Build **permanent supportive housing** to support people with housing stability and wellbeing, obtain housing quickly, and stay housed.
3. Continue conducting **landlord education and outreach** to expand the pool of landlords that will accept vouchers.
4. Expand **emergency response resources,** such as street outreach.

The City needs to continue to dedicate resources to secure stable, permanent housing for people experiencing homelessness. The City should open a **low-barrier shelter** to eliminate obstacles for homeless individuals to access shelter and seek resources, as well as **build more PSH units with a range of supportive services** to connect individuals experiencing homelessness to income, public benefits, health services, shelter, and resources to maintain long-term housing stability.

In addition, the City should create pathways to stable rental housing for those currently unhoused by conducting **landlord outreach** to promote voucher acceptance.

EXECUTIVE SUMMARY MOVE TOWARDS ACCESS TO HOUSING FOR ALL CHATTANOOGANS

The City should intentionally design housing policies and programs to provide wealth-building opportunities for all Chattanoogans.

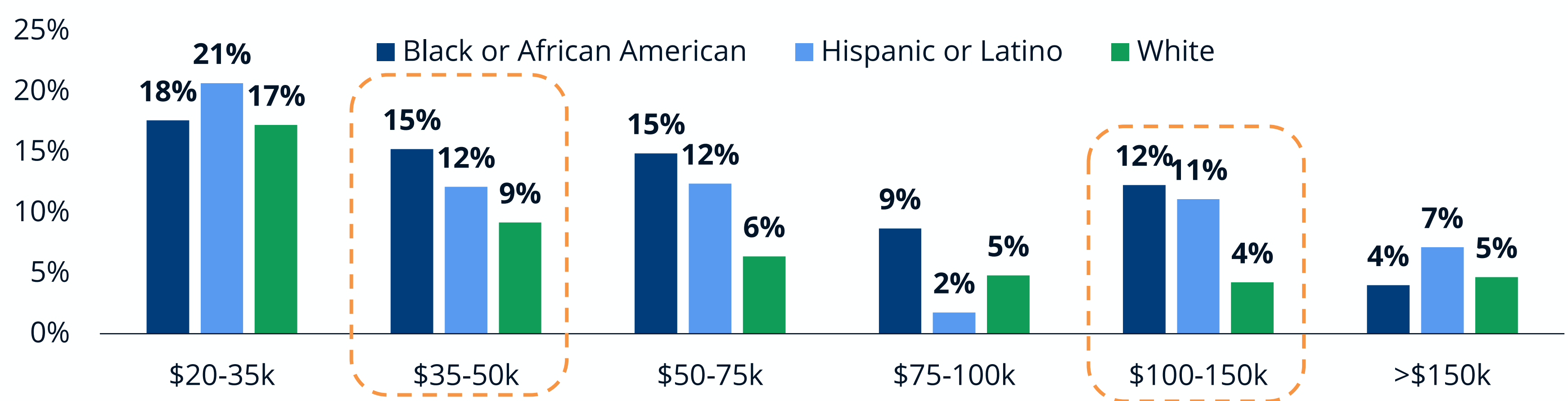
Even after controlling for income, communities of color experience differences in access to affordable rental housing and homeownership in Chattanooga. For example, a Black household earning $100K has a higher mortgage denial rate than a White household earning $35K (see figure below).

The City has released the **One Chattanooga Strategy which outlines specific goals to advance economic prosperity and opportunity for all.** As the City embarks on implementing the HAP, it should work with disinvested communities to educate residents about available resources and share wealth building opportunities with all.

Recommendations

1. Proactively **reach out to households and communities that face higher barriers to access homeownership to** encourage participation in DPA and OOR programs.
2. Establish a **capacity building program for new developers** in coordination with the RLF.
3. Engage lenders to adapt their **mortgage products to address barriers for households facing systemic barriers.**

MORTGAGE DENIAL RATE BY INCOME AND RACE (2018-2021)



Source(s): HMDA 2018-2021

The City should design housing policies and programs that address the needs of all households. For instance, the City should continue to conduct Housing Resource Fairs to reach out to communities that have historically faced barriers to homeownership to encourage participation in the new DPA and OOR programs. Similarly, as the City and lenders work to expand the availability of home purchase and improvement mortgages, they should design products that address the systemic barriers that some communities have faced to improve their access to homeownership.

EXECUTIVE SUMMARY IMPLEMENTATION

The Housing Action Plan includes an implementation plan for the City to deploy the recommended funds and policies to address local housing challenges over the next few years.

The City of Chattanooga cannot achieve its vision of building a strong housing ecosystem alone. **Every goal and recommendation relies on public-private partnership.** While it can lead the charge, the City and its partners will need to (continue to) collaborate to implement the HAP and increase the impact of its affordable housing programs. Furthermore, **the City should work with all levels of government,** including Hamilton County, the state, and engage the philanthropic community.

The Housing Action Plan lays out a set of clear and priority action items that the City and its partners should undertake in the immediate-, near-, and medium-term. In light of the available funding the City currently has access to (one-time federal COVID relief funds as well as local funds), the team is already moving on six of these recommendations (categorized as immediate term).

IMMEDIATE TERM (IN PROCESS)

- Launch the Revolving Loan Fund (RLF)
- Reform PILOT program
- Adopt new public land disposition policy and process
- Increase available down payment assistance (DPA)
- Consolidate and streamline owner-occupied repair programs
- Build Permanent Supportive Housing (PSH)

NEAR-TERM (2023)

- Fully fund and strategically use the Housing Trust Fund (HTF)
- Support LIHTC development
- Strengthen partners such as local developers and nonprofits
- Open a low-barrier shelter

MEDIUM-TERM (2024 ONWARD)

- Update local **tax increment financing (TIF) policy** to include housing and impose an affordability requirement.
- Revise **zoning regulations** and development approval processes.
- Scale up **City staffing capacity** to align with existing and new housing programs.
- Improve **zoning, building code, and related policies** to increase the supply and reduce the cost of new for-sale homes.
- Provide best practice examples and **standard plans for ADUs** and engage lenders to **expand construction financing.**
- Expand **the availability of home improvement and purchase mortgages** from traditional lenders.
- Encourage large companies to provide support for **employer-assisted housing.**
- Continue conducting **landlord education and outreach.**
- Expand **emergency response resources.**

Recommendations

RECOMMENDATIONS

The Housing Action Plan recommends a large number of specific actions that the City should pursue with its partners to advance each of its housing affordability goals.

BUILD THE HOUSING ECOSYSTEM

1. Fully fund and strategically use Chattanooga's **Housing Trust Fund (HTF).**
2. Adopt a new **public land disposition** policy and process.
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INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES

1. Support **LIHTC development** by providing gap financing, engaging with the state, and streamlining local approvals.
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EXPAND ACCESS TO HOMEOWNERSHIP AND PROTECT EXISTING HOMEOWNERS

1. Increase available **down payment assistance (DPA)** provided to potential homebuyers.
2. Consolidate and streamline **owner-occupied repair (OOR) programs** to increase impact.
3. Improve **zoning** to allow for **soft density** in single-family neighborhoods**, building code, and related policies** to increase the supply and reduce the cost of new for-sale homes.
4. Provide best practice examples and standard plans for Accessory Dwelling Units (ADUs) and engage lenders to expand **construction financing.**
5. Expand **the availability of home improvement and purchase mortgages** from traditional lenders.
6. Encourage large companies to provide support for **employer-assisted housing.**

RECOMMENDATIONS

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WORK TO MAKE HOMELESSNESS RARE, BRIEF, AND NON-RECURRING

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Build the Housing Ecosystem

BUILD THE HOUSING ECOSYSTEM OVERVIEW

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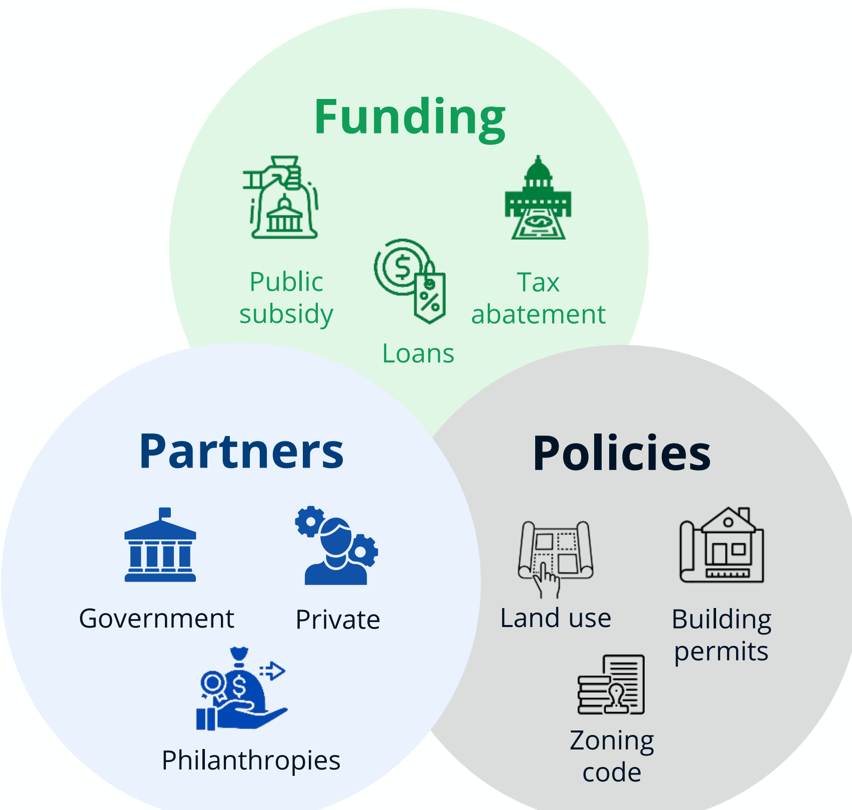
HOUSING ECOSYSTEM



Source: HR&A Advisors, Inc.

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While the City has been deploying resources to scale up its impact, it must increase its local funding to sustain and expand the creation of affordable homes. It is **critical for the City to dedicate a recurring funding stream to capitalize its Housing Trust Fund, CAHF, and establish policies and process to dispose public land for affordable housing development.**

With the City's funding and policy support, its **private and nonprofit sector partners can and should make investments in staff and systems to build their capacity** to deliver and manage affordable housing. Together, dedicated resources, enabling policies, and strong stakeholder partnerships will result in improved affordable housing outcomes.

BUILD THE HOUSING ECOSYSTEM OVERVIEW

Building the capacity of the City's partners is an essential element of effective delivery and management of affordable housing in Chattanooga.

The City is part of a housing ecosystem that relies on partner organizations to implement local housing programs in Chattanooga. Housing programs require the capacity of nonprofit organizations, administrative staff, contractors, construction workers, and more. There are not enough high-capacity partner organizations to implement larger-scale programs in Chattanooga. The City's provision of recurring funding through the HTF will help strengthen its partners including developers, nonprofit organizations, and philanthropies to ensure that together, they can deliver more affordable homes in a timely and efficient manner.

Government

Set affordable housing priorities and policy, and provide funding

Federal government: Provide funding for rental assistance, Low Income Housing Tax Credit (LIHTC), entitlement funds, set Fair Housing policy

State: Allocate LIHTC funds, administer tax-exempt bonds, set some policy

City & County: Dedicate local and entitlement funds to various programs, set land use and building quality regulations, inspect properties, provide other public services that influence housing demand, provide housing vouchers through County Rental Assistance Housing Program (RAHP), if applicable

Public Housing Authorities: Operate public housing and administer federal rental subsidies (vouchers)

Private Partners

Develop and housing, provide financing, and provide community support services

Developers: Acquire land and execute construction of subsidized developments; own or sell rental and homeownership units

Owners: Maintain housing and occupy or lease units

Institutional Investors: Provide equity or debt funding to projects, that are mission-focused but also help to support investor business goals

CDFIs: Provide financing, technical assistance and capacity building for developers

Community-based organizations: Provide organizing and advocacy for tenants and communities

Philanthropies

Influence housing priorities and policy by providing funding for catalytic projects, research, and policy

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

1. Housing Trust Funds are valuable for localities across the country, both as a **tool to leverage local financial resources for affordable housing** and as a means of building local housing capacity.

Context

Housing Trust Funds (HTFs) are restricted accounts under the supervision of a local government that provide funding resources specifically targeted towards local housing needs. They are administered by an independent board or commission.

An HTF **allows local jurisdictions to dedicate money towards a range of local housing programs through a transparent, competitive process.** Local HTFs do not carry the restrictions that accompany federal housing funds. Trust fund money may be directed to partner organizations to **fund a range of programs, including gap financing for affordable housing development, emergency rental assistance, and down payment assistance,** among others.

Localities across the United States have established housing trust funds that span a wide range of funding sources and eligible uses of funds. As federal funding for housing programs has declined nationally, HTFs substitute lost federal funding with local sources.

Local Context

While the City of Chattanooga has successfully utilized public funding to initiate development, rising construction costs and inflated interest rates due in part to the COVID-19 pandemic have required significantly more public subsidy in order to deliver affordable housing. In addition, the City needs flexible funds to supplement federal funding, which are costly to implement and have significant restrictions.

The City established the Chattanooga Affordable Housing Fund (CAHF) in 2019 and capitalized it with City general funds and other local resources. The fund leverages federal, state, and private dollars for the construction and preservation of affordable rental and ownership housing, targeted at households earning up to 120% AMI. The City's Department of Economic Development manages the application process with final approvals being granted by the Health, Educational and Housing Facilities Board (HEB). CAHF was set up to provide $5M in local funding over five years; however, based on recent data from the City, as of 2022, the fund had $2.3M in funding, of which almost $1.5M has been committed.

The most important step the City can take to address housing affordability challenges is to fully fund and strategically use its Housing Trust Fund, the CAHF. The City will need to **identify a source of recurring local funding** to enhance its ability to execute on high priority projects and address gaps in those where federal funds have been allocated. It can also unlock significant amounts of additional funding by allowing private and nonprofit partners to pursue competitive federal housing and philanthropic grants, thereby increasing the impact of local funds. Ongoing, dedicated funding also enables nonprofit organizations, local contractors, and other partners to increase their capacity and scale of impact.

The local HTF would complement the Revolving Loan Fund (RLF) the City is currently structuring. While the latter has one-time resources, the former will need to be funded by recurring sources each year and will enable the City to address its changing housing priorities over time.

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

1. The Housing Trust Fund will **greatly increase the impact of the City's housing programs** and **build capacity in the affordable housing ecosystem.**

Impact

The following elements of Local Housing Funds allow for significant impact:

1. Local Control

HTFs are locally funded and managed, so they are not subject to the restrictions of federal subsidy programs and therefore can be designed specifically to address local priorities and needs.

2. Leverage

Local HTFs can fill the last gap in affordable housing projects and unlock federal, philanthropic, and private funding. A leverage rate of 8:1 is common for an HTF.

3. Flexibility

Local control allows for the flexibility to respond to whatever housing priorities a community sets – access to homeownership, anti-displacement, homelessness services, affordable rental homes, nonprofit ownership etc. Further, the City has the flexibility to negotiate deeper affordability requirements than, say, federal program guidelines, to address its housing priorities.

4. Long-Term Commitment

Local HTFs allow governments to undertake multiyear projects and initiatives. Given that most affordable housing challenges cannot be solved in a short amount of time, longer-term commitments are essential for impact.

5. Capacity

The City of Chattanooga often relies on community partners to develop or execute almost all affordable housing programs they fund. Predictable and ongoing funding enables community partners to plan for and build their capacity to execute programs. With a clear expectation for financial support, existing nonprofit and development partners can make investments in staff and systems, while organizations operating outside of the City can be attracted and new community partners established.

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

1. The Housing Trust Fund will support the City's existing housing ecosystem while **maintaining flexibility to adapt to new housing needs and policy goals over time.**

Recommendations

The City should fully fund and deploy the Chattanooga Affordable Housing Fund (CAHF), taking the following two key first steps:

1. **Prepare an implementation plan for the Housing Trust Fund.** The City should seek to answer the following questions when preparing a recommended approach for the HTF, which are explored in greater detail in the body of this report:

   - **Policy Goals:** What housing needs or policy objectives will the Fund support and advance? How will success be measured?
   - **Eligible Activities:** What uses or types of programs will be eligible to apply for and receive funding through the Fund?
   - **Funding Sources:** What local funding sources can be dedicated to finance the Fund? What scale of funding will be available?

   Preliminary recommendations to each of these questions are included in the HAP. However, significant additional analysis and evaluation are needed before such decisions, such as how much funding and from what sources, are made.

2. **Adopt the recommendation and (re)launch the HTF.** Once the strategic planning is completed, it will take time to identify revenue sources, develop governance policies, adopt bylaws, draft procurement documents for awarding grants and loans, to capitalize the fund with public money, and other administrative tasks.

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

1. The **City should identify policy goals** for the Housing Trust Fund, establishing priorities for improving rental affordability and access to homeownership opportunities.

Recommendations, continued

Policy Goals: What housing needs or policy objectives will the Fund support and advance? How will success be measured?

Provide support to improve rental affordability and expand access to resources for new and existing homeowners.

HR&A's Housing Needs Assessment (HNA) conducted as part of the HAP established a clear need for both more quality affordable rental homes and access to affordable homeownership.

Allocate funding to address the needs of households across the income spectrum.

The HNA revealed that 60% of renter households making less than $35K (approx. 50% AMI for a four-person household) are cost burdened but those making up to $50K (approx. 60% AMI for a four-person household) are also beginning to be challenged by rental affordability. On the homeownership side, households earning <$100K (>120% AMI for a four-person household) are facing increasing challenges accessing homeownership. The need is great and runs the range from <50% up to 120% AMI for renters and homeowners in Chattanooga. The City's goal re: targeting should be reevaluated each year by a non-voting advisory board that provides feedback on the policy direction.

Prioritize funding local capacity and ownership.

The City should focus on partnerships that build the capacity of local organizations and allow them to retain control of any property built with locally governed deed restrictions. The City can more successfully leverage and expand its committed network of local partners by allocating consistent pools of funding that they can reference when planning investments in staff and systems.

Maximize the leverage ratio of limited local funding.

Leveraging federal, state, philanthropic funding, and private financing to increase the impact of the HTF should be a high policy priority for the City of Chattanooga. Even a large HTF can only be successful if it leverages outside funds at a high rate.

Eligible Activities: What uses or types of programs will be eligible to apply for and receive funding through the Fund?

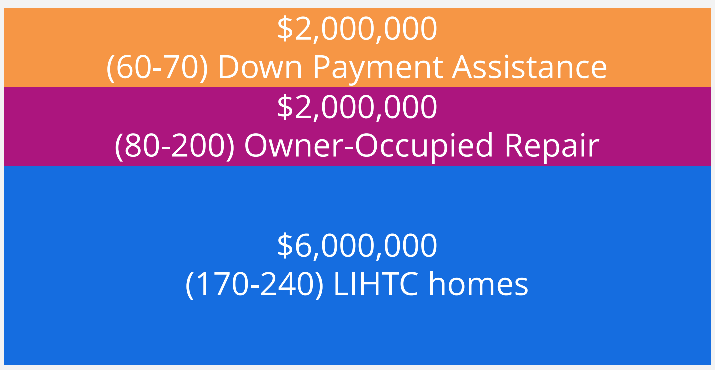
Eligible activities may be updated or changed over time to accommodate shifting local needs and priorities. To maximize its impact over time, the HTF should have the flexibility to support a range of needs to improve housing stability and affordability for residents, and to support pathways to homeownership. The Fund should scale up existing programs, and add new programs recommended in the HAP. Local partners should be eligible to apply for funding from the HTF through a competitive process. The City currently operates its housing programs almost entirely with federal entitlement funds, which provide a modest amount of funding. A local HTF would expand eligible activities and increase impact.

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

1. An annual $10M commitment to the Housing Trust Fund could support existing and expanded affordable housing programs, resulting in the construction and rehabilitation of 300 to 500 affordable homes per year.

Recommendations, continued

Example: $10M Annual Budget



An example annual HTF commitment of $10M (including the City's existing $2.4M federal entitlement funds, which are subject to greater regulations) could support a variety of affordable housing program goals. A $10M commitment could support the construction and rehabilitation of **300 to 500 affordable homes per year.**

Note: Only part of the annual CDBG allocation is used for housing programs. The exact breakdown of federal vs local funds in the HTF will differ from the projected $2.4M and $7.6M based on available funding and other specifics.

Funding Sources: What local funding sources can be dedicated to the HTF? What scale of funding will be available?

The City of Chattanooga must **annually allocate dollars to the Housing Trust Fund through its appropriations process** using a combination of various sources, outlined below. It is expected that funding will increase over time.

1. **Allocate existing dollars from the general budget.** During the annual appropriations process, the City may transfer a portion of the general budget into the HTF.

   - *Benefits:* less administrative and legal burden than adjusting taxes.
   - *Drawbacks:* must be appropriated annually and therefore do not provide consistent and predictable funding for multi-year initiatives.

2. **Create new funding sources.** The City of Chattanooga has two options to generate additional funding that can be allocated from the general budget into the CAHF.

   A) Increase the rate of an existing fee or tax.

   - *Benefits:* somewhat improved public support; infrastructure for collecting the fee or tax already in place.
   - *Drawbacks:* potential legal hurdles; public resistance; possibility of reaching a limit on increases to the point where it becomes burdensome for taxpayers.

   B) Levy a new fee or tax.

   - *Benefits:* can establish a clear connection between the new fee or tax and housing goals.
   - *Drawbacks:* potential legal hurdles; administrative complexity; public resistance.

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

1. The City must **identify and evaluate possible funding sources** for the Housing Trust Fund and lead their adoption and deployment.

Recommendations, continued

3. **Allocate non-tax-based revenue.** The City of Chattanooga has latitude to allocate non-tax-based revenue including land sales, in-lieu fees, and investment income within the City's control.

- *Benefits:* does not require diverting funds from revenue sources from the general budget; averts legal and political challenges of increasing taxes.
- *Drawbacks:* not a large, ongoing source of funding; more useful for augmenting funds allocated from the general budget.

4. **Leverage Philanthropic Funding.** The City of Chattanooga can enlist the support of businesses, philanthropies, and other private donors to match the funds they commit.

- *Benefits:* can be a significant source of revenue.
- *Drawbacks:* cannot be relied upon for consistent and ongoing funding.

To increase the general budget, the City may increase existing fees or taxes, introduce new fees or taxes directly related to housing, or enhance non-tax-based revenues such as investment income; however, determining the most suitable sources should be done in adherence to Tennessee law, and through coordination with the relevant authorities managing the City's finances. Communicating the benefits and drawbacks of different funding sources to the public, especially when considering increasing taxes, will be essential for receiving public support to assemble and deploy the HTF.

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

1. Housing Trust Funds have demonstrated the capacity, in cities large and small, to target multiple affordable housing priorities simultaneously.

Case Study | Knoxville Affordable Housing Fund (KAHF)

Knoxville's HTF has evolved to address a broad range of affordable housing activities since it was first incorporated in 1993. Originally formed as the Knoxville Housing Trust Fund (HTF), it provided funds for single-family rehab and new construction and was administered by the East Tennessee Foundation. As Knoxville's need for more affordable rental housing became apparent, the City created the Affordable Rental Development Fund (ARDF) in 2017. The ARDF was designed to support the construction of new, multifamily rental housing, with the option to use funds to support permanent supportive housing (PSH) as well.

In 2021, the City created the Knoxville Affordable Housing Fund (KAHF), funded directly from Knoxville's General Fund with no additional sources. Under the new ordinance, KAHF is designed to house both the HTF and ARDF and serve as the entity that supports public housing gap financing and Knoxville's Choice Neighborhoods program. The Fund is also enabled to support future tools, such as community land trusts. The KAHF's enabling ordinance created a funding mandate, with Knoxville being obligated to **allocate at least $5M per year for ten years, totaling a $50M funding commitment through 2031**. However, the City of Knoxville can opt to allocate more than the mandated $5M per year; **in FY23, Knoxville allocated $8.57M** for the KAHF.

	Knoxville Affordable Housing Fund (KAHF) FY23 Budget: $8.57M		
	Housing Trust Fund FY23 Budget: $0.2M	**Affordable Rental Development Fund** FY23 Budget: $2.5M	**PHA RAD Gap Financing & Choice Neighborhoods** FY23 Budget: $5.8M
Activities Supported	• New construction and rehabilitation of single-family homes • Homebuyer counseling and downpayment assistance	• New construction of 5+ unit rental housing • Affordable rental or Permanent Supportive Housing eligible • Maximum of $30K subsidy per unit	• Transforming Western (a Choice Neighborhoods recipient) • First Austin (a redevelopment of a public housing property) • Funds support both affordable housing and infrastructure
Impact	• 135 households served in FY22 (FY23 data not yet available) • Limited to households at 80% AMI	• Between 2017 and 2021, City invested $14.2M and supported 1,049 units • Limited to households at 100% AMI	• $4.2M for Transforming Western in FY23; $26.5M over a multiyear span • $1.6M for First Austin in FY23; $14.1M over a four-year span

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BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

2. The City should adopt a **public land disposition policy** that prioritizes the creation of affordable housing and utilize its Land Bank Authority to return parcels in tax foreclosure to the market as homes.

Context

Public land disposition is a tool that can improve affordability in a community by **selling or leasing public land at a below market price to subsidize the housing development costs.** A public land disposition policy is a process and set of criteria established by a local government to select and sell or lease parcels of publicly controlled land at below market prices (sometimes free) to improve affordability. The reduced land price lowers the cost of development and allows for lower rents, or sale prices, and therefore greater affordability.

Local Context

Chattanooga currently does not have a functioning public land disposition policy or process. However, through the Chattanooga Land Bank Authority, the City has the ability to flexibly dispose of land bank inventory for any purpose, such as alignment with community needs and neighborhood priorities like affordable housing. Formed in 2015, the Land Bank has yet to conduct any land banking activities but could be employed as a partner for future public land dispositions.

The **City is currently putting together the Chattanooga Redevelopment Framework,** "a cross-departmental, cross-agency approach to effectively and efficiently leverage publicly and privately held assets for job creation, affordable housing, neighborhood amenities and revenue generation by partnering with the Land Bank to fully activate and utilize their legislative powers."

Impact

Public land disposition can support affordable housing development both by providing control of a piece of land to develop affordable homes on, or by reducing the cost to develop by discounting the price of the land.

The sale or lease of public land is a valuable tool because it reduces the cost of land and therefore total development costs for housing developers. The high cost of land poses a significant barrier to producing affordable housing, which can account for up to 10% of total development costs regionally. Because housing is expensive to build and maintain, dollars saved on land acquisition can help affordable housing developments move forward.

Available Public Land in Chattanooga

The impact of a public land disposition policy is constrained by the availability of developable lots, which can be limited in more well-developed areas of the city. The City's existing portfolio of developable land for affordable housing is limited, with the majority unsuitable for residential development. The City owns approximately 140 unused/ underused potentially developable parcels totaling ~60 acres. Initial assessments show that there are only 4 sizable parcels (>0.5 acres) that could be sites for multifamily housing developments (50+ units) and a few smaller sites for residential infill, if they meet site selection criteria such as floodplain requirements, topography, and environmental contamination standards. An effective program could deliver 15-100 affordable homes per year, with decreasing production as the number of suitable sites diminish.

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

2. Chattanooga should create a public land disposition policy that includes a **broad, well-studied portfolio of publicly owned land and follows a defined selection process.**

Recommendations

1. **Include a broad portfolio of publicly-controlled land.**
   - **Leverage inventory of land** to understand availability and barriers. Public land encompasses land owned by the federal government, the State, County, City, and public agencies such as the housing authority, school district etc. The City should build upon the existing inventory of City land to assess additional types of public land but start with the land it has direct control over, such as City-owned land.
   - When defining uses, the City should **look for alignment in land ownership and the population that land could serve**. For example, the City could build affordable housing that benefits teachers or students experiencing homelessness on school land.
   - **Prioritize high-value sites** in desirable (or target) areas.
   - **Sort public land for different purposes** – smaller parcels are fit for single-family development and larger sites are fit for multi-family development. Those pieces of land will need different disposition processes.
   - **Not all pieces of public land are good fits for affordable housing.** Most sites aren't because they are already being used or aren't located in good places to live (e.g., environmentally toxic land or land with steep slopes). Filtering for these conditions can quickly yield a feasible portfolio.
   - The following criteria describe a process the City could use to evaluate whether a property is suitable for affordable housing, filtering first by **physical feasibility** and then by **alignment with policy priorities**.

Filtering process	Potential Criteria
(1) Physical feasibility of site	Lot size; built area; floodplain; topography; utility connections; and access; among others
(2) Alignment with policy priorities	Proximity to existing residential and commercial uses, transit, and basic services; zoning; market strength; LIHTC eligibility; location in high-opportunity areas; etc.

2. **Follow a defined selection process.**
   - **The selection process should be clear and simple** enough to attract a broad range of developers and competitive proposals.
     - A competitive request for proposals (RFP) process should be used to dispose of properties under the public land disposition policy for affordable housing.
     - As part of the RFP, the City should require detailed financial projections for the proposed development.
     - The City will review the financial projections to evaluate the level of discount necessary and which proposals maximize public benefits.
   - **Public benefits and affordability goals must be detailed and specific.** For example, the policy can specify that at least 20% of the units will be affordable to households making up to 60% AMI.

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

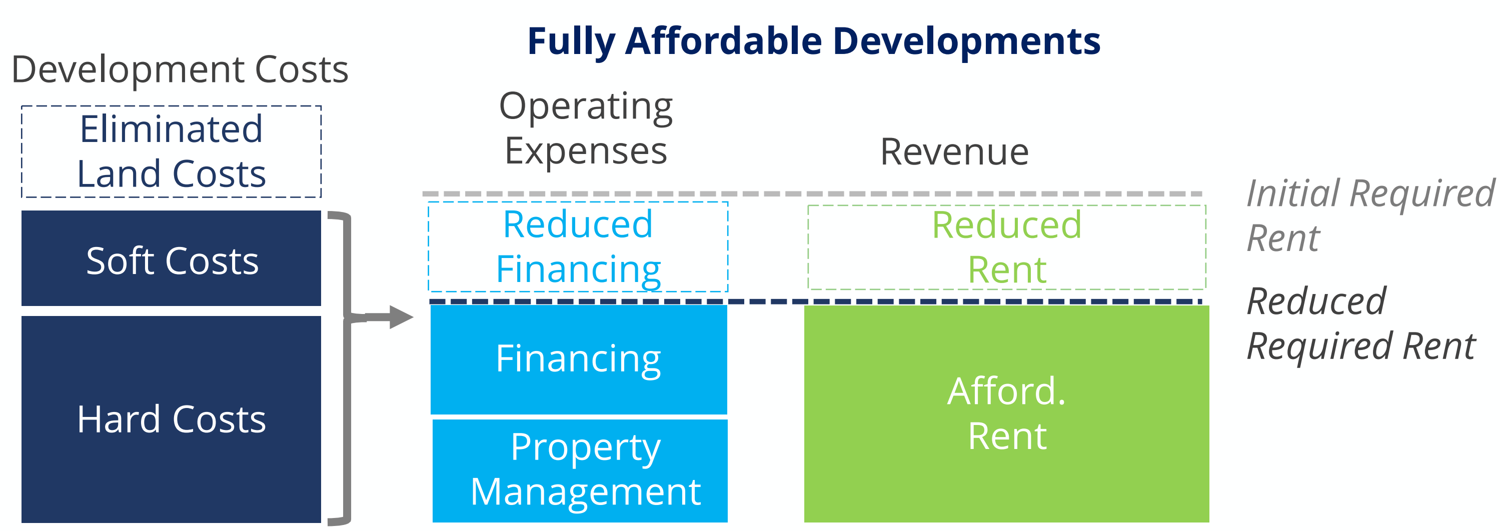
2. Public land disposition **should maximize land value** to create more affordable units, subsidizing fully affordable and mixed-income developments.

Recommendations

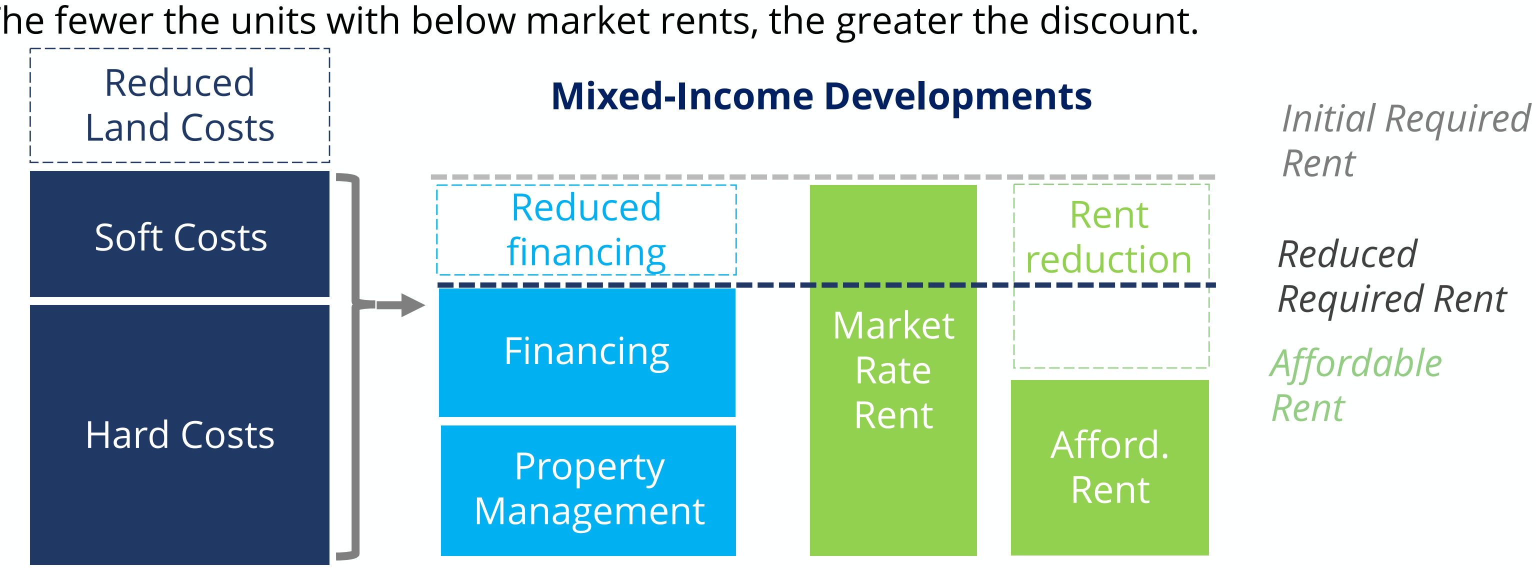
3. **Maximize land value to create more affordable units.**
    - High value sites that can support market rate development should be used for mixed income housing in order to generate the most revenue and value for the City to cross subsidize affordable units.
    - Public land is a good fit for LIHTC development because it leverages other funding sources. The City should evaluate if any of the publicly owned parcels work for LIHTC development.

How It Works

A requirement that 100% of the units be affordable creates more units with below market rents but lowers the rents by a smaller amount. To reach rents that are affordable to households with low incomes, other housing tools such as tax abatement or public financing (Low-Income Housing Tax Credits, etc.) should be combined with the discounted sale of public land.



If a public land policy allows for mixed-income development, the subsidy from the discounted land can be targeted to fewer units and those units can have significantly lower rents. The fewer the units with below market rents, the greater the discount.



BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

2. Public land disposition policies and processes have been **used successfully in other cities to support affordable housing and related City housing priorities.**

Case Study | Montgomery County, MD, Public Land Disposition Policy

Policy: Montgomery County, MD, has supported the development of mixed-income housing on County-owned land since the 1980s. Legislation passed in 2013 requires the County to evaluate the feasibility of including a “significant amount” of affordable housing in proposed capital improvement projects, including an assessment of the site’s proximity to public transit and other community services. Targets for co-location of affordable housing include public facilities such as libraries, recreation centers, and transit stations.

Example: In 2016, a new mixed-use, mixed-income development with affordable senior housing opened next to a new County library and a future light rail station. The $44M project is financed with 4% LIHTC and tax-exempt bonds. Capital One is the LIHTC investor, and Enterprise Community Investment syndicated the housing credits (~$12.5M). The state of Maryland issued $22M of short-term bonds. The team used the tax-exempt bonds during construction and then turned to a long-term Federal Housing Administration (FHA) loan.

The Bonifant at Silver Spring features 149 mixed-income units, almost all affordable: 15 units are reserved for seniors 62 years and older making <30% AMI, 43 units for residents making <50% AMI; and 81 units for those making <60% AMI. 10 units have no income restrictions.

Case Study | City of Norfolk Public Land Disposition Policy

Public land parcels are **properties the City of Norfolk acquired that:**

- Have nuisance abatement liens or delinquent tax liens;
- Are assessed at $50K or less;
- Delinquent taxes exceed 25% of the assessment; and/or
- The sum of delinquent taxes and liens exceed five percent of the assessment

Norfolk then leverages these properties to **support affordable single-family infill**. Program objectives include:

- Recover delinquent taxes
- Reduce the number of non-conforming policies
- Increase SF housing
- Enhance safety and quality of neighborhoods
- Reduce number of abandoned properties

Before

Purchase Price: $27,200

Purchase Price: $38,600

After

Sale Price: $199,000

Sale Price: $239,900

Sources: Affordable Housing Finance (2016), City of Norfolk

3. Tax increment financing (TIF) allows the City to fund projects that enhance property values by leveraging future tax revenues in defined areas.

Context

Tax Increment Financing (TIF) is a **funding mechanism wherein a local government uses anticipated future increases in tax revenue to finance current improvements, such as new or improved infrastructure.** With a traditional TIF, a local government establishes a district and borrows funds to pay for public improvements required to enable private development in the district. The debt (project development financing bonds) is secured by and repaid from the incremental property tax revenue associated with the private development.

TIF laws vary by jurisdiction, but several cities, counties, and states now include development or preservation of housing as part of the public infrastructure to be supported by a TIF district.

Local Context

Although State law permits low- or moderate-income housing as an eligible project to be funded with TIF revenue, the City of Chattanooga's TIF legislation explicitly rules out TIF use for housing development ("residential or multifamily housing facilities"). At present, this means that City law is more restrictive than State law with respect to TIF utilization for housing.

Impact

A TIF policy that permits housing can support the City of Chattanooga's housing goals in several ways:

- **Increasing the production of affordable housing** through TIF for developments including mixed-income or units with deeper affordability;
- **Supporting fiscal sustainability** by providing stronger incentive for infill development and sharing investments costs between taxing entities; and
- **Creating vibrant and dynamic communities** by supporting infill development with added density or public amenities.

Recommendations

The City should **modify existing TIF statutes to align with the State's TIF policy, enabling the City's IDB to finance housing projects and related activities** through its existing and future TIF districts. In so doing, the City should also define specific parameters around the use of TIF funding for affordable housing. Based on a review of jurisdictions around the country, there are several possible approaches:

- Some cities authorize a range of uses for TIF revenue, including affordable housing, but do not specify or require a minimum percentage of revenue to be used for this purpose. Such an approach is less effective in creating affordable housing than one which specifies the minimum percentage of TIF revenue to be used.

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

3. The City should align its TIF policy with that of the State and include an affordable housing set-aside to help meet its housing goals.

Recommendations, continued

- Some cities require an affordable housing set-aside as part of new housing developments receiving TIF funding. For example, since 2005, the City of Dallas requires that 20% of all housing receiving TIF funding must be set aside for families earning less than 80% AMI for a period of 15 years.
- Finally, some states permit the creation of affordable housing TIF districts intended solely to support the development and financing of new affordable housing, such as the Affordable Housing Tax Increment Financing (AHTIF) Program in Maine.

Once the City's TIF laws are amended, it should consider the following steps to maximize achievement of its housing goals:

1. **Identify specific neighborhoods** that meet State and local standards and are likely to experience rising property values that could be tapped to create or preserve affordable housing. The City could consider delineating priority investment areas and establish criteria moving forward to guide location of new TIFs in areas that will maximize public and private investment.
2. **Determine the specific activities that will be supported.** These could include homeownership or rental gap assistance, gap financing for new construction, acquisition and rehabilitation, and/or preservation of affordable housing. Recognizing that housing needs shift over time, the City could consider allowing several types of activities.
3. **Determine the duration of the TIF district.** Because TIF supports development in areas where property values are expected to increase, affordability terms should be for the longest possible duration, say, 15 or 20 years.

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

3. Dallas' TIF policy has **led to the creation of more than 2,000 affordable housing units** to date (affordable to families earning less than 80% AMI).

Case Study | Dallas Tax Increment Financing Policy

Under Texas state law, only cities or counties can initiate TIF districts or TIF projects, rather than entities such as public housing agencies or industrial development boards. Texas law puts some constraints on the types of TIF districts that cities may draw; TIF districts, in most cases, must demonstrate substandard or deteriorating property values, and may not be more than 30% residential (excluding public land). However, **state law also allows for a broad range of uses for TIF funds, spanning housing, commercial development, hotel construction, and infrastructural improvements.**

Within the City of Dallas, 21 TIF districts have been established since 1988, with 19 remaining currently active. TIF funds are contributed by both the City of Dallas and Dallas County. TIF districts, at present, span a considerable portion of the Dallas urban core, with a mix of districts in downtown, neighborhoods adjacent to downtown, and peripheral neighborhoods.

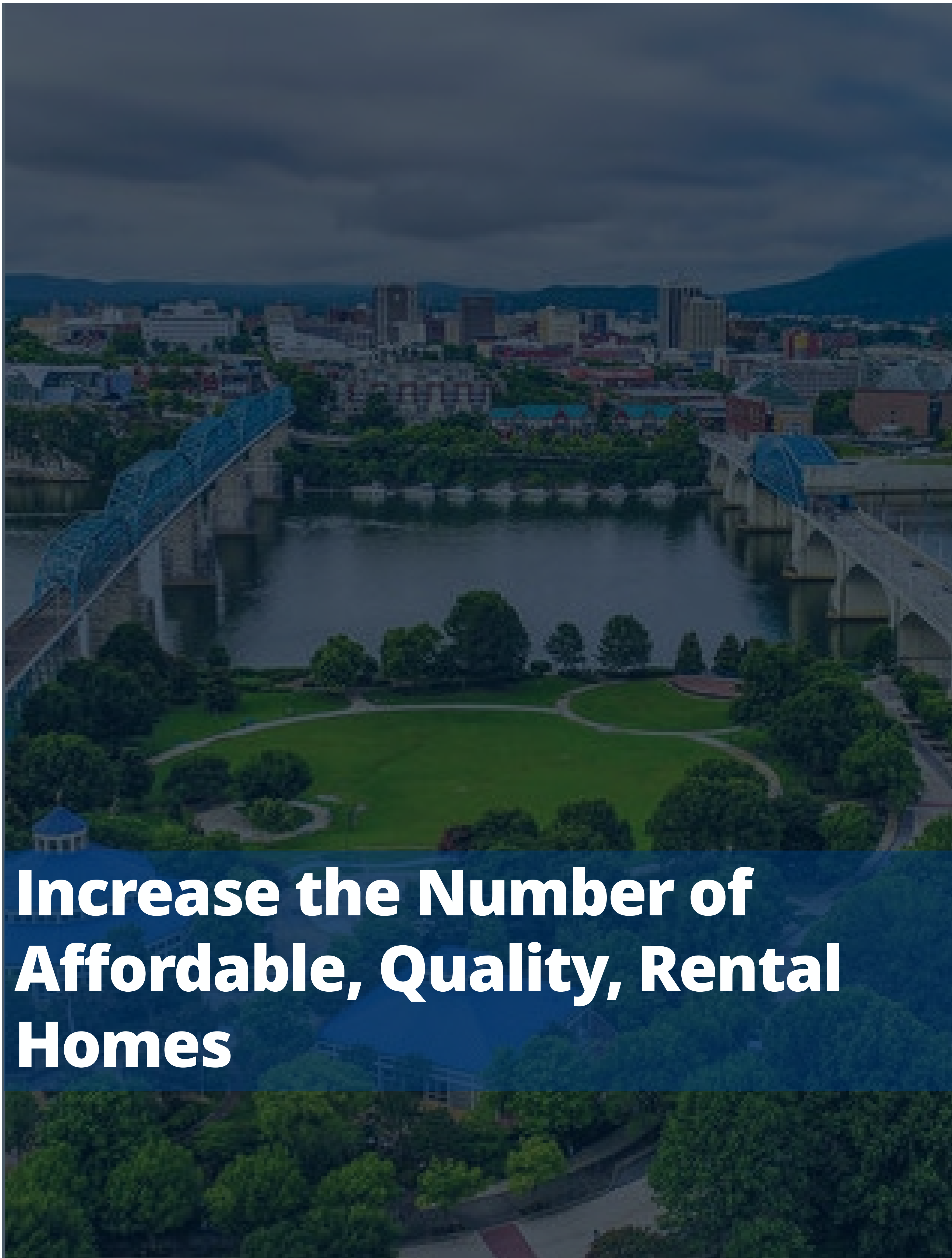
Since 2005, newly created or amended TIF districts in Dallas include an affordable housing set-aside, requiring 20% of all housing receiving TIF funding to be set aside for households earning 80% AMI or below and to remain affordable for 15 years.

The Mayflower in Dallas, utilizing TIF financing, contains 215 units of housing, 43 of which are affordable.

The City's TIF program has helped finance more than two thousand affordable housing units over several decades. Individual housing projects may feature a higher share of affordable units, and earlier TIF districts tend to have lower affordability requirements (ranging from 0 to 10%). In fiscal year 2022, seven development projects using nearly $170 million of TIF funds were approved citywide, resulting in the planned construction of 1,671 housing units, an estimated 412 of these being affordable units. Over the life of the Dallas TIF program, more than 15,000 housing units have been built using TIF funds, more than 2,100 of these being affordable to households earning 80% of AMI or below. Individual development projects frequently rely on additional subsidies or incentives beyond local TIF funding (as was the case for 4 of the 7 approved development projects in 2022).

A 2018 housing plan for the City of Dallas identified a shortage of 20,000 housing units across a wide range of households (30% AMI to 120% AMI). To help address this shortage, the plan set goals of producing 2,933 rental units annually, with 733 of these units being affordable to households earning between 61 and 80% AMI. **The City's TIF program is a valuable tool in meeting its ongoing housing goals: by financing 412 units in this income range during fiscal year 2022, TIF funds helped meet 56% of the City's annual production goal for households between 61 and 80% of AMI.**

Sources: City of Dallas Economic Development Division, 2022 Annual Report Summary; City of Dallas Department of Housing and Neighborhood Revitalization Comprehensive Housing Policy.



Increase the Number of Affordable, Quality, Rental Homes

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES OVERVIEW

The City of Chattanooga should provide funding and policy support to increase the development of new affordable rental homes and preserve those that already exist.

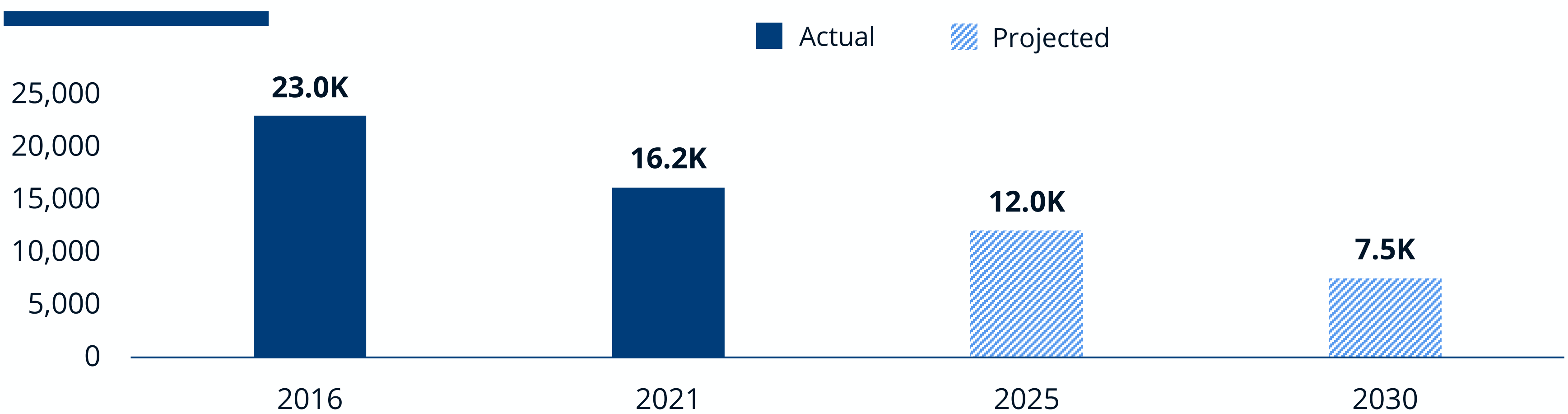
Recommendations

1. Support **LIHTC development** by providing gap financing, engaging with the state, and streamlining local approvals.
2. Reform the **PILOT program** to increase citywide affordable housing supply.
3. Launch **Revolving Loan Fund (RLF)** to provide acquisition and long-term financing to preserve existing affordable rental homes.

Chattanooga has invested its federal entitlement dollars into affordable rental housing for lower-income households for many years. The City has historically provided gap financing to Low-Income Housing Tax Credit (LIHTC) developments with federal funds, but there is no streamlined process. It also runs a payment-in-lieu-of-taxes (PILOT) program, but it needs to be restructured to increase the incentive for housing development for greater impact.

Chattanooga's increasingly competitive rental housing market has led to increased cost burdens on renters. Low-income renters are particularly at risk of displacement as fewer and fewer affordable rental options remain; the **number of rental homes renting below $875 has fallen from 107 to 90 for every 100 households over the last 5 years.**

RENTAL HOMES AFFORDABLE TO HOUSEHOLDS MAKING <$35K
(2016, 2021, 2030)



Source(s): ACS 2016 and 2021 5-Year Estimates, HR&A Analysis

It will be **critical for the City to continue to subsidize rental housing production and preservation.** To encourage new construction, the City should support LIHTC development and reform its PILOT program. To preserve existing affordable rental housing, the City should launch a Revolving Loan Fund that can provide quick strike financing for the acquisition and rehabilitation of naturally occurring and subsidized housing.

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

1. The City should **support LIHTC development by providing gap financing and streamlining local approvals,** among other local support.

Context

The Low-Income Housing Tax Credit (LIHTC) program is the primary means of creating new affordable homes and replacing those that are falling into disrepair. There is no other program that achieves the same scale as LIHTC, and it does so at a lower per unit cost than most other programs. The LIHTC is a federal program administered at the state level and is responsible for creating approximately **90% of all new affordable rental homes nationwide**. The program leverages public dollars in the form of credits on federal income taxes in exchange for investments in the construction or preservation of affordable housing.

There are two types of LIHTC: 9%, which provides greater federal subsidy but is highly competitive; and 4%, which provides less federal subsidy but is not as competitive. LIHTC projects can provide rental affordability to households that earn 30-80% of Area Median Income (AMI); for a family of four in Chattanooga, this ranges from roughly $24,000 to $64,000 a year for a four-person household (HUD 2023 data).

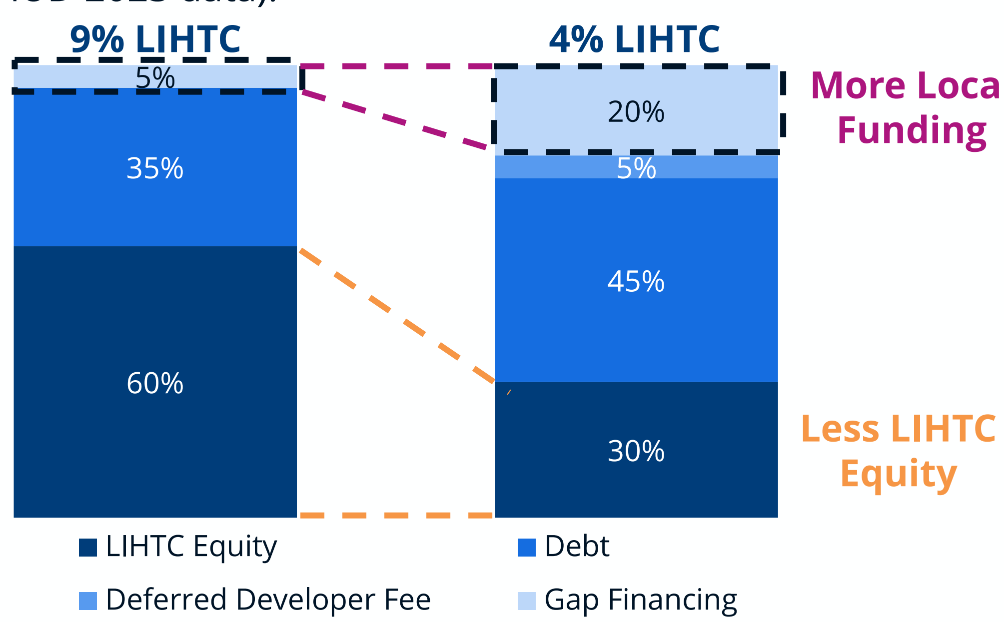
9% LIHTC

- **Competitive**, with projects scored according to guidance set forth by state housing finance agency
- **Cover 50%-60%** of development costs

4% LIHTC

- **Less/Non-competitive**, available by right to eligible projects
- Cover **30%-40%** of development costs, and paired with **tax-exempt bonds**[1]

[1] Tax exempt bonds are a form of funding provided by local governments and other public agencies.



Local Context

Chattanooga has approximately 2,350 LIHTC units across 25 active properties citywide. This is less than other similarly sized cities in Tennessee; Knoxville, roughly equal to Chattanooga in population, has 5,733 active LIHTC units across 55 properties. Two key factors have hindered LIHTC development in Chattanooga:

(1) Projects have not been competitive under the State's Qualified Allocation Plan (QAP); and

(2) Inadequate local support (funding and unpredictable PILOT process) has made fewer projects financially feasible.

Together, these two factors have stunted the capacity of local nonprofit developers and stymied larger, regional developers' (for-profit and nonprofit) interest in building affordable housing in Chattanooga.

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

1. By providing gap financing for LIHTC projects, the City could leverage up to 10x its commitment to support new affordable rental housing.

Context (continued)

The Tennessee Housing Development Agency (THDA) determines the regulations and scoring system for LIHTC projects through an annual review of the Qualified Allocation Plan (QAP). Historically, 9% LIHTC new construction in Tennessee has largely been allocated according to the County Needs Score. **In most years over the last two decades, Knox County has finished with a higher County Needs Score than Hamilton, driving much of the disparity in 9% development. From 2007 to 2018, Hamilton County received two 9% LIHTC awards; Knox County received 13.** However, in recent years, awards have been more balanced between the two counties. Nevertheless, in 2023, Knox County finishes with a Needs Score of 17.36 out of 20, while Hamilton County scores at 16.32.

The single most effective way local governments can support LIHTC development is by providing local support. Local funding increases the feasibility of a project, ensuring it has the necessary funds to move forward in a timely manner. Further, LIHTC projects need to have land secured to viably move forward. The City of Chattanooga does not deploy enough local dollars to provide much-needed local gap funding for LIHTC development, and finding quality land that is affordable is a big challenge that developers face. Finally, the unpredictable process to obtain the PILOT benefit puts Chattanooga's developers at a disadvantage compared to those in other Tennessee cities that have streamlined and predictable PILOT processes.

Impact

LIHTC remains the primary means of creating new affordable homes and replacing affordable homes that are falling into disrepair. By supporting LIHTC development, the City of Chattanooga can increase the supply of high-quality affordable rental housing citywide. **Dedicating $6M a year in gap financing to LIHTC through the City's Housing Trust Fund over ten years would support the creation of 1,700-2,400 homes**. This assumes a gap subsidy of $25-35K per home (there are no Chattanooga LIHTC comps to refer to, so this is based on development costs from comparable markets).

Providing gap financing for LIHTC projects leverages local dollars, increasing the impact of public investment. **For every dollar invested in LIHTC financing, the City could leverage approximately $8-10 to support new affordable rental homes.**

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

1. Supporting LIHTC development will take coordination between multiple City of Chattanooga divisions, THDA, developers, and other stakeholders.

Recommendations

The City of Chattanooga should work with THDA to modify the regulations and scoring criteria in the State QAP, key among which are:

- **Fewer overall points for the County Needs Score,** which could potentially improve Chattanooga's competitiveness vis-à-vis Knoxville.
- **Award points for local gap financing,** as is the case in Georgia.
- **Emphasis on new construction over rehabilitation for 9% LIHTC awards.**

Until the State QAP parameters are modified, the best way for the City to support LIHTC development is to provide local support for 4% projects.

- The City should **make gap financing available annually through a competitive process via the Housing Trust Fund,** with a target of funding one project every year.
- The Chief Housing Officer/ Housing Division should **establish a transparent and competitive process** for reviewing applications to increase the efficiency of the use of public funds (e.g., decreasing the average subsidy per home) and to meet policy targets (e.g., producing more 30% AMI homes than are required by the QAP).
- **Build Chief Housing Officer/ Housing Division capacity** to assess proposals and ensure public dollars are maximizing public benefit by training or hiring staff or contracting with subject matter experts.
- The City should **prioritize synchronizing its PILOT approval process with that of the County's** to help save LIHTC developers time and money and reduce the risk of deals stalling. In addition to developing two PILOT tracks – one for LIHTC and another for mixed-income projects – the City and County are considering streamlining the PILOT application process to ease the process for applicants (see PILOT recommendation on pages 43-45).
- The Chief Housing Officer/ Housing Division should **engage regularly with developers** to identify and address ongoing barriers.
- The Chief Housing Officer/ Housing Division and the Chattanooga Land Bank Authority should **identify available public land to support LIHTC development** (see public land disposition recommendation on pages 29-31).
- The City of Chattanooga should **consider allowing the Revolving Loan Fund to acquire land and buildings** for LIHTC projects.
- The Chief Housing Officer/ Housing Division should **negotiate extended affordability periods** for projects, moving towards permanent (99-year) affordability.

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

1. Engaging with THDA to modify QAP scoring criteria and providing gap financing are the foremost and most impactful steps to supporting LIHTC.

Implementation

Lead
Chattanooga Chief Housing Officer
Mayor's Office

Partners
LIHTC developers
Regional Planning Agency
Chattanooga Land Bank Authority
Tennessee Housing Development Agency (THDA)
Hamilton County Health, Education, and Facilities Board (HEB)

Timeframe
Near-term (6-9 months)

Funding Needs
$25K to $35K per rental home (there are no Chattanooga LIHTC comps to refer to, so this is based on development costs from comparable markets)

Funding needs per home will decrease as the LIHTC market matures and the Chief Housing Officer/ Housing Division set a competitive and rigorous underwriting process for projects.

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

1. LIHTC projects in Tennessee depend on **gap financing to improve feasibility and move forward in a timely manner.**

Case Study | Dickerson Flats, Nashville

Woodbine Community Organization is a Nashville-based CHDO with a 30-year track record of developing and preserving affordable housing. Prior to developing Dickerson Flats, Woodbine had a portfolio of 1,750 affordable units. As a nonprofit, Woodbine competed for LIHTC 9% credits under the Nonprofit Set-Aside in the Tennessee QAP, which is not impacted by the County Needs Score.

Dickerson Flats received a commitment of $1.3M from MDHA, using HOME funds, and $1M from Nashville's Barnes Fund (the City's HTF). Taken together, local sources constituted roughly 7% of the overall capital stack. By deploying $2.3M, Nashville effectively expended $13,600 per unit in a project that cost $185,000 per unit, **leveraging 13.5 times their commitment**.

Dickerson Flats Overview

- **Affordable Units:** 167
- **Completion:** TBD
- **Financing Sources:** LIHTC (THDA), Bank Loan, FHLB, Amazon, Local Gap Funds (MDHA and Barnes Fund)
- **Affordability:** 117 units at 60% AMI, 20 units at 50% AMI, 30 units at 30% AMI
- **Local Public Subsidy per Unit:** $13,623

Sources for Dickerson Flats

LIHTC 9% Equity $11.6M	Funding awarded by THDA through Nonprofit Set-Aside
Senior Mortgage $10.7M	Traditional Loan
Other Sources $3.6M	FHLB and Amazon Support
Developer $2.3M	Deferred payment to the developer
Gap Financing $2.3M	**Barnes Fund and MDHA**

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

2. The City should **reform the PILOT program,** including creating a separate track to incentivize affordable housing units in mixed-income developments.

Context

A PILOT ("Payment in Lieu of Taxes") allows for an agreement between a housing development and local government, such that the development receives a property tax abatement, but makes a reduced payment annually in lieu of property taxes. Tax abatement is designed to improve a property's cash flow and do one or both of the following:

(i) enable deeper levels of affordability, and

(ii) spur additional housing developments, expanding city-wide supply.

Local Context

Chattanooga has utilized housing PILOTs since City legislation first authorized them in 2002. The City has since modified its PILOT parameters twice. **In 2014, the City passed an ordinance to grant PILOTs only to developments in which 20% of units would be affordable to households earning 80% of the Area Median Income (AMI) or below.** In the year following this update, the PILOT program supported four new properties totaling 479 units (96 of which were affordable).

In **2016**, however, the City passed another ordinance substantially modifying housing PILOTs, **requiring that 50% of units be affordable to households earning 80% AMI or below.** To achieve this depth of affordability, PILOTs are infeasible without additional housing subsidy. As a result, over the last seven years, 7 of the 8 projects that have received the PILOT tax benefit are those that are partially financed with LIHTC.

Developers submit applications to the Chief Housing Officer/ Housing Division, who reviews and scores the application within 30 days. If deemed feasible, the Housing Division advances the application to City Council and the Hamilton County Commission. Should both bodies approve the application, the project then moves to the Hamilton County Health, Education, and Housing Facilities Board (HEB) for final approval. Under the current legislation, **the PILOT freezes City and County General Fund taxes at pre-development values, while the developer makes payments equal to the property's Schools' Fund tax obligations.**

Other Tennessee cities have streamlined and predictable processes to obtain PILOTs, that enhance their chances of obtaining federal tax credits. However, getting a PILOT in Chattanooga is an unpredictable and lengthy process, requiring separate application and approval processes at City and County level, which in turn hurts projects' chances of getting federal LIHTC awards.

By making the PILOT process faster and more predictable, the City of Chattanooga can better leverage the program to increase the production of affordable homes. Additionally, a second track for mixed-income properties would boost affordable housing production beyond those on the current LIHTC track.

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

2. A reformed two-track PILOT program can galvanize additional affordable housing supply, while continuing to support LIHTC development.

Impact

While LIHTC development has a positive impact on the supply of affordable housing, the need for affordable housing in Chattanooga exceeds what can be provided by the program. **A PILOT track for mixed-income, market-rate developments will help create affordable units that may otherwise not exist thereby increasing the overall supply.** The City's 2014 modification to the PILOT program supported the development of 96 80% AMI units as part of four market-rate developments (with a total of 480 units). Since the subsequent revision in 2016, the PILOT program has supported nearly 1,000 units with pre-existing federal housing subsidies (principally, LIHTC credits), with another 270 approved but under construction or not yet started construction.

A second track of the City's PILOT, if calibrated properly, can spur the production of additional units. A combined $1M in annual PILOT expenses, split between the City and County under this **second track, can support roughly 50-100 units affordable at 50-80% AMI**.

Recommendations

To complement the existing PILOT program and incentivize the creation of affordable housing that would not have existed otherwise, the City of Chattanooga should modify and expand the program as follows:

(i) Streamline the process and terms for PILOT awards to federally subsidized properties; and

(ii) Create a new track to award PILOTs to mixed-income developments that include affordable rental housing for low- and moderate-income households.

Given the importance of maximizing the impact of tax dollars, the new track should target deep levels of affordability (50–60% AMI) that are otherwise difficult to achieve without significant subsidy. This imperative must be balanced against the fact that this is a voluntary program and therefore, should result in a **positive cash flow to the property while meeting the City's goals of deep(er) affordability.** Depending on key factors such as project location, market rents, project size, and unit mix, the new PILOT track could support the creation of units affordable at or below 50–80% AMI.

Regardless of affordability levels, the new PILOT track should be paired with other support such as soft funding, infrastructure cost waivers, or expedited development approvals. The table below outlines the parameters for the proposed two-track PILOT program.

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

2. The mixed-income PILOT track, requiring 20% of units at 50 **and** 60% AMI or 30% of units at 80% AMI, **will help achieve deeper affordability than the 2014 policy while still providing cash flow surplus to developers.**

Recommendations (continued)

<table>
<tr><th colspan="3">A New, Two-Track PILOT Program for Chattanooga</th></tr>
<tr><th></th><th>Track 1: LIHTC properties</th><th>Track 2: Mixed-income properties</th></tr>
<tr><td>Eligible Properties</td><td>• New Construction or rehabilitation
• Within City limits
• Must be receiving LIHTC**</td><td>• New Construction or rehabilitation
• Within City limits
• Must not be receiving LIHTC
• Could be receiving HOME, CDBG, or other soft funding</td></tr>
<tr><td>Improvement required</td><td colspan="2">• Value of rehab must amount to at least 60% of pre-improvement appraised value</td></tr>
<tr><td>Depth and Length of Abatement</td><td colspan="2">• Taxes frozen at pre-development values
• 100% abatement of City and County taxes (excl. school taxes) for up to 15 years
• Abatement steps down 20% every year for four years after the PILOT period lapses (Year 15) with the property phasing into full taxation in Year 20.</td></tr>
<tr><td>Length of Mandated Affordability</td><td colspan="2">• 15 years</td></tr>
<tr><td>Payment</td><td colspan="2">• Equivalent to Hamilton County Schools’ tax amount owed, as currently assessed, plus property tax pre-development</td></tr>
<tr><td>Required Affordable Units</td><td>• 50% of units affordable at 60% AMI</td><td>• 10% of units affordable at 50% AMI and 10% of units affordable at 60% AMI
OR
• 30% of units affordable at 80% AMI</td></tr>
<tr><td>Approval Process</td><td colspan="2">• Rolling applications. Proposal reviewed by Chief Housing Officer/ Housing Division. HEB, City Council, and Hamilton County Commission must approve concurrently.
• Construction must begin within two years of final approval.</td></tr>
<tr><td>Fees</td><td colspan="2">• $3,500 application fee; closing fee of $15,000 due to HEB</td></tr>
<tr><td>Compliance</td><td>• LIHTC properties monitored by THDA</td><td>• Annual monitoring by Housing Division</td></tr>
<tr><td colspan="3">**For projects that receive lower levels of funding, the 50% requirement and the level of abatement can be adjusted.</td></tr>
</table>

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

2. Nashville's mixed-income PILOT track, passed in May 2022, has already begun to spur additional housing production.

Case Study | Metro Nashville Housing PILOT

In Tennessee, tax assessors assess LIHTC properties including the monetary value of the federal tax credit on the property; these added taxes make PILOTs on LIHTC properties extremely important. In 2015, after a year-long effort, the Tennessee State legislature authorized local housing authorities to grant PILOTs to LIHTC properties. In the case of Nashville, this authority fell to the Metro Development and Housing Agency (MDHA). Prior to May 2022, Nashville's only active housing PILOTs were granted through MDHA to LIHTC properties; state statute held that MDHA could not negotiate PILOTs on its own.

A June 2021 report by Nashville's Affordable Housing Task Force (AHTF) identified a need for Nashville to create roughly 45,000 new housing units affordable to households at or below 80% of AMI by 2031. To create additional units to meet this goal, the Task Force recommended that the City authorize a PILOT program for mixed-income projects not concurrently receiving LIHTC. Under 2022 Ordinance #1170, Metro Nashville authorized the creation of this mixed-income PILOT program.

Properties seeking a PILOT submit an application to the Housing Division of the Mayor's Office, who then recommends approval to the County's Health, Education, and Housing Facilities Board (HEF). In Nashville, mixed-income PILOTs can select from three available tiers of tax abatement and corresponding levels of affordability.

	Track 1: LIHTC Developments	Track 2: Mixed-Income Developments
Eligible Properties	LIHTC only	Properties not concurrently receiving LIHTC credits
Administration	MDHA; Metro Council grants final approval	Housing, Education, and Health Facilities Board
Abatement and Affordability	Negotiated with LIHTC developers, 10-year terms; affordability terms governed by LIHTC	Three tiers of abatement/affordability: **Tier 1**: 70-80% of taxes abated; 20% of units affordable at 50% AMI, OR 40% of units affordable at 75% AMI **Tier 2**: 65% of taxes abated; 10% of units affordable at 50% AMI, AND 15% of units affordable at 75% AMI **Tier 3**: 60% of taxes abated; 30% of units affordable at 75% AMI
Impact	18 active properties totalling 4,129 units as of May 2023.	As of November 2022, 1 mixed-income property totaling 250 units, and preliminary approval to an additional 4 properties totaling 917 units. All five properties have opted for Tier 1, building 40% of units at 75% AMI.

Sources: HUD Policy Development & Research, MDHA, Nashville Metro Council, Nashville Mayor's AHTF

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

3. The City should create a **Revolving Loan Fund (RLF) that leverages private, philanthropic, and mission-motivated capital to acquire, preserve, and rehabilitate affordable rental homes.**

Context

A Revolving Loan Fund is a **dedicated pool of capital used to acquire and rehabilitate existing affordable housing.** It can be established by a local government in partnership with philanthropic and mission-oriented investors or lending institutions to provide low-cost flexible short-term or long-term financing products to acquire, preserve, and rehabilitate a rental property in exchange for maintaining affordable rents.

While experienced affordable housing developers may be able to access acquisition financing through bank partners or community development financial institutions (CDFIs), these capital sources typically only provide loans for 75-80% of project cost, leaving developers with a gap to be filled. Developers must either seek support from public sector partners, which can take time, or deploy their own limited funds. Affordable housing developers, particularly nonprofits, are generally thinly capitalized, and the acquisition of a building or a site can tie up the bulk of their resources, leaving them unable to respond to other opportunities that may arise until those funds are released. These capital constraints make it challenging for them to preserve existing affordable rental properties when they come to market.

Local context

There are approximately 16,000 affordable homes in Chattanooga, but the City does not have a fund to preserve these homes. Ensuring these homes remain affordable is one of the most effective ways the City can address housing affordability, because any efforts in developing new affordable homes will be canceled out if Chattanooga loses existing affordable homes at the same rate.

Impact

Preserving affordable housing is a cost-effective and necessary means of protecting community infrastructure and tenants facing the threat of displacement. The cost to preserve an existing affordable home tends to be far lower than the cost to develop new affordable housing. Therefore, **preservation of existing units is necessary to prevent the housing gap from increasing even further.** Typically, acquisition costs for NOAH are 25-30% less than for new construction.

Displacement Prevention in Targeted Locations

Preservation efforts can be targeted in neighborhoods where rents are rising quickly and residents are being priced out of their community

Populations Served

Preservation can serve the affordability needs of Chattanoogans making under 80% AMI with the ability to target deeper affordability for a portion of the units

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

3. Establishing and maintaining a RLF is a long-term strategy that **requires specific housing investment criteria and regional partnerships.**

Recommendations

1. **The City should allocate between $10M-$20M with the goal of leveraging $40M-$80M in private mission-motivated investment, for a total fund of $50M-$100M.**
    - Establish the level of public sector involvement and mission-driven structure.
    - Select a nonprofit community lending institution to structure, administer, and manage the fund.
2. **The City should conduct a competitive process to select a strong partner to manage the fund or co-lend with (ongoing).**
    - Release a clear request-for-proposal (RFP), evaluate responses from lending institutions, and then identify a partner lending institution.
3. **The fund should offer three products that can be accessed separately or combined:**
    - <u>Quick Strike Acquisition Financing:</u> Offers eligible borrowers short-term financing for the pre-development and acquisition of occupied multi-family properties.
    - <u>Long-Term Preservation Financing:</u> Offers eligible borrowers long-term financing for acquisition and/or rehabilitation.
    - <u>Long-Term Preservation Financing for Rehabilitation:</u> Offers eligible borrowers long-term financing for rehabilitation of existing multi-family properties or acquisition with a modest rehabilitation component.
4. **The Fund should target properties where there is the highest risk of losing affordable homes, either to higher rents or poor conditions.**
    - Determine the types of deed-restricted and unrestricted NOAH properties the fund wants to target (e.g., small and midsized rental buildings that are at risk of higher rents and vulnerable to being purchased by investors and converted into more expensive housing).
    - Target preservation in neighborhoods with high displacement pressure.
    - Target NOAH and subsidized housing that cannot access traditional funding sources such as LIHTC like smaller multifamily buildings.
5. **The City should require long-term affordability commitments and preference mission-based ownership to support stewardship of affordable housing units.**
    - Establish 30+ year affordability requirements on affordable units.
    - Prioritize funds for affordable housing developers with a successful track record who are interested and capable of executing a preservation development model.

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

3. Establishing and maintaining a RLF is a long-term strategy that requires specific housing investment criteria and regional partnerships.

Implementation

NEAR-TERM STEPS (COMPLETED)

- Meet with local affordable housing developers to gather additional input on the scale and terms required for the fund to be successful
- Meet with local banks and CDFIs to gauge their interest and willingness to participate
- Dedicate a portion of funding to support the launch of the Fund
- Issue a Request for Proposals for a fund administrator and negotiate a fund agreement

MEDIUM TO LONGER-TERM STEPS

- Publicize the new loan product(s) to affordable housing developers
- Monitor deployment of loan funds and adjust loan parameters as needed with fund administrator
- Conduct outreach to potential partners to expand the fund to other investors

Leads

1) Chief Housing Officer/ Housing Division
2) Fund Administrator

Partners

1) Philanthropic and mission-motivated investors
2) Borrowers (e.g., affordable housing developers)

Quick Strike Acquisition and Preservation Financing Distinction

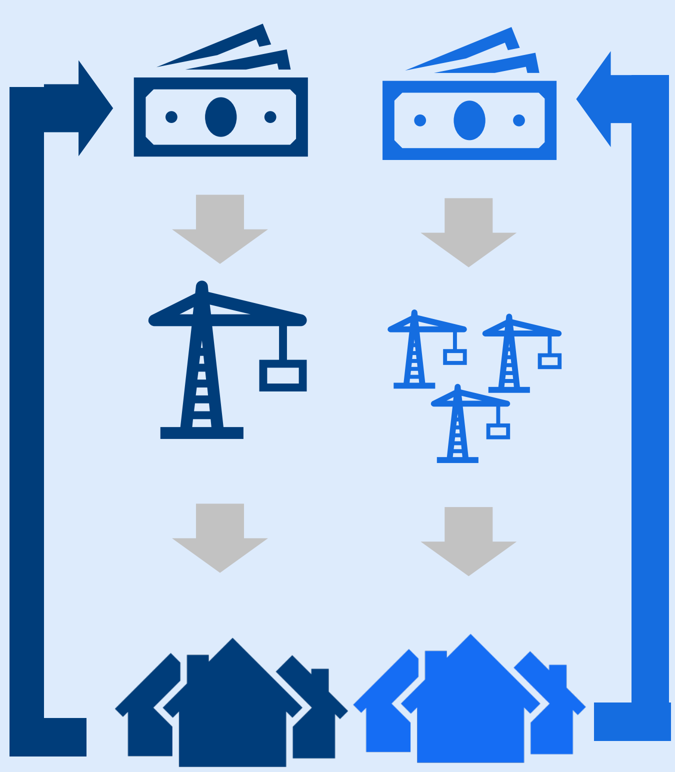
RLFs can comprise of short-term 'quick strike' products and/or longer-term preservation loan products. The former allows a developer to move quickly and flexibly to acquire properties while the latter provides long-term financing to set up affordable properties for long-term financial stability and success. The two case studies – DC and Minnesota – are examples of RLFs that provide one type of product (unlike the proposed Chattanooga RLF that will provide multiple products).

ACQUISITION LOAN

A short–term loan (2-4) years is made to a developer to purchase a piece of land or existing building.

The developer prepares the property for development or refinance.

The property is developed or refinanced, and permanent funding is committed. In most cases, the City will need to provide permanent financing in the form of a grant or cash flow loan.



PRESERVATION LOAN

A long-term (15+ year) loan is made to acquire and rehabilitate, or just rehabilitate as appropriate.

The affordability of the rental homes is preserved, and payments are made on the loan.

At the end of the loan term (20+ years) the loan is repaid or rolled over.

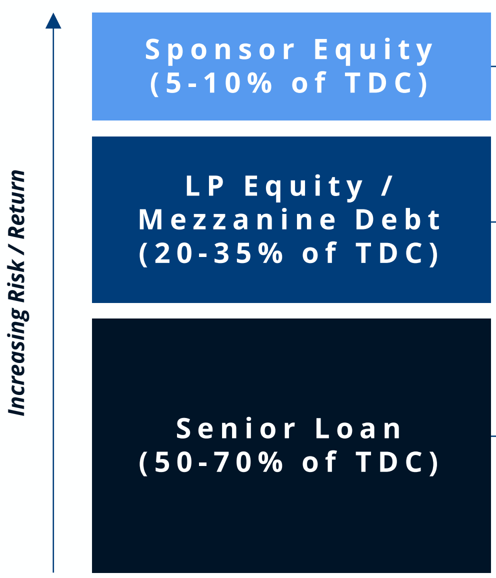
INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES RECOMMENDATIONS

3. RLF preservation loans are longer-term loans to acquire or rehabilitate existing naturally occurring and subsidized affordable housing in order to preserve affordability.

How It Works

A typical for-sale project capital stack (the financial structure of a real estate deal) combines a construction loan with limited partner (LP) equity or mezzanine debt and sponsor equity.

Typical Project Capital Stack



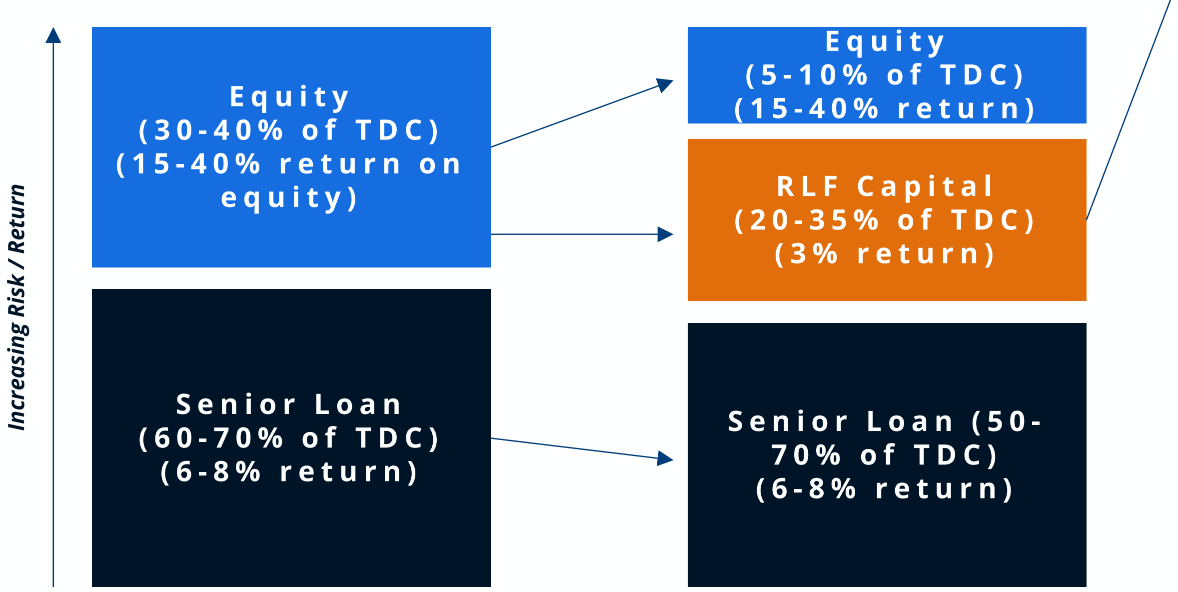
Developer "skin in the game" ensures commitment to the development. Typically, Developer Equity is the first to absorb risk at a loss and is in the highest risk position.

Attracts investment from private construction loans at lower interest rates due to mitigation of risk. Usually comes from "friends and family" for the first few projects as a developer builds in a portfolio.

Most useful in financing the largest portion of the capital stack. Lowest risk position; in the event of foreclosure, proceeds repay construction loans first. Smaller scale for-sale construction lending is typically full recourse and requires personal guarantees.

An RLF preservation loan can replace traditional equity that has significantly higher return requirements. By replacing traditional equity, the RLF loan effectively **lowers the amount of equity return required** by the developer, and the **savings can be passed on** to the end user, **reducing the cost of housing.**

Typical Project Capital Stack | **Capital Stack with Preservation Fund**



RLF Preservation Loan

- Similar interest rate to construction debt, but lower than equity returns
- Impact is dependent on length of time invested and required returns of the capital it is displacing. The longer the project timeline and higher the return requirement, the greater the impact.
- RLF Preservation Loan debt service requirements may reduce size of senior loan.

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES CASE STUDIES

3. DC's RLF provides short-term, low-cost loans to affordable housing developers to acquire and preserve existing affordable rental housing.

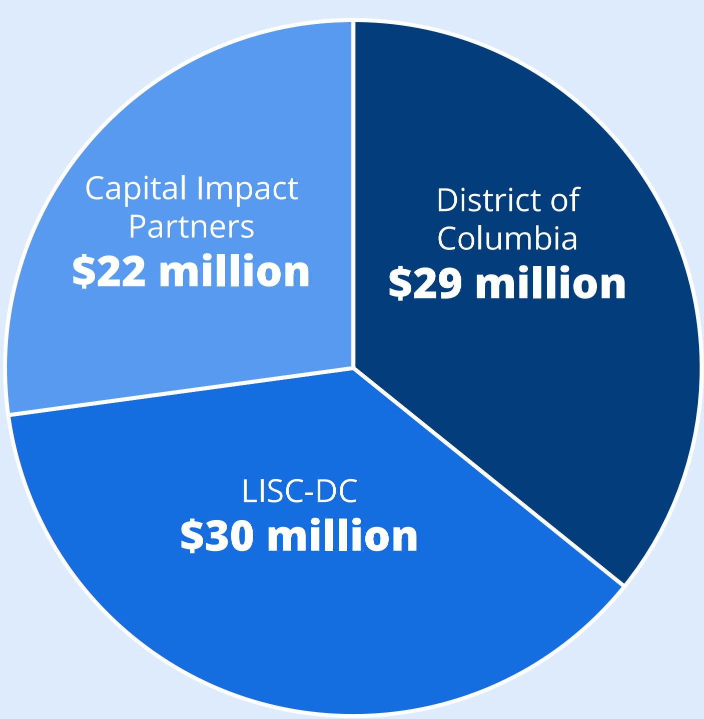
Case Study | DC Housing Affordable Housing Preservation Fund

The DC Housing Preservation Fund was established in 2016 as a public-private preservation fund to help preserve multifamily affordable housing. It consists of **short-term loans for preservation, acquisition, predevelopment, and critical repairs.** The Preservation Fund evolved from the Site Acquisition Financing Initiative, which struggled to be competitive with the private market.

The goal is preserving the affordability of 100% of Washington DC's existing federally and city-assisted affordable rental homes. To do this, the **Preservation Fund offers eligible borrowers short-term financing for the pre-development and acquisition of occupied multi-family properties** in which more than five housing units and half of the households earn up to 80% AMI.

The fund sits with the DC Department of Housing and Community Development (DHCD). There are three managers for the fund: Capital Impact Partners, LISC-DC, and Low Income Investment Fund (LIIF). Each fund manager operates using public fund awards from the DC government combined with private funding from either their own balance sheet or funds which they raise using their relationships.

DC Housing Preservation Fund – Funding Sources



In 2017, the Preservation Fund was initially capitalized with $10 million from the District of Columbia and then LISC-DC and Capital Impact Partners provided additional funding. Since then, the District has provided additional funding for a total of $29 million.

The three fund managers offer slightly different terms but in general **the funding is short term (less than 5 years) and has an interest rate of less than 5%.** After fund raising, the Fund's initial target was to preserve 1,000 homes of their broader preservation goal.

Between March 2018 and January 2020, LISC and CIP exceeded that goal through financing for 15 projects with $63.5 million in funds, preserving 1,367 homes for an average of $46,500 per home.

Since 2019, **approximately $125 million in funds have been deployed to preserve over 2,000 affordable homes.** The Preservation Fund has worked in tandem with the Tenant Opportunity to Purchase Act, which gives multifamily residents the first right of refusal if their building is up for sale, by providing residents acquisition financing helping them take advantage of the program and prevent displacement.

INCREASE THE NUMBER OF AFFORDABLE, QUALITY, RENTAL HOMES CASE STUDIES

3. The Greater Minnesota Housing Fund provides long-term preservation loans to acquire or rehabilitate existing naturally-occurring and subsidized affordable housing in order to preserve affordability.

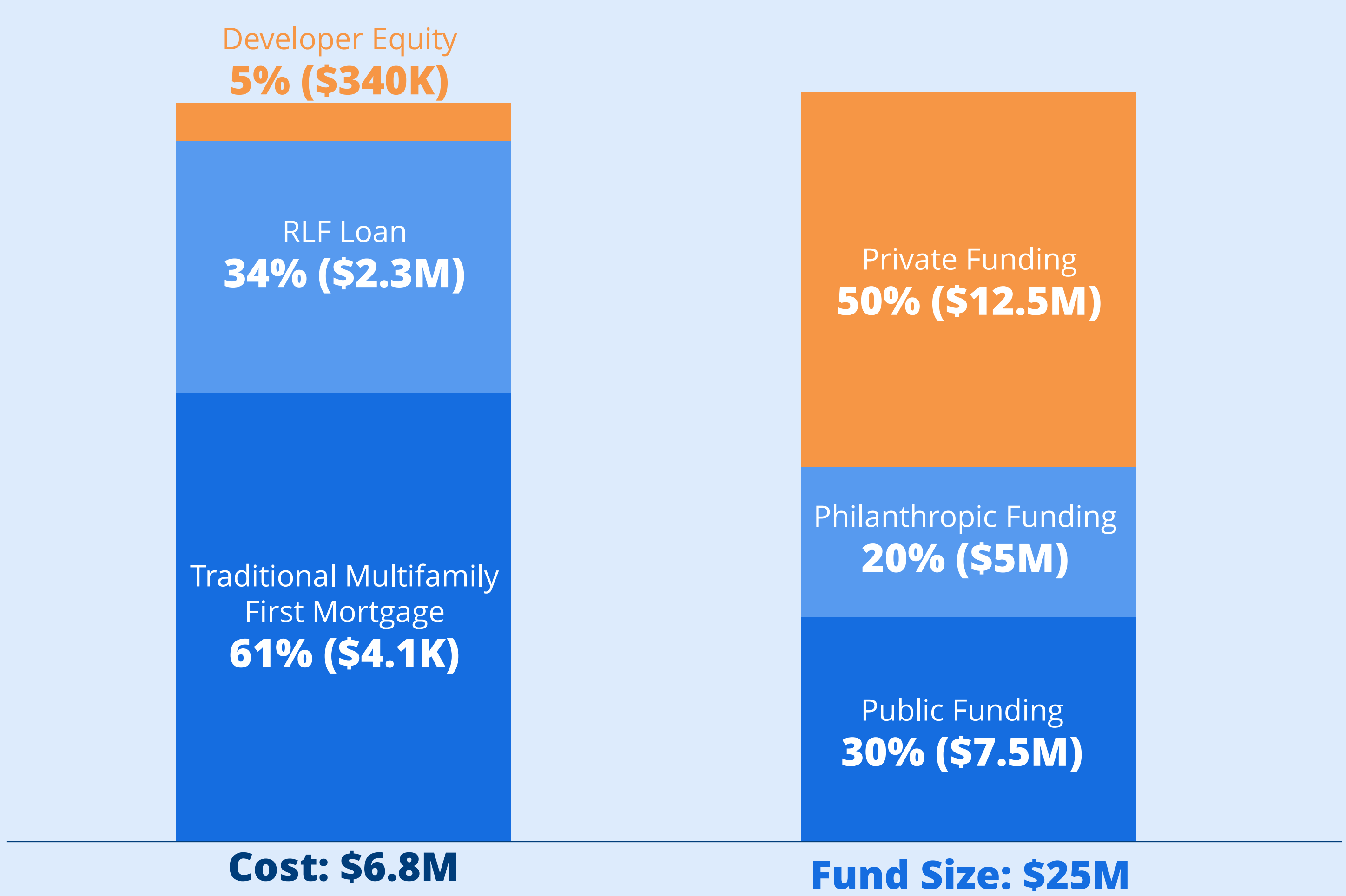
Case Study | Greater Minnesota Housing Fund

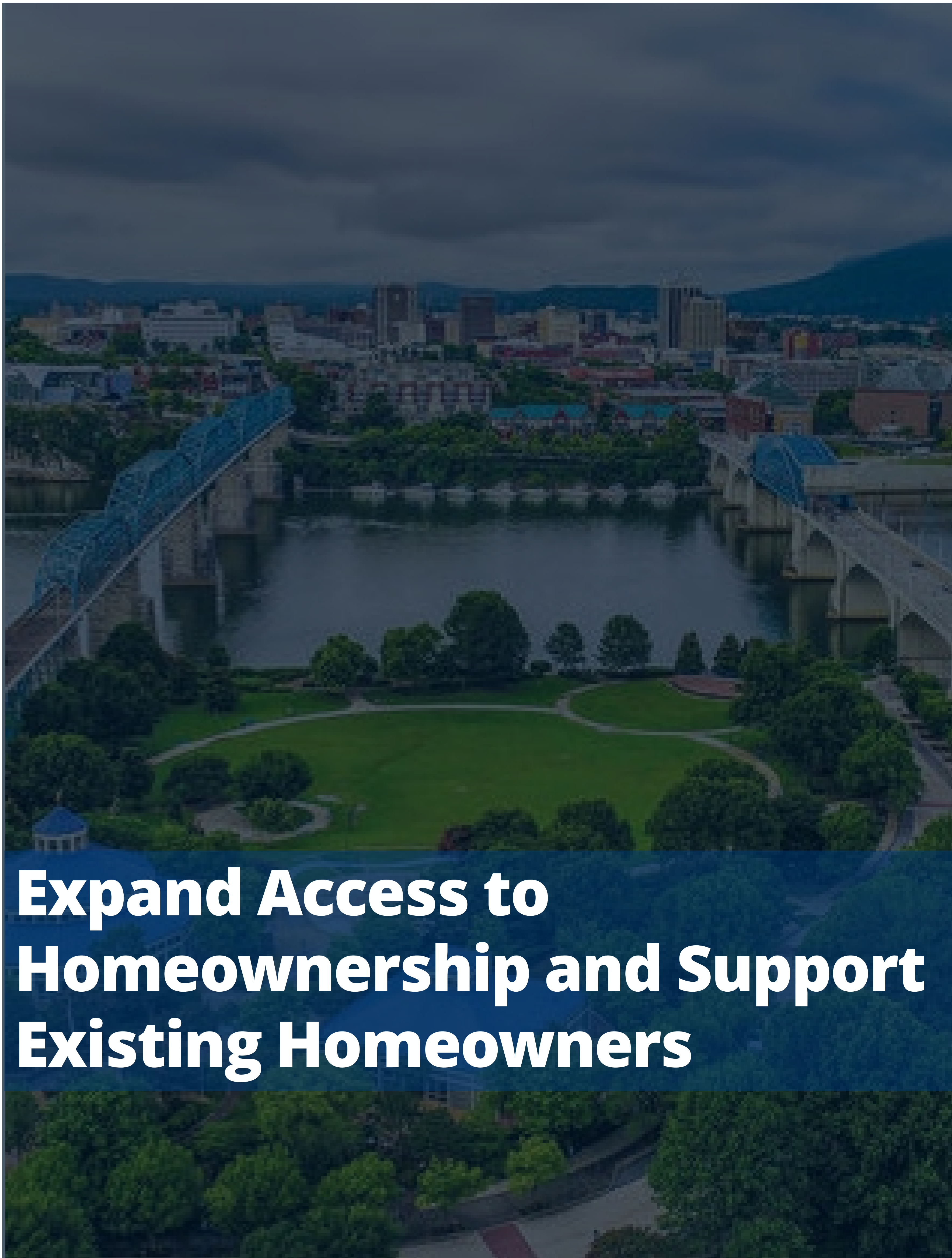
The Greater Minnesota Housing Fund (GMHF), Hennepin County, and other local partners established the $25 million NOAH Impact Fund in response to the loss of naturally occurring affordable housing through demolition, redevelopment, and rent increases throughout the seven county Minneapolis, MN region. The Fund, launched in 2017 provides equity to nonprofit and mission oriented for-profit developers in the region to support **acquisition of unsubsidized, older rental apartments in exchange for offering affordable rents to low-income households (below 80% AMI) for 15 years.** The Fund's investors have established a goal to preserve 10-20 of for sale buildings annually.

The Greater Minnesota Housing Fund serves as the Fund manager while Hennepin County and the McKnight Foundation provided initial investments to the fund. Private financial institutions and local developers are involved as fund investors and fund users, respectively.

The capital stack diagrams below show (1) an example preservation project in Hennepin County, Minnesota and (2) the capital stack used for the Hennepin County Preservation Fund.

SAMPLE GMHF PROJECT | **GMHF CAPITAL STACK**





Expand Access to Homeownership and Support Existing Homeowners

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS OVERVIEW

The City should continue its down payment assistance program, consolidate its owner-occupied repair programs, and explore other tools to improve homeownership opportunities.

Homeownership has become increasingly unattainable for all but higher-income residents. Like in many communities across the nation, housing costs in Chattanooga have risen rapidly since 2020. Over the last decade, the number of homeowners earning <$100K fell by 6,100.

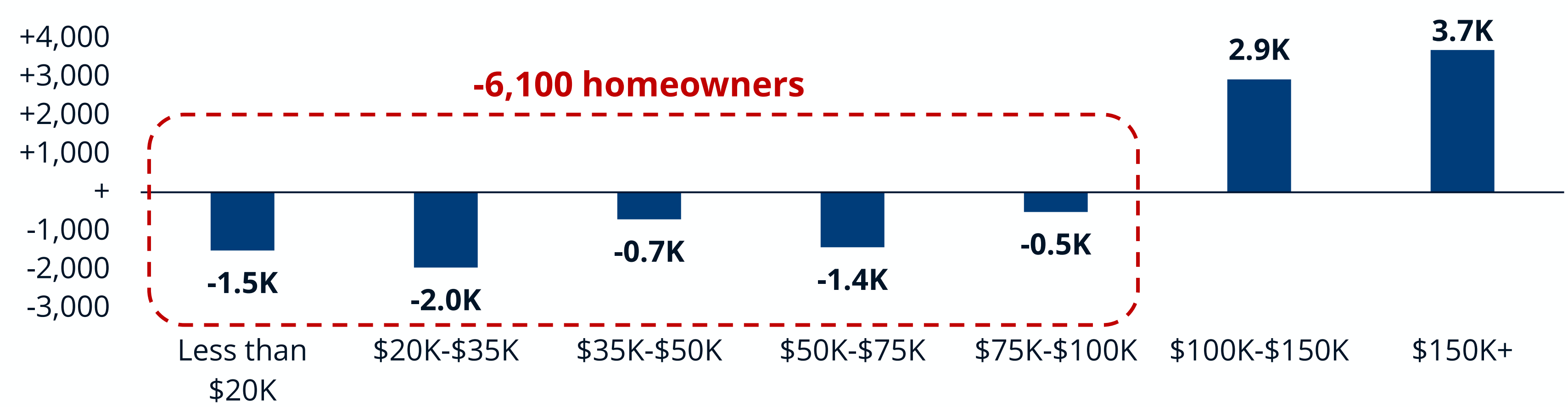
Homeownership remains a **critical way to build wealth,** and access to it is **one way to address income disparities** that have persisted over time.

As home prices continue to rise, **the City and its partners should support households,** particularly those who earn low and moderate-incomes, to access and sustain homeownership.

Recommendations

1. Increase available **down payment assistance (DPA)** provided to potential homebuyers.
2. Consolidate and streamline **owner-occupied repair (OOR) programs** to increase impact.
3. Improve **zoning** to allow for **soft density** in single-family neighborhoods**, building code and related policies** to increase the supply and reduce the cost of new for-sale homes.
4. Provide best practice examples and standard plans for ADUs and engage lenders to expand **construction financing.**
5. Expand **the availability of home improvement and purchase mortgages** from traditional lenders.
6. Encourage large companies to provide support for **employer-assisted housing.**

CHANGE IN HOMEOWNERS BY INCOME (2011-2021)



Source(s): ACS 2011 and 2021 5-Year Estimates, HR&A Analysis

In addition to expanding down payment assistance and consolidating owner-occupied repair programs (which the City is already doing), the City should also consider updating the zoning code to allow for **"soft density"** and provide support to **broaden the impact of its ADU ordinance.** Further, it will be important to **engage private partners** such as lenders to expand the availability of mortgages, especially to underserved populations, and employers to provide down payment assistance.

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

1. The City should **scale up its down payment assistance program** to have a meaningful impact on households' ability to purchase a home.

Context

Down payment assistance (DPA) improves access to homeownership by **reducing the upfront cost of purchasing a home** by providing grants or forgivable loans to income-qualified households to cover a portion of the down payment or closing costs. DPA improves access to affordable homeownership for households that have incomes sufficient to make mortgage payments but lack the assets required for down payment and closing costs. **DPA helps low- and moderate-income households secure stable housing and build wealth.**

DPA is often **paired with homeownership counseling** to provide first-time homebuyers assistance in planning for purchasing a home. This includes budgeting for the full cost of homeownership, including utilities, insurance, and maintenance, to ensure that households are financially prepared. DPA **can also support low-income households to build wealth by accumulating home equity** but does not necessarily preserve the affordability of the home purchased after the homebuyer sells the house.

Local Context

The rising cost of housing in Chattanooga presents a major barrier to access homeownership. For a median priced home at $256,000, a household would need $51,200 for a 20% down payment. While income is an important determinant of homeownership access, the operative constraint for first-time homebuyers is often a lack of household savings to cover upfront costs of purchasing a home. Applicants are also limited by requirements around income levels, creditworthiness, and other metrics of financial readiness.

The City of Chattanooga, through its partnership with CNE, has responded to worsening affordability through the **launch of the new First-Time Homebuyer Grant and Loan Program, effective as of July 2023** (more details in the 'Recommendations' section below).

Source: HR&A analysis using data from Zillow

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

1. Effective down payment assistance programs can **support new homeownership opportunities and wealth-building.**

Impact

Homeownership remains a key means of building and accessing wealth, and disparities in homeownership rates reflect persistent inequities in intergenerational wealth transfers.

Access to DPA programs have the most impact when paired with programs that expand the availability of moderately priced homes, such as soft density zoning. **Effective DPA programs can increase homeownership rates and help low- and moderate-income households build wealth.**

Chattanooga's New First-Time Homebuyer Grant and Loan Program, with an **annual budget of $1M, can serve 30-35 households (assuming a $28-33,000 in assistance per household)** disregarding future inflows of cash from the eventual resale or loan repayment.

Recommendations

Chattanooga's New First-Time Homebuyer Grant and Loan Program provides a higher assistance amount than the previous program, is calibrated based on household income, and pairs assistance with homebuyer counseling. Key program requirements and criteria are provided below for reference.

Assistance amount	• <80% AMI: Second mortgage of up to $50,000 • 80–100% AMI: Second mortgage of up to $40,000
Closing Cost Assistance	• <80% AMI: Up to $10,000 as a grant
Loan Structure/ Forgiveness	• 0% interest, repayment due at resale/ cash-out refinance
Maximum home sale price	• $300,000
Additional Criteria	• Home sale price may not exceed $300,000 • Borrowers must contribute a minimum of $500 • Borrowers must not have owned a home in the past 3 years

To continue and enhance the impact of the new DPA program, the City should also:

- **Explore dedicated additional funding sources** for the DPA and homebuyer counseling programs, once the City's initial commitment runs out. The Housing Trust Fund, which is one of the foremost recommendations of the HAP, could be a potential source.
- **Assess and modify program parameters (if needed) based on program performance** over the next 12 months. For instance, DPA amounts might need to be modified depending on households' ability to pay.
- **Continue proactive outreach** to communities and households that have historically been underserved, such as through the Housing Resource Fairs that City has been conducting.

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

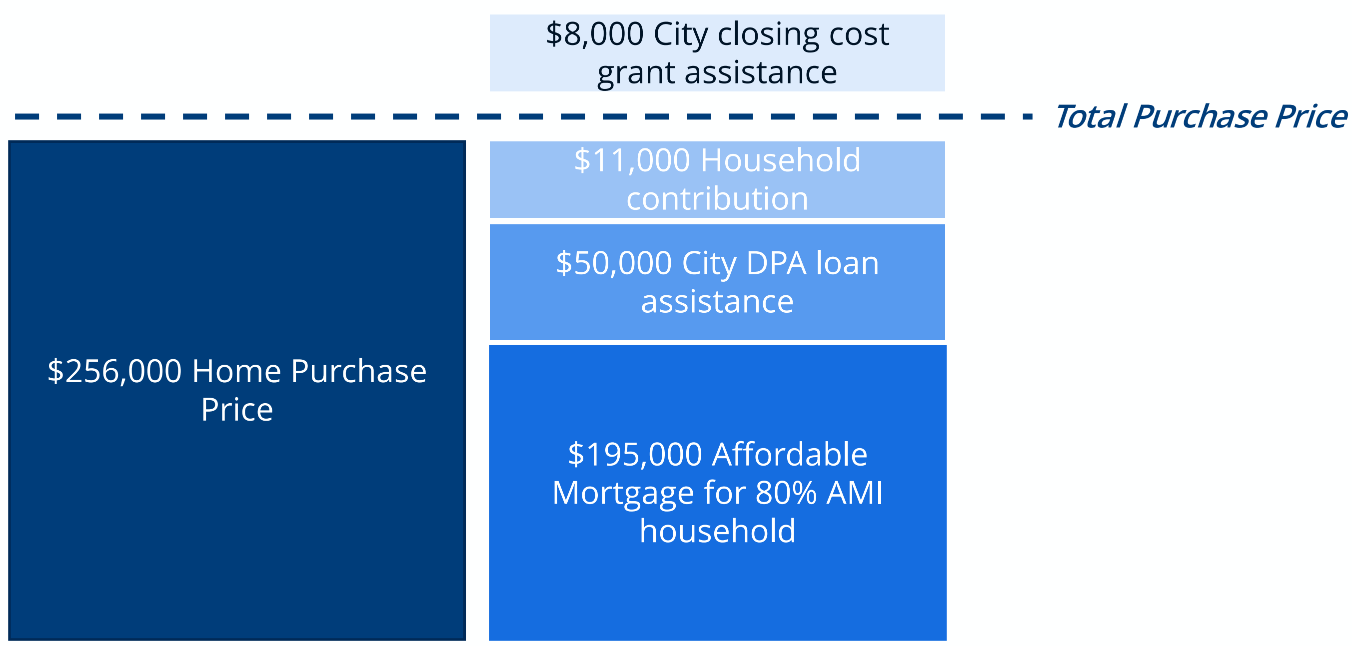
1. The City should **pair DPA with homeowner counseling,** focusing on communities who have historically faced discrimination in mortgage lending.

Implementation

The City, along with CNE, has taken the required action steps necessary to design and launch the new down payment assistance program, with applications already in the pipeline.

The diagram below illustrates a prototypical home purchase loan supported by the new program. Assuming an interest rate of 6.3%, a 4-person household earning 80% of AMI ($63,680) can afford a conventional mortgage of $195,000. Given a median-priced home of $256,000, this 80% AMI household would, absent the down payment assistance, require approximately $60,000 in upfront capital (including closing costs and 20% down payment). Keeping within the assistance limits of the new program, the household could qualify for $8,000 in closing cost assistance (grant) and $50,000 in down payment assistance (loan), bringing the household's upfront contribution to $11,000.

Sample Down Payment Assistance Loan, July 2023



EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

1. Down Payment Assistance with housing counseling can be structured as fully forgivable loans, if wealth building is the primary program goal.

Case Study | MetroDPA, Colorado's Front Range

Launched in 2019, metroDPA, spanning the Colorado Front Range, represents **an example of a down payment assistance program that emphasizes wealth building** for participating households. With financial support from the City and County of Denver, **the program supported more than 1,500 households between February 2019 and February 2021.**

Households earning as much as 150% of AMFI ($188,250) are eligible for the program, with no requirement that participants be first-time homebuyers. The terms of the down payment assistance, listed below, are designed to maximize wealth-building opportunities for the participating household. Borrowers take on a forgivable, 0% interest second mortgage, for up to 6% of the home's purchase price. **If the borrower holds on to his or her home for three years, the second mortgage is forgiven, and not due at the time of sale**. Home appreciation, in addition, remains with the borrower, and is not recycled back into the program for future use.

Key Eligibility Criteria for metroDPA

- Income limit of $188,250 (equal to 150% AMFI)
- No maximum home purchase price
- No first-time homebuyer requirement
- Over 100 participating lenders approved in Front Range region
- Minimum credit score of 640

Terms of Down Payment Assistance

- Up to 6% of the home purchase price available as second mortgage
- 0% interest rate on second mortgage
- Second mortgage forgiven after three years
- No restrictions on homebuyer resale
- Home appreciation accrues fully to the borrower

In 2022, the City of Denver added a second track of the program, titled "metroDPA Social Equity", which largely resembles the terms of traditional metroDPA, but with two key programmatic differences. First, a borrower's eligibility is enabled either by – a) historic residence in a redlined Denver neighborhood, or b) recent residence (between 2010-2022) in a subset of Denver neighborhoods deemed to have limited educational opportunities.

Secondly, while down payment assistance is identically structured as a 0% interest second mortgage, forgiven after three years, second mortgage amounts are prescribed at either $15,000 or $25,000, depending on borrower income. This track of assistance requires an additional round of approval, with considerable documentation requirements, but represents **an example of how down payment assistance programs, particularly those with a wealth-building focus, can have programmatic social equity aims.** As of July 2023, the application window for metroDPA Social Equity was paused until January 2024, as applications greatly exceeded funds available.

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

1. Down Payment Assistance with housing counseling can be structured as second mortgages due at the time of sale, if preserving housing affordability is the primary program goal.

Case Study | MIPAP, Arlington County, Virginia

The Moderate-Income Purchase Assistance Program (MIPAP), operated in Arlington County, Virginia, represents **an example of a down payment assistance program that emphasizes preserving housing affordability, using the shared appreciation model.**

Relative to programs like metroDPA, discussed earlier, MIPAP is targeted towards a narrower segment of the homebuying market. Using a combination of CDBG, HOME, and Arlington County local funding, **the program supported 20 households between fiscal years 2018 and 2022,** with a drop in production during fiscal year 2021, owing to a slowdown during the COVID-19 pandemic.

Key Eligibility Criteria for MIPAP	Terms of Down Payment Assistance
• Income limit of 80% AMI (equal to $95,300 for a family of four) • Maximum purchase price of $500,000 • First-time homebuyers only • Borrower must contribute at least 1% of purchase price • Minimum credit score of 660	• Up to 25% of home purchase price available as second mortgage • 0% interest rate on second mortgage • 30-year term with deferred payment • Second mortgage amount fully due to the County at refinance or sale • Homebuyer owes 25% of any home value appreciation to the County

As detailed in the above table, MIPAP structures its down payment assistance with a clear programmatic preference for preserving affordability. MIPAP's income limits ensure that participating households are unlikely to access affordable homeownership in the absence of down payment assistance. Rather than structuring the down payment as fully forgivable, MIPAP mandates that the loan be repaid to the County at the time of refinance or sale, plus 25% of any home value appreciation**. In this way, MIPAP's loans are recycled back into the program for future awards, ensuring that subsidies are tied to the housing unit, and not to the borrower**.

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

2. The City should **consolidate and streamline its multiple owner-occupied repair (OOR) programs to maximize impact and efficiency.**

Context

Owner-occupied repair (OOR) programs help preserve homeownership by ensuring that income-qualifying homeowners can make necessary repairs to make their homes safe. This supports households to remain in place and keep up with maintenance needs, preventing or addressing code violations that could lead to potential displacement of homeowners.

OOR programs typically provide low-cost loans or forgivable loans or grants for qualifying homeowners, often low-income households and low-to-moderate income seniors. Qualifying repairs include structural repairs, modernization, weatherization or energy-efficiency upgrades, and accessibility improvements to help people with disabilities and seniors age in place. Cosmetic improvements are not typically eligible costs.

Local context

The **City of Chattanooga currently runs four OOR programs,** one internally and three in partnership with local nonprofit organizations. In total, these programs deliver improvements to an average of 86 homes a year (the majority being very minor repairs), but the scale of the need is much larger. **The City is in the process of launching a consolidated program** that targets senior households and provides up to $25,000 to cover more substantial repairs than current programs.

Program	Description	Funding Source	Avg. Units/ Year	Avg. Funding/ Unit	Avg. Total Annual Funding
1. CNE Home Improvement	Low or zero interest home repair loans for common home repairs including roofs, siding, windows, doors, foundations, plumbing, emergency efficiency updates, etc.	CDBG	5	$37,200	$171,000
2. CCHDO Home Roofing	5-year forgivable grants for roof replacement for households making up to 80% AMI	CDBG	25	$9,600	$237,000
3. HFH Home-owner Rehabilitation	Critical home repair and weatherization for households making up to 80% AMI	CDBG	12	$5,600	$69,000
4. City Minor Home Repair Program	Financial assistance for households making up to 80% AMI	ARPA	44	$2,000	$89,000
Total			**86**	**$5,700**	**$471,000**

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

2. The OOR program should **prioritize major repairs for households most in need, including seniors and those living with disabilities.**

Impact

- **Continued support for owner-occupied repair will improve housing quality and safety for homeowners,** while also preventing displacement from homes due to an inability to pay for maintenance or repair. Energy retrofits can further support affordability by lowering utility costs, which can be a substantial cost burden for low-income households.
- OOR is particularly important to **address the needs of elderly residents seeking to age in place in their homes, and of people living with disabilities who require special accommodations.**
- Committing **consistent funding to OOR and coordinating its implementation with other homeownership support programs** (like down payment assistance) **will increase the impacts** of Chattanooga's overall efforts to create and support affordable homeownership.
- A consolidated OOR program will **reduce the administrative burden on the Housing Division**, freeing up time and capacity to work on other priority housing programs.
- **Dedicating $1.5M per year, at an average of $10-25,000 per unit could support 60-150 households address major repairs in their homes.**

Current Impact (~$470k annually)	**Future Impact ($1.5M annually)**
86 repairs per year (44 of 86 being minor repairs)	60 to 150 major home repairs per year

Recommendations

A successful OOR program will address these main considerations, many of which the City is already undertaking as part of the new consolidated OOR program:

1. **Target improvements:** Prioritize critical repair for homes with hazardous structural conditions over minor repairs. Examples of eligible repairs could include modernization, replacement of critical systems such as roofs or furnaces, weatherization, and accessibility modifications
2. **Select Financing Structure:** Choose to provide financial assistance through grants, forgivable or low-interest loans.
3. **Expand Funding:**
    - Increase the amount of dedicated annual funding for OOR from ~$470K to $1.5M
    - Utilize multiple sources of funding for OOR (e.g., CDBG, ARPA, Housing Trust Fund, Inflation Reduction Act (IRA), Lead Remediation funds)

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

2. The City is **in the process of launching a consolidated OOR program** that supports senior households and those living with disabilities to address major repairs in their homes.

Recommendations (continued)

4. **Determine Eligible Households:** Target owner households up to 80% AMI, senior households, households with people living with disability, legacy households, etc.
5. **Neighborhood Focus:** Target neighborhoods that are shown to have a high prevalence of code violations and aging homes in coordination with Code Enforcement.
6. **Build Administrative Processes and Capacity:** Consolidate existing programs into one program with 1-2 nonprofits designated as lead program operators.

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

2. Municipalities across the country have implemented OOR programs that allow for meaningful rehabilitation efforts.

Case Studies | Milwaukee STRONG Homes Loan Program

The STRONG Homes Loan Program began in 2015, offering an average amount of $13,709 per loan. The STRONG Homes Loan program offers partially forgivable loans for emergency and essential home repairs available for up to $20,000, with 25% forgivable after ten years.

Applicants at <50% of AMI qualify for 0% interest, and applicants at 50-120% qualify for 3% interest. Funding for this program comes from the city budget.

After financial review of loan applications, homeowners are assigned a rehab specialist to provide technical assistance for developing a scope of rehabilitation work and assisting in obtaining bids from licensed contractors. The program has been effective in helping residents age in place, serving many elderly homeowners living in aging housing stock.

Philadelphia Basic Systems Repair Program

The Philadelphia Housing Development Corporation's (PDHC) Basic Systems Repair Program (BSRP) provides grants to correct electrical, plumbing, heating, structural and roofing emergencies in eligible owner-occupied homes. BSRP's maximum grant amount is $18,000, and homeowners must earn less than 50% AMI to be eligible and are approved on a first come/first serve basis. Pre-qualified contractors are sent to homes by BSRP to complete needed work at below market prices. Total funding shifts based upon available dollars with the program primarily funded by the City of Philadelphia's Housing Trust Fund and CDBG dollars. A Temple University study found that fewer than 1% of homes that received BSRP grants were abandoned.

Sources: STRONG Home Loans Program, City of Milwaukee; Basic Systems Repair Program, Philadelphia Land Bank

Make Homelessness Rare, Brief, and Non-Recurring

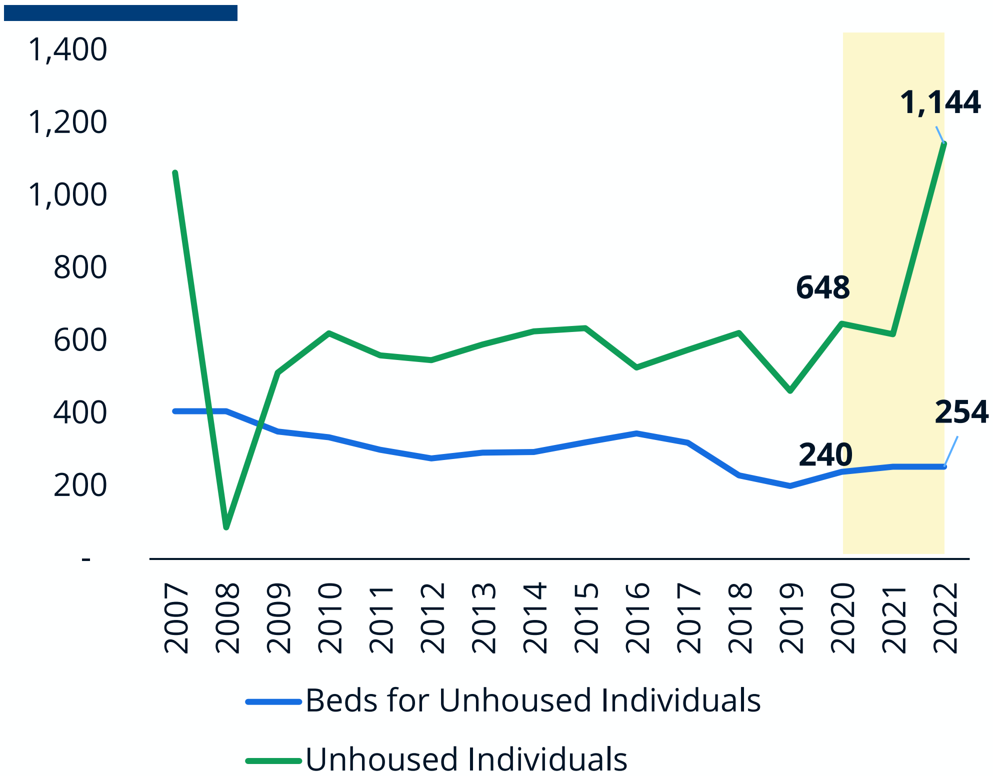
MAKE HOMELESSNESS RARE, BRIEF, AND NON-RECURRING OVERVIEW

Chattanooga should develop a low-barrier housing shelter, build permanent supportive housing, and expand emergency response resources to make homelessness rare, brief, and one-time.

Chattanooga has seen a dramatic increase in homelessness since the start of the COVID-19 pandemic. The City counted an additional 500 unhoused persons from 2020 to 2022, the number of unhoused individuals doubling each year. This level of homelessness far exceeds the City's preexisting capacity to provide emergency beds, which is exacerbated by the lack of low-barrier emergency housing shelters in Chattanooga.

To date, the City has primarily utilized ARPA funds and to a lesser degree, Flexible Housing Fund dollars, to fund its rehousing work. Through a Housing First approach, the City's Office of Homelessness and Supportive Housing (OHSH) and its community partners have **successfully housed +2,000 individuals since Mayor Kelly took office.** OHSH has conducted extensive landlord engagement and direct outreach to secure services for unhoused individuals. It has been successful in expanding its pool of landlords that will accept vouchers.

BEDS FOR UNHOUSED VS. UNHOUSED INDIVIDUALS (2013-2022)



Recommendations

1. **Open a low-barrier shelter** that makes shelter more accessible to those in need, eliminating obstacles to shelter and homelessness services.
2. **Build permanent supportive housing** to support people with housing stability and wellbeing, obtain housing quickly, and stay housed.
3. **Continue conducting landlord education and outreach** to expand the pool of landlords that will accept vouchers.
4. **Expand emergency response resources,** such as street outreach.

The City needs to continue to dedicate resources to secure stable, permanent housing for people experiencing homelessness. The City should open a **low-barrier shelter** to eliminate obstacles for homeless individuals to access shelter and seek resources, as well as **build more PSH units with a range of supportive services** to connect individuals experiencing homelessness to income, public benefits, health services, shelter, and resources to maintain long-term housing stability.

In addition, the City should create pathways to stable rental housing for those currently unhoused by conducting **landlord outreach** to promote voucher acceptance.

MAKE HOMELESSNESS RARE, BRIEF, AND NON-RECURRING RECOMMENDATIONS

1. The City should develop a **low-barrier emergency shelter** to meet the existing need for accessible, safe, condition-free temporary housing in Chattanooga.

Context

A low-barrier emergency shelter provides **immediate and easy access to shelter by lowering barriers to entry, staying open 24/7, and eliminating sobriety and income requirements** and other policies that make it difficult to enter shelter, stay in shelter, and access housing and employment opportunities. Taking a harm reduction approach, low-barrier shelters encourage individuals to access resources by eliminating common obstacles to obtaining shelter. Low-barrier shelters focus on providing shelter and meeting individuals' immediate needs.

Chattanooga currently faces a shortage of emergency shelters for its residents experiencing homelessness, particularly emergency shelters with low or no barriers to entry. Without a sufficient number of emergency shelters beds, Chattanoogans experiencing unsheltered homelessness encounter challenges accessing restrooms, showers, community resources, or finding temporary shelter that can provide the stability to seek permanent housing. Creating a low barrier shelter is important because many unhoused Chattanoogans are unable to access safe, dignified temporary shelter due to the many conditions and rigorous requirements imposed by existing shelters. For example, many shelters are open for limited hours and have specific requirements for gender, family separation, conditional participation in supportive services or other programming, sobriety, minimum income levels, and criminal history.

Recognizing the gap that exists for its unhoused residents, **the City of Chattanooga has taken concrete steps to create a 24/7 low-barrier shelter combined with services** that can help individuals work on securing permanent housing, free of strict restrictions on who can enter and stay. The City is **in the process of acquiring a suitable site for the shelter that when complete, will include 150-200 beds to accommodate men, women, and families.**

Impact

The creation of a low-barrier homeless shelter will produce many benefits for both people experiencing unsheltered homelessness as well as existing homeowners and businesses in Chattanooga, by bringing more unhoused individuals under shelter where they can access assistance to seek permanent housing and by reducing street homelessness and encampments.

+150
Shelter Beds

Increase in Shelter
Access

Inclusion of Different
Homeless Populations

Improved Community
Health and Safety

MAKE HOMELESSNESS RARE, BRIEF, AND NON-RECURRING RECOMMENDATIONS

1. Establishing an effective **low-barrier shelter** will require substantial financial resources, experienced partners, and deliberate efforts to ensure the removal of traditional barriers to access for different populations.

Recommendations

As the City moves forward with its plan to set up a low-barrier shelter, the recommendations below list some considerations (many of which the City is already working on) to support this process:

- **Funding:** Identify sources of one-time and recurring public, private, and philanthropic funding to finance the acquisition and sustain long-term operation of the shelter.
- **Low-Barrier to Entry:** A low barrier shelter must be free of traditional barriers that prevent people experiencing homelessness from entry: substance use (alcohol and other drugs); separation from family or a couple, pets, comfort animals, and service animals; storage; required religious participation, and other exclusive rules.
- **Meeting Needs of Various Population Groups Experiencing Homelessness:** A low-barrier shelter, where possible, should decrease barriers for and have appropriate shelter resources for survivors of domestic violence, for people identifying as part of the LGBTQ community, unaccompanied youth, older adults, and families.
- **Partners:** A low-barrier shelter may require a partnership with an agency that has experience and staff capacity to run the shelter. It may also require partnering with other community-based organizations or health providers that can provide resources and assistance in helping people locate housing, work with landlords, secure documentation for housing, or find employment.
- **Housing Focus:** The shelter should provide opportunities and staff support for people experiencing homelessness to find permanent housing.
- **Performance Metrics:** A successful low barrier shelter should have average length of targeted stays that are as short as possible, achieve positive exits from shelter to positive destinations, and examine returns from positive destinations to the shelter. Collecting data on these metrics can help inform improvements in the shelter and broader homelessness services system.

MAKE HOMELESSNESS RARE, BRIEF, AND NON-RECURRING RECOMMENDATIONS

1. Low-barrier shelter models have been successfully executed in other cities as part of comprehensive public strategies to end homelessness.

Case Study | Community Cabin Program in Oakland, CA

Context: The City of Oakland launched its Community Cabins project in 2017, which are designed as temporary, 24/7, low-barrier transitional shelters to help stabilize people experiencing homelessness and assist in the finding of permanent housing, as part of the City's broader strategy to house people.

Funding: The project created a highly scalable funding model with funding from the California State Homeless Emergency Aid Program (HEAP) and over $1.3 million from local charitable partners, private funders, and donations from developers.

- Operating expenses: $850,000 per year

Partners: Each shelter community is run by a lead operator, a nonprofit with deep experience working in disability and housing. The City enters into an agreement with the nonprofit, which agrees to provide services for a fixed period, including intensive case management, links to medical and mental health support, group and classes for self-awareness, housing navigation, and employment assistance such as resume-building and interview preparation.

Site Selection: The program is a geographically-targeted intervention to eliminate unregulated encampment sites and promote safety for both unsheltered and sheltered residents in Oakland.

- Each of the six existing site locations was chosen in response to public health and safety hazards at an existing large encampment and were located near existing encampments.
- The City used vacant or underutilized public parcels of land for these Cabin Communities, in some instances leasing sites from Caltrans for $1 per month, in line with California's statewide priority to utilize public land to end homelessness.

Outcomes:
In two years, the six Community Cabins served 611 people:

- 56% of exists are positive, meaning that program participants exited to permanent or more supportive housing.
- Over 200 individuals obtained a driver's license
- 145 individuals found employment

Source: City of Oakland, The Housing Innovation Collaboration

MAKE HOMELESSNESS RARE, BRIEF, AND NON-RECURRING RECOMMENDATIONS

2. Chattanooga should build **permanent supportive housing (PSH) with supportive services,** a critical tool for resolving long-term housing instability and homelessness.

Context

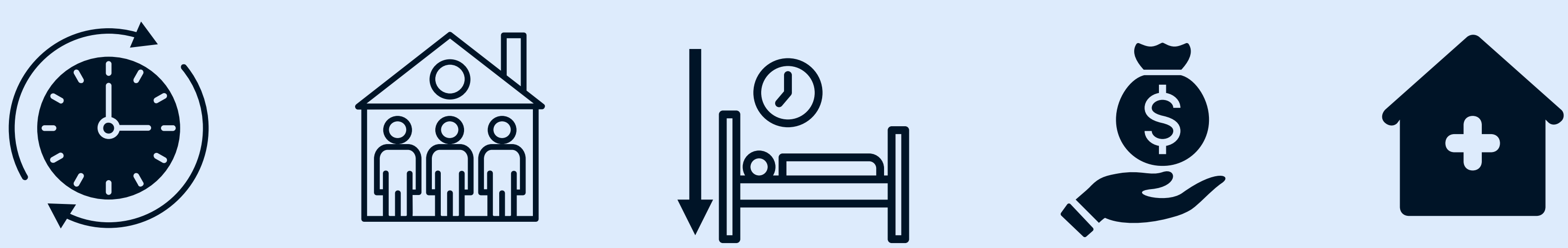
Permanent Supportive Housing (PSH) is a highly effective program for helping individuals retain housing or transition into other permanent housing. PSH is a model that combines low-barrier, affordable permanent housing and supportive services to help individuals and families maintain housing stability. The qualification requirements for PSH vary across the country but are generally focused on supporting people who have experienced chronic homelessness. Support services complementing housing options also differ widely but can range from mental health, substance use support, financial wellbeing, employment services, among others.

Expanding the supply of PSH is a critical step toward addressing homelessness in Chattanooga. There are few PSH providers and a very limited stock of PSH (about 160 units, fully occupied) in Chattanooga that provides deeply affordable independent living housing units targeted toward people experiencing homelessness and mental health issues. A conservative Point-In-Time Count measured over 600 unsheltered people experiencing homelessness in January 2023, meaning that Chattanooga will need over 400 additional PSH units to close the gap.

The City of Chattanooga acquired a site for PSH in 2021 and is in the process of moving forward with renovation of the building, aiming to support 80 units through the project. The City plans to provide around the clock supportive services in one building, including complete wraparound services, mental health counseling, substance use counseling, and jobs training.

Impact

As an evidence-based, nationally proven model for securing long-term housing stability for people experiencing chronic homelessness, PSH provides multiple benefits to unsheltered individuals as well as surrounding communities.



Permanent Housing Stability

Increase in Number of Stably Housed People

Reduction in Shelter Use

Cost-Effective Use of Public Dollars

Improved Community Health and Safety

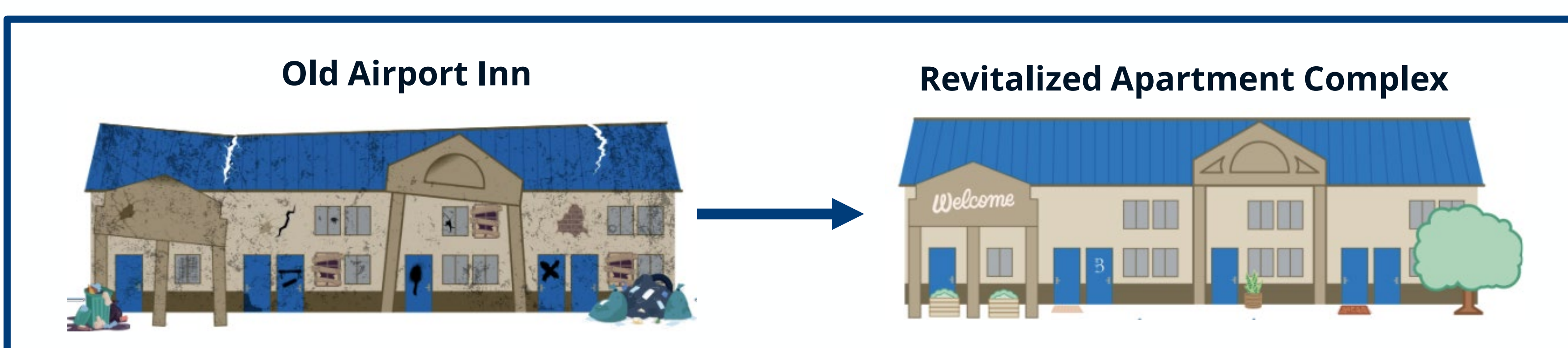
MAKE HOMELESSNESS RARE, BRIEF, AND NON-RECURRING RECOMMENDATIONS

2. The creation of successful **permanent supportive housing (PSH) with supportive services** will require significant long-term funding, quality partners, and intentional program design.

Recommendations

As the City moves forward with its plan to build PSH with on-site supportive services, the recommendations below list some considerations (many of which the City is already working on) to support this process:

- **Funding:** Identify sources of one-time and recurring funding to finance the acquisition and sustain long-term operation of the property and related services. Long-term operating subsidies will be crucial for the success of PSH as a solution to homelessness.
- **Partners:** Determine the organization(s) that will be responsible for managing the PSH, considering the level of experience to meet the service needs of people experiencing chronic homelessness, and their ability to retain qualified staff and provide quality services.
- **Location:** Choose a location for the PSH units that is transit-connected, resource-rich, and accessible to people experiencing unsheltered homelessness.
- **Quality Supportive Services:** Select a program of support services aligned with the needs of the PSH residents with sufficient, quality resources, such as the availability of trained mental health professionals.
- **Served Populations:** Depending on the need in Chattanooga, decide on the populations being served: multiple distinct homeless populations (e.g., properties serving transitional age youth, veterans, and survivors of domestic violence, families, men, women) or a single population.
- **Scale:** Establish a target building size that maximizes resources and impact. For instance, larger PSH buildings have cost efficiencies because fixed costs are distributed over more people.



MAKE HOMELESSNESS RARE, BRIEF, AND NON-RECURRING RECOMMENDATIONS

2. **Permanent supportive housing (PSH)** is a proven model that has been executed with success in other parts of the country.

Case Study | New Path Community Housing in Boise, ID

Outcomes:
In its first year, New Path welcomed 57 residents and measured many improvements in the quality of life and other outcomes of its residents:

- Significant decrease in participants' jail stays
- Reductions in utilization of paramedic services, emergency room care, hospital visits, and substance use and mental health services
- $2.6 million in savings to the community through a decrease in use of reactive services

Source: City of Boise, Affordable Housing Tax Credit Coalition

MAKE HOMELESSNESS RARE, BRIEF, AND NON-RECURRING RECOMMENDATIONS

2. **Permanent supportive housing (PSH)** is a proven model that has been executed with success in other parts of the country.

Case Study | New Path Community Housing in Boise, ID

Context: Our Path Home, a collaboration between the City of Boise and several public and private partners, built New Path Community Housing in 2018, the State of Idaho's first PSH project. The project provides 40 PSH units also served by project-based vouchers. It is a low-barrier PSH project that does not require a commitment to sobriety.

Partners: The project was made possible through a collaboration of almost two dozen organizations, including the Idaho Housing and Finance Association (IHFA), Boise City/Ada County Housing Authority, City of Boise, Ada County, businesses, nonprofits, and health care providers.

Site Location: Considering that many residents walk or bike as a primary form of transportation, the property's location is located on the edge of Boise's downtown near public transportation, a grocery store, a health care facility, a nonprofit that works with low-income residents, the City's 25-mile pedestrian greenbelt, a public library, and off-site services.

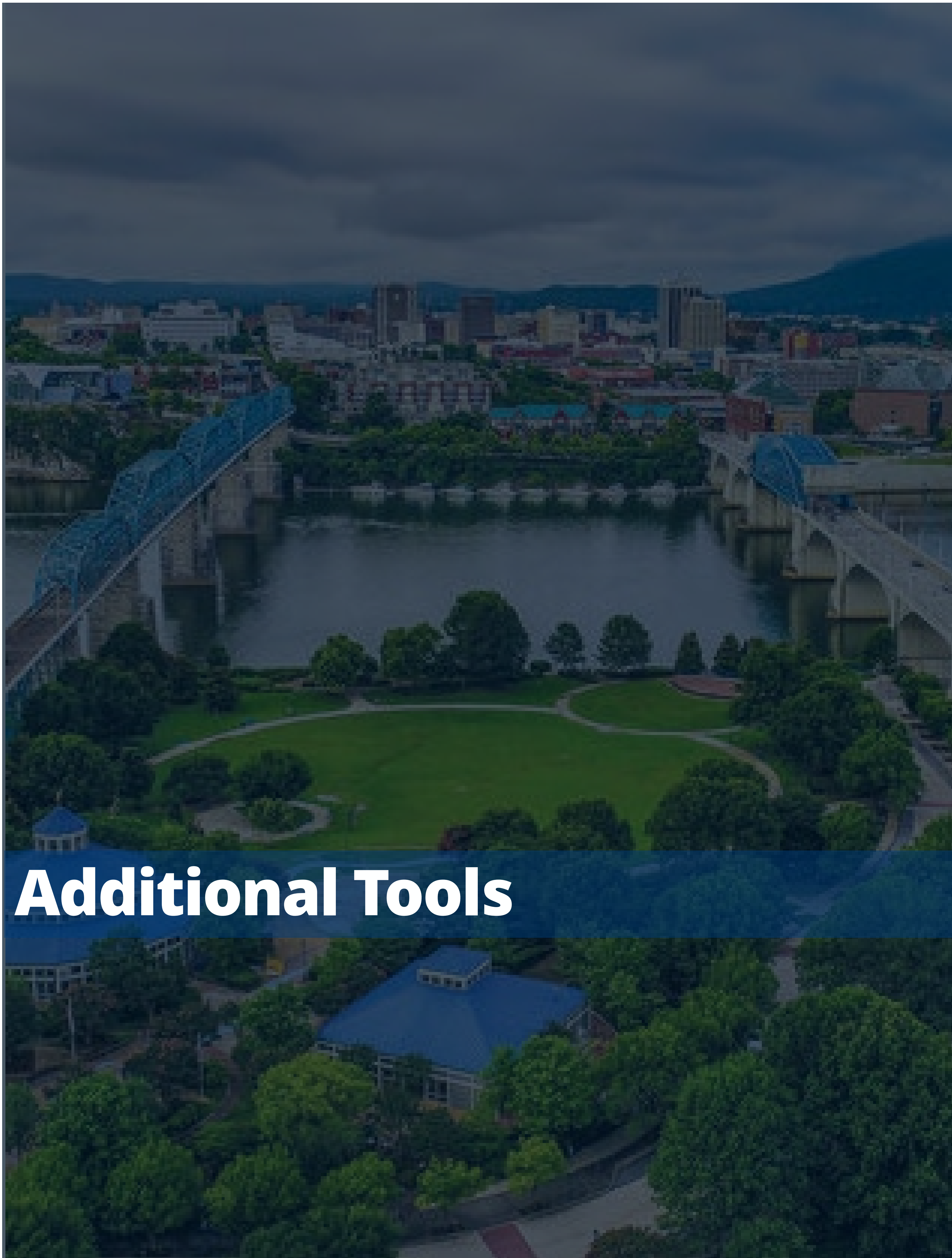
Supportive Services: On-site services include resident access to case managers, financial literacy services, a housing specialist, peer support groups, and healthcare services, including a part-time nurse and mental health and substance abuse counseling by Terry Reilly Health Services. The site is staffed 24 hours a day to ensure the safety and stability of residents.

Funding: The project was primarily funded through LIHTC equity and the rest came from local funding sources and private partners, with all the development costs financed without debt.

Development Financing	
LIHTC	$5,830,000
IHFA HOME Program	$500,000
City of Boise	$1,000,000
Total	**$7,330,000**

Support Services Financing	
Saint Alphonsus Healthcare System	$100,000 annually
Saint Luke's Healthcare System	$100,000 annually
Ada County	+$100,000 annually until 2022
Total	**$300,000 annually**

Source: City of Boise, Affordable Housing Tax Credit Coalition



Additional Tools

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

1. The City is **revising zoning regulations,** providing an important opportunity to increase permissible housing density and affordable and workforce housing production.

Context

Local zoning reform and incentives are two of the City's most powerful tools to expand the supply of workforce housing. Zoning regulations set limits on how a property owner may use land and what can be built, setting restrictions on building shape, affordable housing, walkability, etc. The majority of land in Chattanooga is zoned to restrict residential development to single family homes, which reduces the supply of land available for new housing and housing diversity and inflates the cost of new housing projects. Even when multifamily buildings are allowed, zoning rules on building height and minimum lot sizes limit the financial feasibility of developing new housing.

The City should implement zoning changes to increase the supply of affordable housing. For instance, while the City has already upzoned significant parts of Downtown to allow higher density residential development, it should update the zoning code to permit soft density in suburban parts of the city. In addition, incentives such as expedited development review processes, fee waivers, and public subsidy for required infrastructure improvements for affordable housing projects should be designed to increase the financial feasibility of affordable housing projects and therefore increase the supply of affordable housing.

The City should also take steps to work with its municipal counterparts—small cities and rural localities across Tennessee--to explore opportunities to change state law to make high-impact zoning incentives for affordable housing legal again in Tennessee. While zoning incentives could bring down development costs for developers to incentivize lower cost affordable housing and significantly move the needle on affordable and workforce housing development, the City doesn't have the ability to use those incentives because they are currently illegal in the state.

Impact

Promote cost-savings for developer, which can pass through to the renter or homebuyer. Incentives such as permit waivers and streamlined development review processes can improve the financial terms for both nonprofit and market rate developers, which in turn can promote the development of more affordable housing units.

Increase access to opportunity. Zoning reform can help create more housing in areas of opportunity near main transit corridors, neighborhood nodes, and transit connections like bus stops, jobs, or in mixed-income neighborhoods, but should be designed to prevent displacement of low-income residents due to increased investment and rising housing costs.

Address disparities in access to affordable homes for renters and homebuyers. Single-family zones should be upzoned to increase the supply of affordable housing in areas of opportunity. Zoning revisions alone will not produce deeply affordable homes, but they can encourage development to help close the housing gap, which reduces pressure on home prices and combats further housing unaffordability.

Increase housing supply to reduce market pressure on rents and home prices. As rents and home prices continue to rise, building more housing can help reduce pricing pressure and ensure residents can have a stable place to access schools, jobs, and age in place.

BUILD THE HOUSING ECOSYSTEM RECOMMENDATIONS

1. The City should work together with the RPA to enact **zoning changes that support higher-density residential development** as well as initiate development review incentives.

Recommendations

The City should consider implementing these recommended zoning changes and incentives:

"Soft Density" By Right Development	Change the City's zoning to **allow "soft density,"** i.e., smaller multifamily homes like quadplexes, in single-family neighborhoods, especially the suburban areas of Chattanooga outside of Downtown, while limiting displacement within existing low-income communities.
Accessory Dwelling Units (ADUs)	Support ADU development by providing standardizing plans and engaging lenders to expand low-cost construction financing.
Development Review Incentives for Developers	**Increase the financial feasibility of affordable housing projects** to increase the production of workforce housing by: • Expediting the development process, • Granting fee waivers, and/or • Subsidizing infrastructure investments for developers building affordable housing

The City should also partner with regional counterparts and other cities to identify and pursue opportunities to change state laws that prohibit incentives for affordable housing development because they are a critical tool for expanding the city's supply of affordable and workforce housing. They have the potential to form an essential part of Chattanooga's affordable and workforce housing strategy because these incentives are one of the few ways local governments can create affordable housing by lowering costs for developers without significant public subsidy.

Zoning Incentives for Affordable Units Incorporated into New Development	**Increase the supply of affordable housing,** of both for-sale homes and multifamily rental buildings, through incentives for developers to incorporate affordable units into proposed market-rate developments. Encouraging the creation or funding of affordable units along with market-rate construction can significantly increase the number of affordable homes in Chattanooga, particularly In combination with soft-density. While this tool is not currently legal in the state, it is an important one for the City to leverage should it become available.

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

2. As part of a comprehensive land use planning process, the City should **allow "soft density" in single-family neighborhoods** that have critical infrastructure to support increases in density.

Context

Soft density increases the types of housing permitted in single-family districts, such as townhomes, duplexes, and quadplexes. In Chattanooga, this type of housing does already exist; however, it is scarce and is limited to a few areas because the predominance of single-family zoning tightly restricts the type and supply of new housing in much of the city.

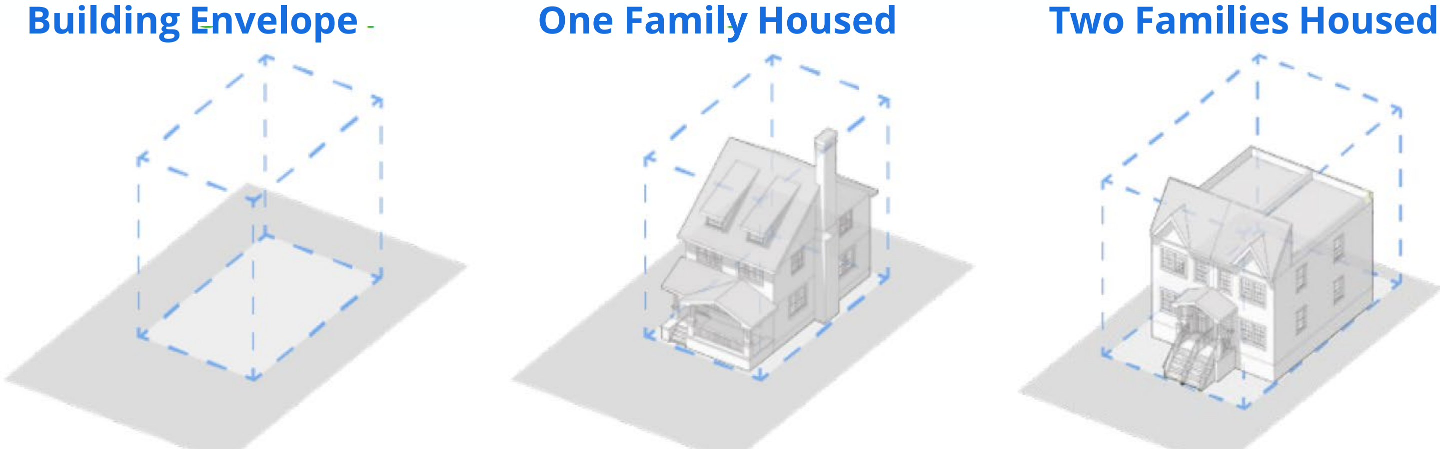
The majority of Chattanooga is zoned for single-family residential development only, while only a small share of the City's land is zoned for soft density. The new Downtown Chattanooga Form-Based Code, amended in 2021, allows for soft density in limited areas, but much of the surrounding areas and more suburban parts of Chattanooga have not been zoned to permit higher-density residential development. Existing zoning code limits the ability to produce more housing in Chattanooga and increases the cost to develop housing that accommodates multiple households. This is an important tool to address Chattanooga's population growth and housing needs. The City should work with the RPA as it reviews its zoning code to make aligned citywide and regional zoning changes that will increase soft density development in more single-family neighborhoods, especially those that are located close to main transit corridors, neighborhood nodes, jobs, and quality neighborhood amenities.

Impact

Soft density zoning **increases the supply of housing in single-family neighborhoods by allowing for smaller homes.** Soft density enables the production of housing that is contextual within single-family neighborhoods but accommodates multiple households. Soft density housing types **tend to be more affordable than single family homes and can therefore help increase access to homeownership for more Chattanoogans.**

By allowing for a slightly expanded building envelope, two families can be housed compared to one. This modification of existing zoning can help **increase housing stock without changing neighborhood character.**

Building Envelope | **One Family Housed** | **Two Families Housed**



EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

2. The City should partner with the RPA to identify opportunities to **increase soft density** and enact related incentives to support affordable housing development as a part of soft density development.

Recommendations

1. **The City, in partnership with the RPA, should identify single-family neighborhoods suitable for "soft density."** Upzoning should increase housing supply in single-family neighborhoods. Zoning changes should maximize opportunities to reduce minimum lot sizes and parking requirements and support the development of smaller, more affordable housing options.
2. **The City should work with the County to advocate for "soft density" by-right development**, meaning soft density development that doesn't require rezoning, a special use permit, or other City approvals. This will make the development process more streamlined and predictable, encouraging new development.
3. **The City should identify incentives to support the development of affordable housing as part of soft density development.** Where legal, the City should consider incentives like property tax rebates, public funding, design flexibility, and simplified review processes.

Case Study | Minneapolis Comprehensive 2040 Plan

In 2018, the City of Minneapolis approved an ambitious, innovative plan that effectively banned single-family exclusive zoning by allowing three-family buildings in all residential neighborhoods across the City.

- **Strong political leadership:** Mayor Jacob Frey was a staunch advocate of housing affordability as a right and used his political capital to support this ambitious rezoning plan. The City Council vote on this plan reflected wide support for this plan among elected officials, who approved the plan with a 12-1 vote.
- **Deep community support and public engagement:** The City consolidated a broad base of community support by educating residents about how their city's neighborhoods could benefit from a more diverse and affordable housing stock. Local planners and neighborhoods advocates advanced an extensive public engagement process to develop consensus among the city.
- **Emphasis on housing diversity and affordability in each neighborhood :** The plan intentionally sought to integrate duplexes and triplexes into low-density residential neighborhoods to create more opportunities for low and moderate-income families to live in neighborhoods of opportunity.

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

3. The City should support ADU development by **standardizing ADU plans and engaging lenders to expand low-cost construction financing.**

Context

ADUs are **secondary residential units built on the same lot as an existing single-family home,** as part of an existing house's basement or attic, in addition to an existing house, conversion of an existing garage, or the construction of an entirely new, detached building. They can be used as rental homes, guest homes, studios, etc.

In 2022, Chattanooga City Council adopted an ordinance permitting accessory dwelling units (ADUs) to be built within the City of Chattanooga to support housing diversity and options citywide. Since this ordinance went into effect, Chattanooga has seen relatively low numbers of ADUs built and marginal impact to its affordable housing supply because of the cost and complexity of building them. Households that wish to build ADUs are deterred by two primary obstacles: first, there is limited access to financing for ADUs which makes construction financially infeasible, and second, there are no standardized plans for ADUs, which can also increase the complexity and cost of development.

ADUs support affordability by:

(1) Creating new, lower cost rental opportunities on underutilized land, and

(2) Helping existing homeowners stay in their homes through additional rental income. In addition, they can provide the opportunities to care for an elderly or disabled family member in an independent living arrangement.

Recommendations

1. **The City should support ADU development by providing standardized plans to reduce costs for single-family homeowners.** It should make available a menu of designs based on the building code and local building stock, potentially engaging an architecture firm to create pre-approved standard plans.
2. **The City should support ADU development by engaging lenders to expand low-cost construction financing.** The City should consider partnering with local CDFIs to manage these loans.

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

3. In recent years, cities across the country have provided financial and design assistance to assist and incentivize the development of accessory dwelling units (ADUs).

Case Study | ADU Programs: Financial Assistance

Over the past few years, cities and counties around the country have been rolling out financing tools to assist and incentivize the development of ADUs. Nationwide, these local ADU loan programs are getting off the ground in "pilot" phases and are continually evolving. Major differences between offerings include:

1. Whether the product is an interest-bearing loan, a forgivable loan, or a grant;
2. Maximum loan amount (higher vs. lower LTV); and
3. Requirements on borrowers to rent-restrict the ADUs (affordability level and term).

The difference in the products reflect differences in local policy goals, public resources for the programs, and borrower demographics. These products are typically developed after community outreach to determine need and interest.

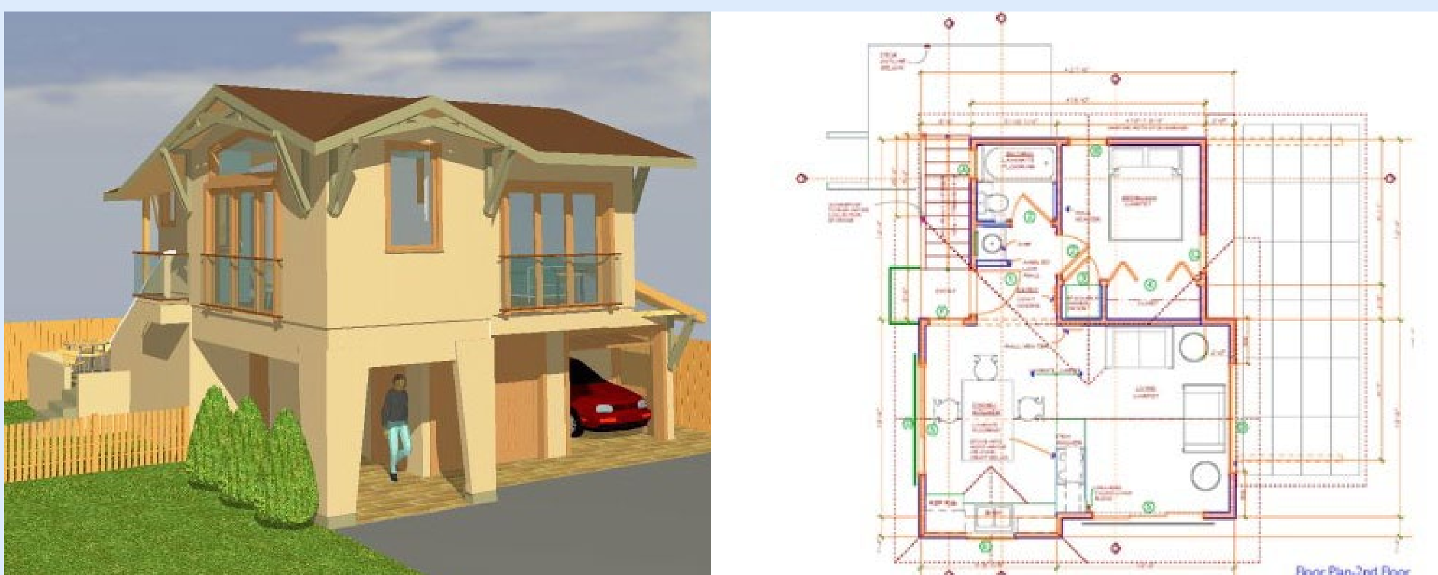
	Boston, MA	Santa Cruz, CA	Santa Cruz Senior Program, CA
Affordability Requirement	None	<= 80% AMI	<= 60% AMI
Maximum Loan Amount	$30,000	$40,000	$80,000
Loan term	Repayable upon sale or transfer	20 years, Deferred	30 years, Deferred
Interest Rate	0%	3%	3%
Other Requirements	Borrower must income-qualify	n/a	Borrowers must be seniors (62+)
Lending Partner	Boston Home Center	County of Santa Cruz	County of Santa Cruz

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

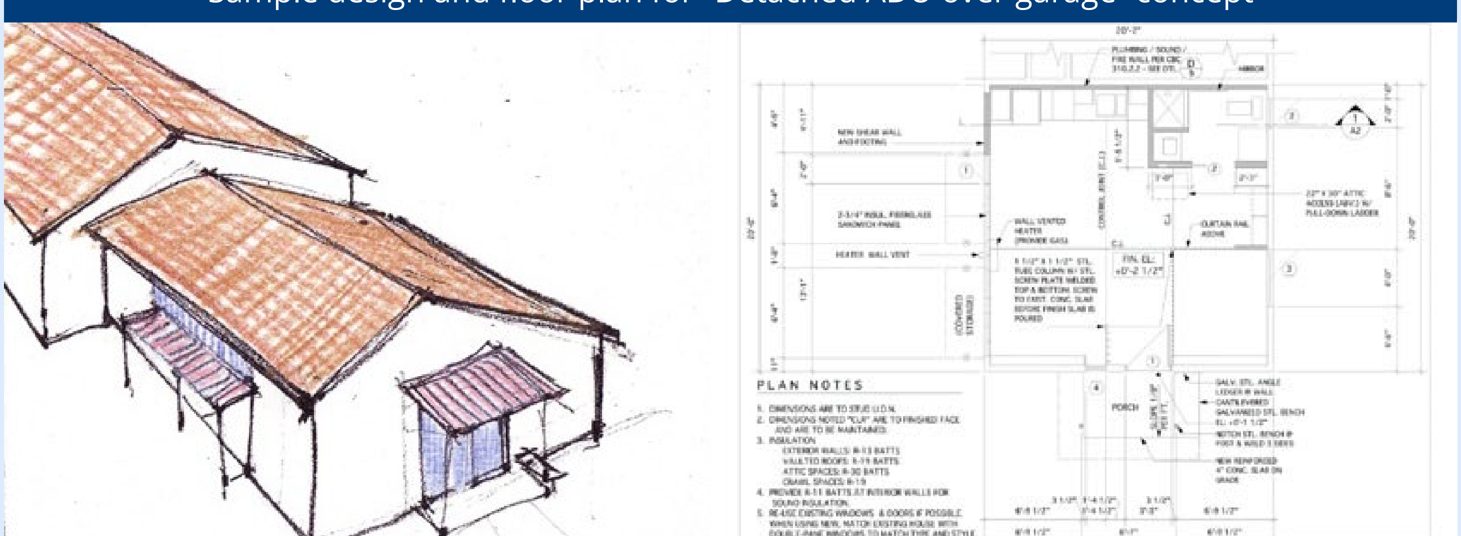
3. In recent years, cities across the country have provided financial and design assistance to assist and incentivize the development of accessory dwelling units (ADUs).

Case Study | ADU Programs: Design Assistance

Design can be one of the biggest hurdles for homeowners considering adding an ADU. By creating a menu of ADU concepts that can be customized by applicants, the City can help reduce the barrier to entry for homeowners. **An initial step taken by both the City of Boston and the County of Santa Cruz in launching their ADU programs was to identify a set of typologies that were most likely to be built based on physical characteristics of the local housing stock.** Boston published diagrams to help potential applicants understand whether their homes were compatible with ADUs, and defining the different ADU configurations that may be possible, including within the envelope of an existing home ("carve-out ADUs"). The County of Santa Cruz took this concept and design legwork a step further, working with architects to publish designs and sample floor plans for several different ADU typologies of various sizes.



Sample design and floor plan for "Detached ADU over garage" concept



Sample design and floor plan for "Garage Conversion ADU" concept

Source: County of Santa Cruz

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

4. Engage lenders to develop **specialty mortgage products** and provide **supporting services** to households facing systemic barriers.

Context

Mortgage underwriting standards and practices have greatly restricted access to mortgage financing for low- and moderate-income households. **The City should work with lenders and nonprofits to develop specialty mortgage products and provide supporting services that better fit the circumstances of underserved low- and moderate-income homeowners.** A mortgage loan pool drawing from motivated banks, credit unions, major employers, philanthropies, and public funding that originates mortgages designed to fit the needs of households who currently cannot access mortgage financing.

Some regional banks in Chattanooga already have a mortgage pool but it is important for them to work with other banks and local partners to bolster the fund and ensure that their mortgage and home improvement loan products are reaching every Chattanoogan in every neighborhood.

Impact

Expanding access to homeownership through a local mortgage pool **will increase homeownership among low- and moderate-income households.** A well-designed program should be able to **revolve the majority of funds invested, leveraging public and private funding to increase impact.**

Recommendations

The City should actively engage the lending community in Chattanooga to develop specialty mortgage products and supporting services that can be offered through the local mortgage pool. This could include:

- Allowing greater flexibility on credit scores, relying on non-traditional demonstrations of credit ability such as on-time rent payment;
- Eliminating mortgage insurance, an expensive and ongoing cost that penalizes households with less family wealth;
- Lowering down payment requirements to a nominal requirement of $3,000 and applying it to an individual development account. This approach increases a homebuyer's post-closing liquidity, which significantly reduces risk of foreclosure and is a "win-win" for both buyers and lenders;
- Providing post-purchase homeownership counseling, such that if a household needs assistance (either requests assistance or misses a mortgage payment), a qualified housing counselor is available to provide advice, and the counselor has access to an emergency loan program or similar to help a household stabilize their finances; and
- Providing pre-purchase counseling to help households repair credit and become financially ready (for homeownership or other financial goals).

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

4. **Specialty mortgage products** can help low- and moderate-income households succeed at homeownership.

Case Study | Manchester Neighborhood Housing Services Loan Pool

A mortgage loan pool allows participating financial institutions and funders to jointly fund a program that originates mortgages with favorable terms to help low-income first-time homeowners access homeownership. The program both expands options and access for these homeowners and helps to minimize risk to banks who participate in offering nonconforming mortgages, as those with lower down payment requirements and other flexible guidelines.

Manchester Neighborhood Housing Services (MNHS) in Manchester, New Hampshire works closely with local lenders to fund a participation loan pool, providing down payment and closing cost assistance to first-time homebuyers at or below 80% AMI. MNHS staff complete all loan origination and underwriting tasks, plus close and service each loan, with no fees to the lender. Lender partners approve and fund each loan on a rotating basis.

Borrowers receive a low-interest loan of up to $70,000 at a 30-year fixed rate. Buyers must have 1 percent of the purchase price from their own savings for the down payment, are subject to standard credit and employment requirements, and must complete housing counseling courses.

Sources: "Winning Strategies in the NeighborWorks Network," NeighborWorks America

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

5. The City should encourage and work with major local and regional employers to develop employer-assisted housing programs as a benefit for employees.

Context

Large employers have an interest in helping their employees live in safe and affordable housing close to work. Employer-assisted housing (EAH) programs are methods employers can use to reduce their employees' housing costs. Assistance may be provided to defray ownership or rental costs, through loans, grants, or monthly subsidies. Program may either expand housing supply, subsidize housing costs, or increase housing accessibility with services. EAH programs are used by employers to increase retention and create a comprehensive advantage.

Impact

An employer-assisted homeownership program **would expand wealth-building and housing stability** for more Chattanooga residents. The program could **potentially match public and private funding, both amplifying the impact of public dollars by leveraging private contributions** and help employers better attract and retain workers.

Recommendations

The City should encourage large employers with the capacity and interest to support an EAH program for employees, educate leaders about the costs and benefits of such a program – for example, improved worker retention and community relations. The program could include assistance for renters or homeowners, and could be offered as loans, grants, or monthly subsidies.

Additionally, the City could provide matching assistance to leverage the impact of public dollars and encourage more employers to participate in the program (see Baltimore case study on next page as an example).

EXPAND ACCESS TO HOMEOWNERSHIP AND SUPPORT EXISTING HOMEOWNERS RECOMMENDATIONS

5. Employer-funded down payment assistance programs, when layered with local government or other support, can amplify the impact of public dollars.

Case Study | Aflac Inc. Down Payment Assistance

Aflac Inc. provides their first-time homebuyer employees down payment and closing cost assistance in the form of a grant. Awards typically range from $,7500–10,00, with a total annual contribution of roughly $25,000. Since 2002, Aflac has provided $220,000 in assistance to 206 employees to enable them to purchase homes.

The down payment assistance is paired with homeownership counseling. Aflac's nonprofit partner, NeighborWorks Columbus, conducts counseling, administers the grants, markets the program, and advises employees on other subsidy options that can be layered with Aflac grant assistance.

Source: NeighborWorks Columbus

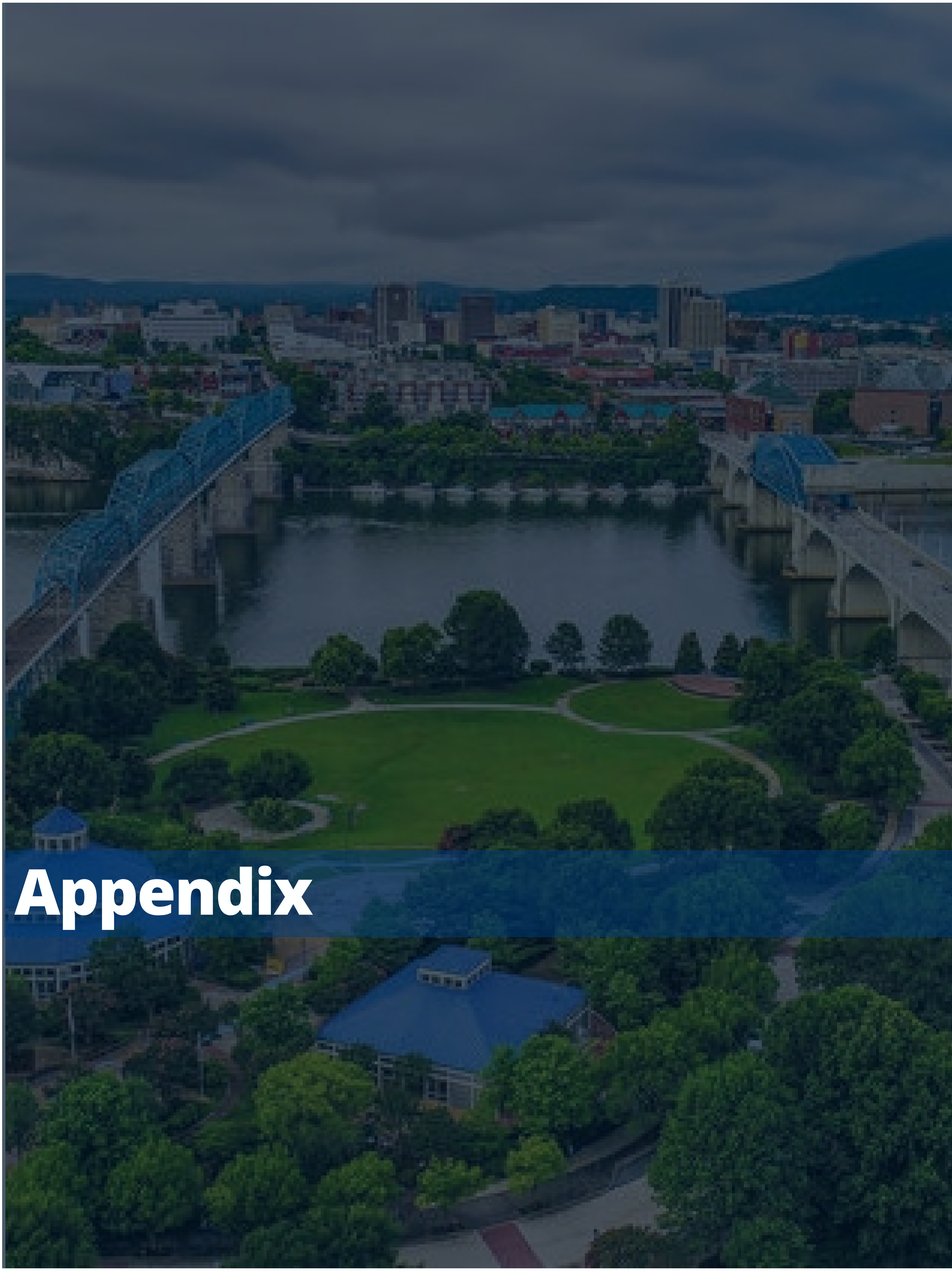
Case Study | City of Baltimore Live Near Your Work

The Live Near Your Work Program is a homebuying incentive that is **partially funded by employers and partially by the City of Baltimore** to be used toward a home purchase in Baltimore (downpayment or closing costs).

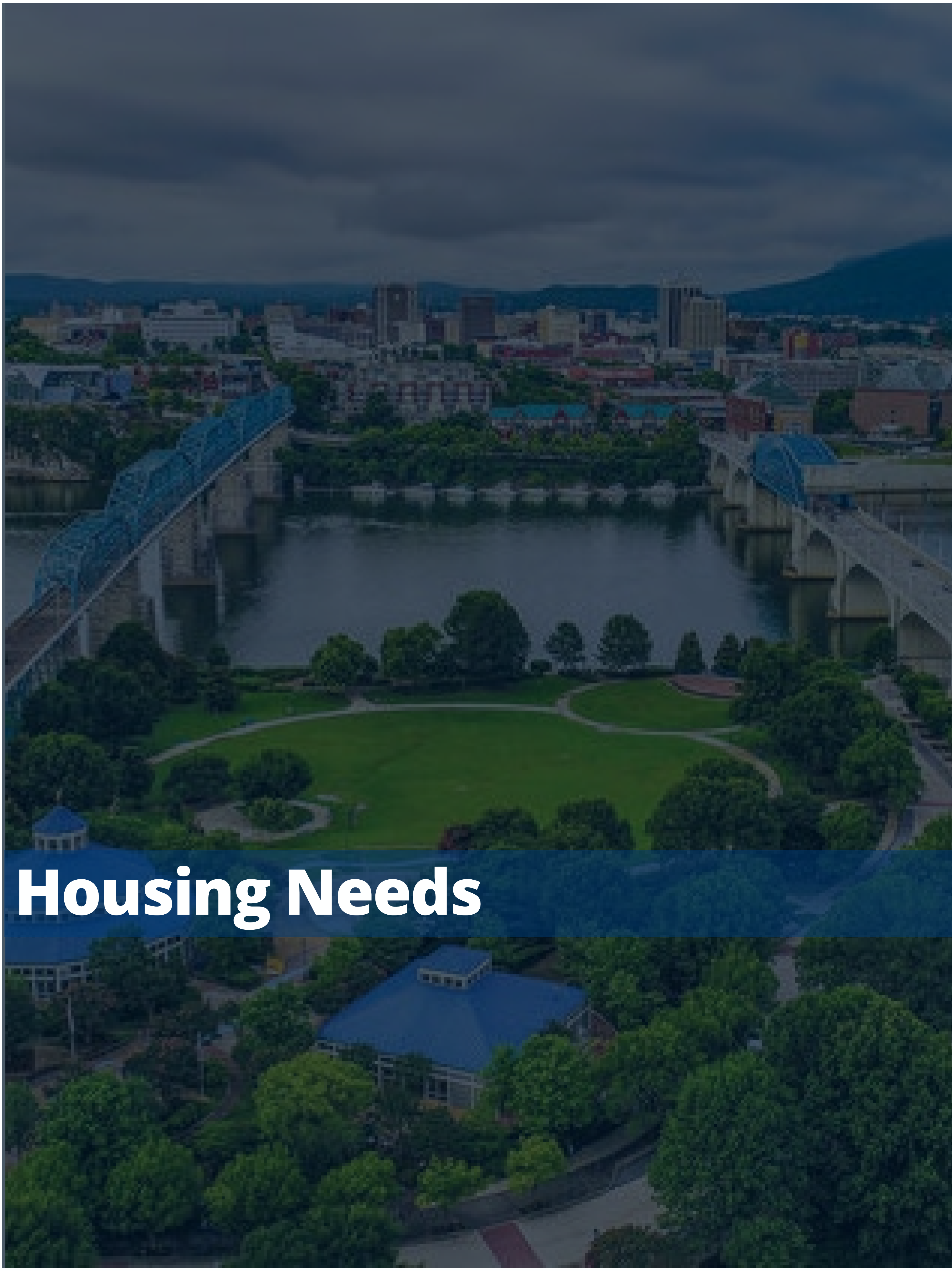
The City matches employer contributions of at least $1,000 per employee, up to $2,500. Buyers are required to contribute at least $1,000 towards the purchase of their home and must be first-time homebuyers in the City of Baltimore who will use the property as their primary residence. Participating employers may establish program restrictions, including limiting the neighborhoods where the assistance can be used and limiting the program to full-time employees.

The total assistance ranges from $2,000 to $20,000, depending on the employer. As of 2023, 138 employers in Baltimore offer this program, including large corporations, universities, healthcare providers, and small businesses.

Source: City of Baltimore



Appendix



Housing Needs

HOUSING NEEDS OVERVIEW

Housing development in Chattanooga has not kept pace with its population and economic growth, leading to a new and growing housing affordability problem.

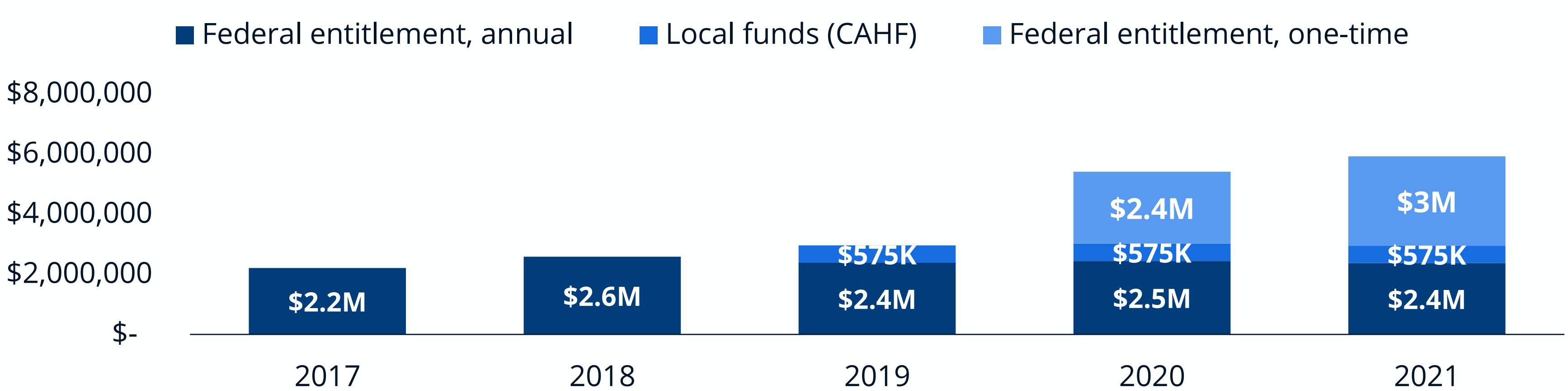
MODEST AFFORDABLE HOUSING DELIVERY SYSTEM	Chattanooga's affordable housing ecosystem is constrained by limited public funding, state law and a lack of regional partners.	**$2.4M** Average federal funding for housing, 2017-2021 (not incl. one-time COVID relief funds)
DECREASING RENTAL AFFORDABILITY	Chattanooga's median rent increased 30% since 2020, while the income level of the median renter grow by about 13%, resulting in growing housing cost burdens among renter households.	**90 vs. 107** 90 Affordable homes for every 100 households in 2021, down from 107 in 2016 and still dropping.
DECLINING ACCESS TO HOMEOWNERSHIP	Until recently Chattanooga was a city where homeownership was attainable for a household earning the median income, but that is no longer true.	**30%** Increase in median home sales prices since 2021
INCREASING HOMELESSNESS	Chattanooga has seen a dramatic increase in homelessness since the start of the COVID-19 pandemic and not enough emergency shelter beds or supportive services to address this issue.	**+500** Additional unhoused persons between 2020 and 2022
CROSS-CUTTING INEQUITIES	Black households in Chattanooga face greater barriers to accessing homeownership and less affordable rents at all income levels.	**12% vs 4%** Mortgage denial rates for Black vs. White households making $100k to $150k

HOUSING NEEDS HOUSING ECOSYSTEM

Chattanooga's affordable housing ecosystem is constrained by limited public funding, state law and an insufficient amount of high-capacity regional partners.

The City receives an **average of $2.4M per year in recurring federal entitlement funds.** Chattanooga also dedicated **$5M of one-time federal COVID relief funds** towards its housing programs. **In 2019, the City established the Chattanooga Affordable Housing Fund** which has since **provided $2.3M** for the production and preservation of rental and ownership housing.

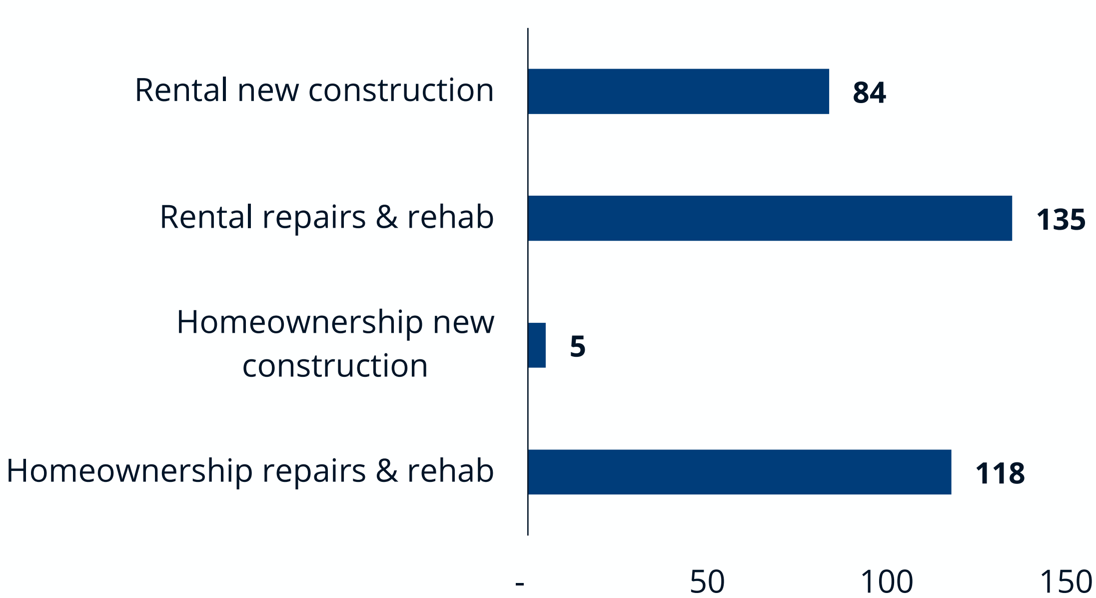
FUNDING SOURCES FOR HOUSING (2017–2021)



Note(s): Federal entitlement, annual includes HOME and CDBG; local funds includes CAHF; and federal entitlement, one-time includes ARPA and CV funds. Chart does not include LIHTC.

The City and its partners operate multiple programs with this limited amount of funding, producing and preserving roughly 160 units per year. To increase the impact of these programs, the City requires more capacity from its partner organizations, including staff, time, and resources.

IMPACT OF HOUSING FUNDING, ANNUAL AVERAGE (2017-2021)



Source(s): HUD, City of Chattanooga, Hamilton County Government

CHATTANOOGA PARTNERS

CNE
CHATTANOOGA NEIGHBORHOOD ENTERPRISE

Chattanooga Community Housing Development Organization

Habitat for Humanity® of Greater Chattanooga Area

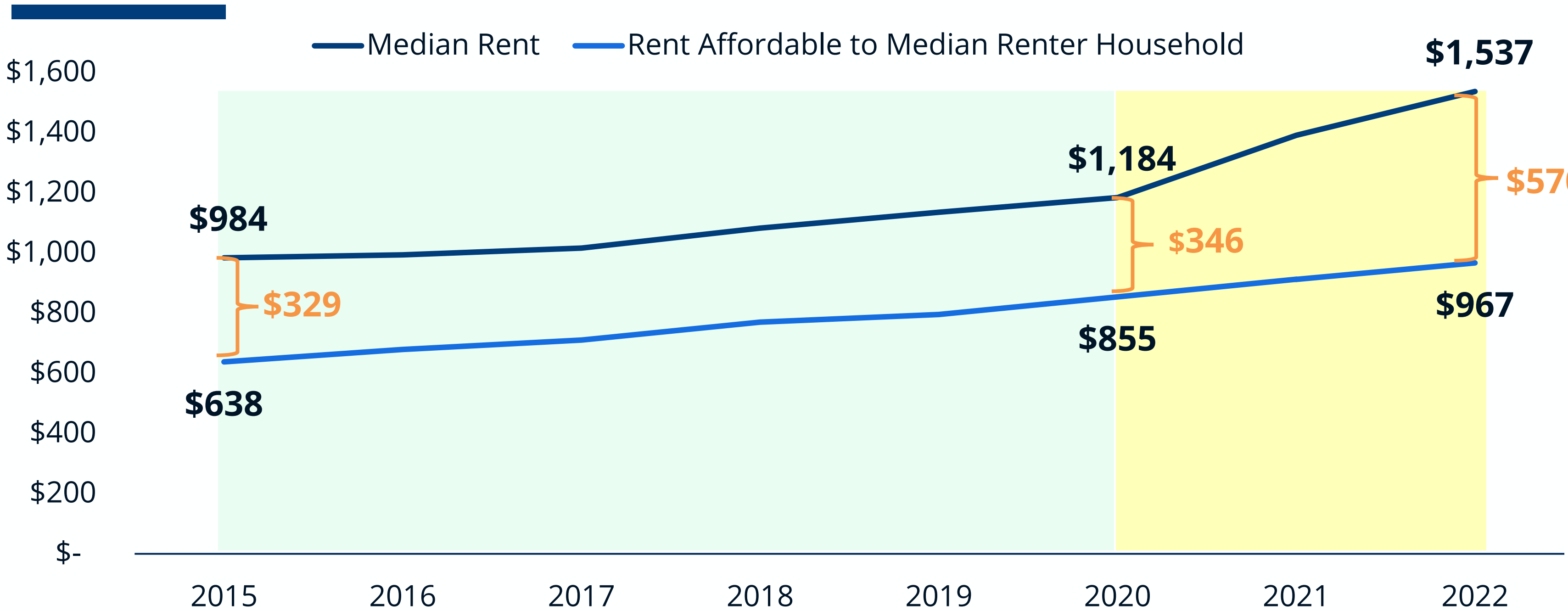
Chattanooga Housing Authority

HOUSING NEEDS DECREASING RENTAL AFFORDABILITY

Rents have risen rapidly over the past few years in Chattanooga relative to income growth, resulting in high levels of cost burden for low-income and some middle-income renters.

In 2022, the median renter in Chattanooga needed an additional $570 per month to afford the median rent. As rents increase, Chattanoogans are being priced out of higher quality homes and are facing increasing housing insecurity.

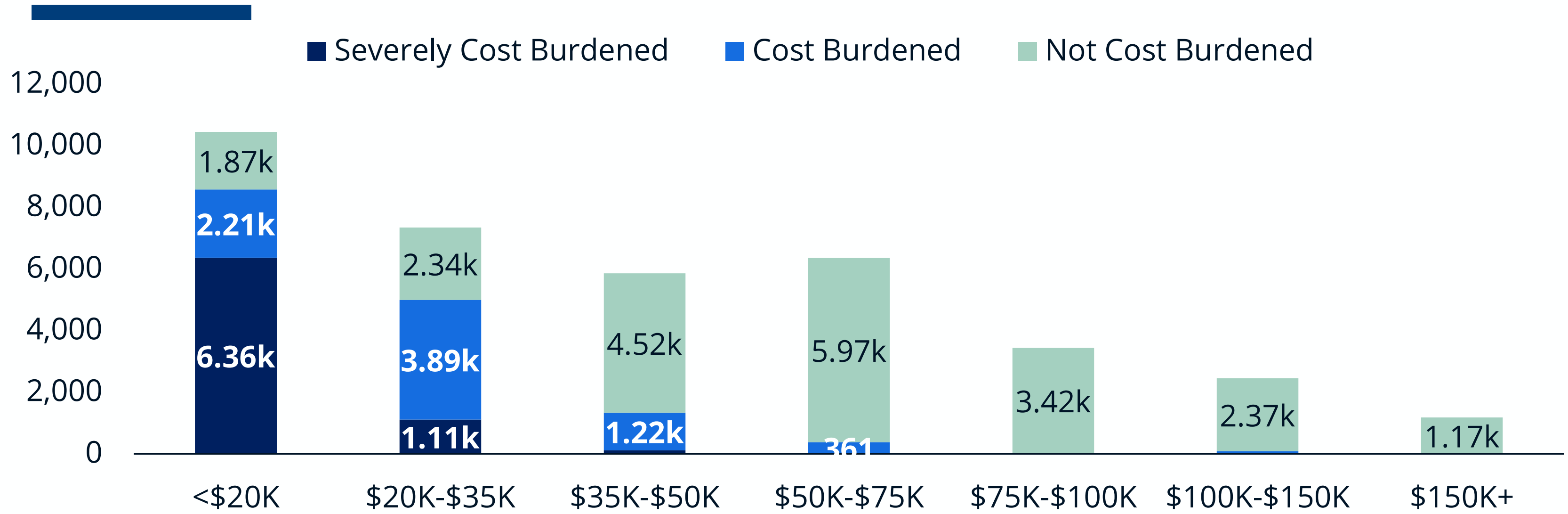
MEDIAN MONTHLY RENT COMPARED TO RENTER INCOME
(2015-2023)



Source: Zillow

In 2021, the majority of renters in Chattanooga making up to $35k were cost burdened, and households earning up to $50K were starting to become challenged by rental affordability. 11,000 of 18,000 households making less than $35K are cost burdened. An additional 2,000 households making $35K-$75K are cost burdened, and more are expected to become cost burdened in the future.

SHARE OF COST-BURDENED RENTERS BY INCOME
(2021)



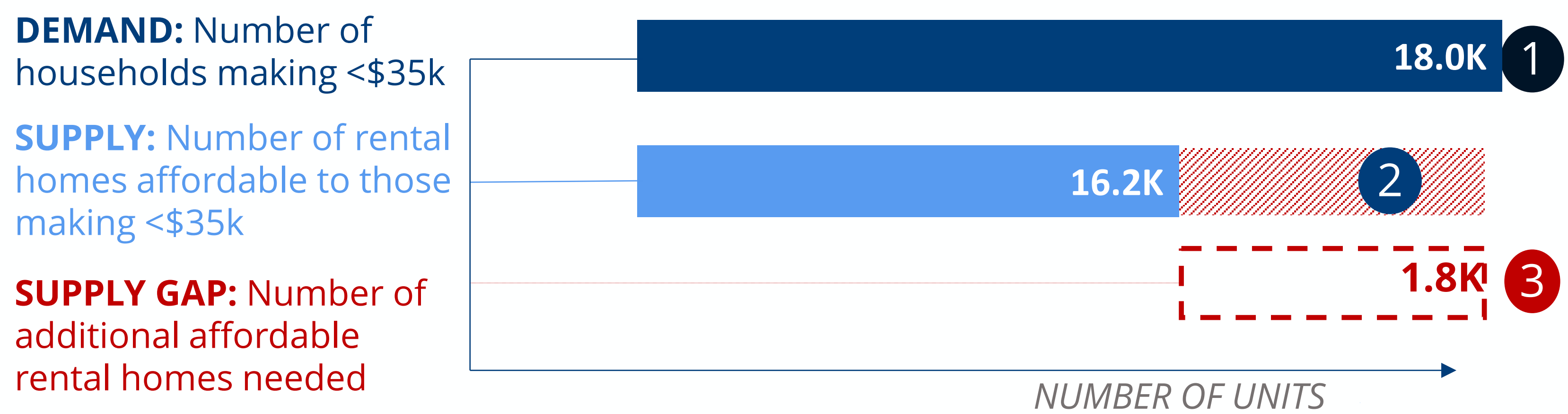
Source: ACS 2021 5-year estimates, PUMS

HOUSING NEEDS DECREASING RENTAL AFFORDABILITY

Chattanooga has an insufficient number of rental homes affordable to households below $35,000 – and the gap is projected to increase over the coming years.

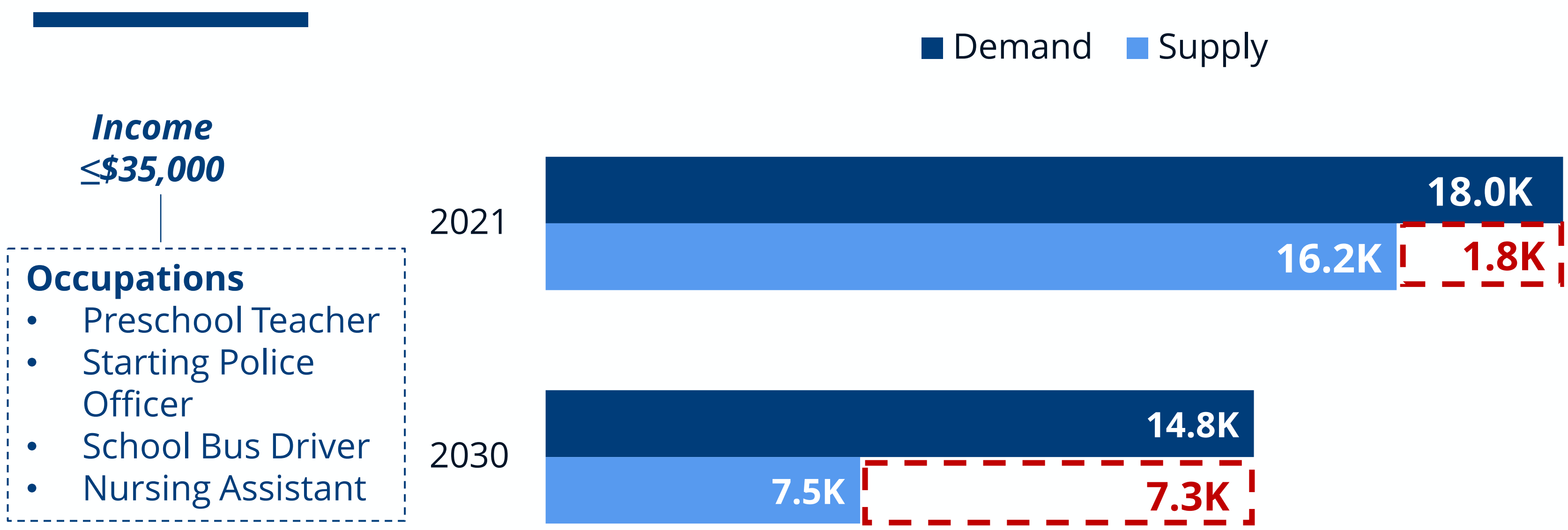
Low-income renters in Chattanooga are competing for a limited supply of rental housing that is affordable to them. Chattanooga currently has a gap of about 1,800 units affordable to households earning less than $35,000 a year.

RENTAL HOUSING GAP FOR HOUSEHOLDS EARNING <$35,000 (2021)



In 2021, for every 100 households making less than $35,000 a year, there were **only 90 homes** affordable to them; this was **down from 107 homes** in 2016. The rental housing gap is growing and is **projected to drop further from 90 affordable homes** for every 100 households earning less than $35,000 **to 50 affordable homes.**

PROJECTED RENTAL HOUSING GAP FOR HOUSEHOLDS EARNING <$35,000 (2021–2030)



Source(s): ACS 2021 5-year estimates, PUMS

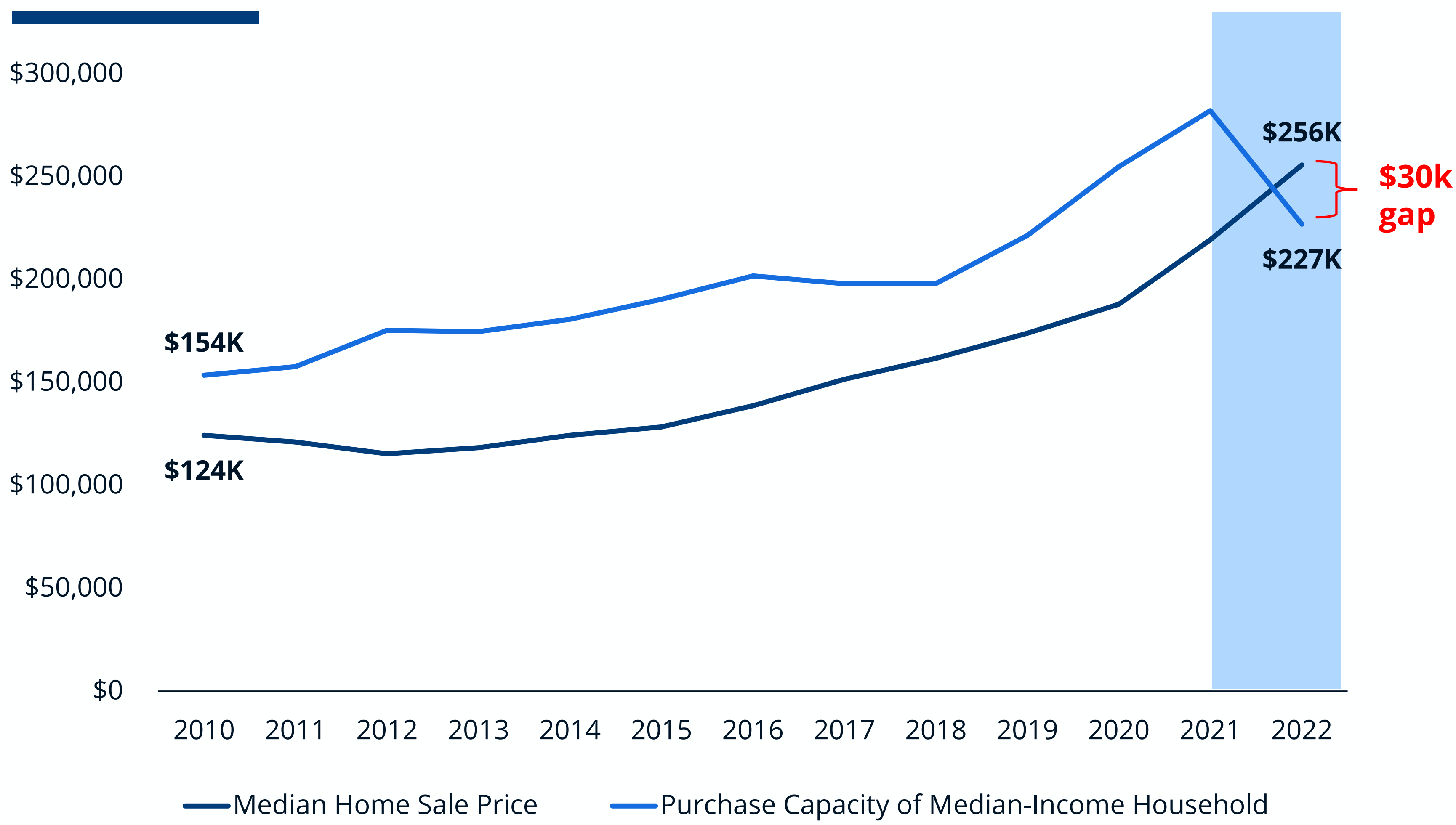
HOUSING NEEDS DECLINING HOMEOWNERSHIP ACCESS

Increasing home prices have fueled a decline in the accessibility of homeownership in Chattanooga.

Median home prices have risen steadily over the past decade, from a low of just over $150,000 in 2012 to over $188,000 in 2020. Since 2020, driven in part by the COVID-19 pandemic and resulting market shifts, home prices have increased sharply, reaching a median price of almost $260,000 in 2022, an increase of 36% in just two years.

Homeownership was accessible for the median income household in Chattanooga for most of the past decade, but recent increases in home sales prices have widened the gap between the median sale price and the price of homes the median income household can afford to purchase (at a minimally competitive level) and put homeownership out of reach for the median household.

MEDIAN HOME SALES AND PURCHASE CAPACITY
(2020-2023)



36%

Increase in median home price, 2020 - 2022

$30,000

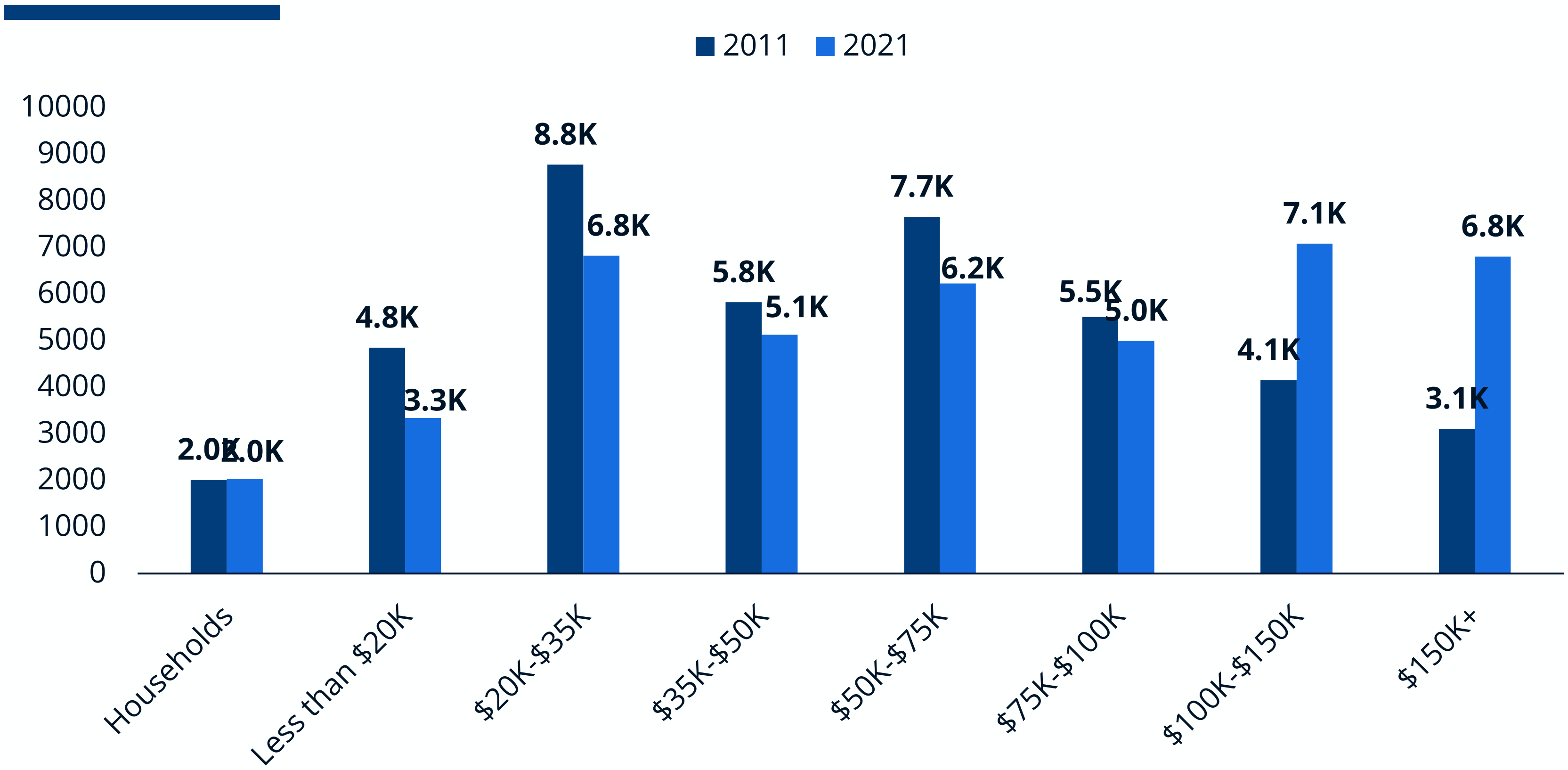
Gap between what a median income household can afford to purchase and the median price home in Chattanooga, 2022

HOUSING NEEDS DECLINING HOMEOWNERSHIP ACCESS

Limited supply of affordable housing and increasing competition for housing has put homeownership out of reach for many households.

Over the past decade, homeownership rates have fallen for all households except for households earning over $100,000 as the cost of homeownership has risen and higher-income households moving into Chattanooga has increased competition for housing among moderate-income homeowners. From 2011 to 2021, Chattanooga has seen a loss of 6,100 homeowner households making less than $100,000 annually (23% decrease). In contrast, homeowner households making over $100,000 have seen homeownership rates increase by 90%, an addition of over 6,600 high-income homeowners in the same period. This trend illustrates how homeownership has become increasingly inaccessible for all except high-income households in Chattanooga.

HOMEOWNERS BY INCOME LEVEL (2011-2021)



1%

Increase in homeownership, 2011 to 2021

23%

Decrease in owner households earning less than $100,000 per year, 2011 - 2021

91%

Increase in owner households making $100,000 or more, 2011 - 2021

HOUSING NEEDS INCREASING HOMELESSNESS

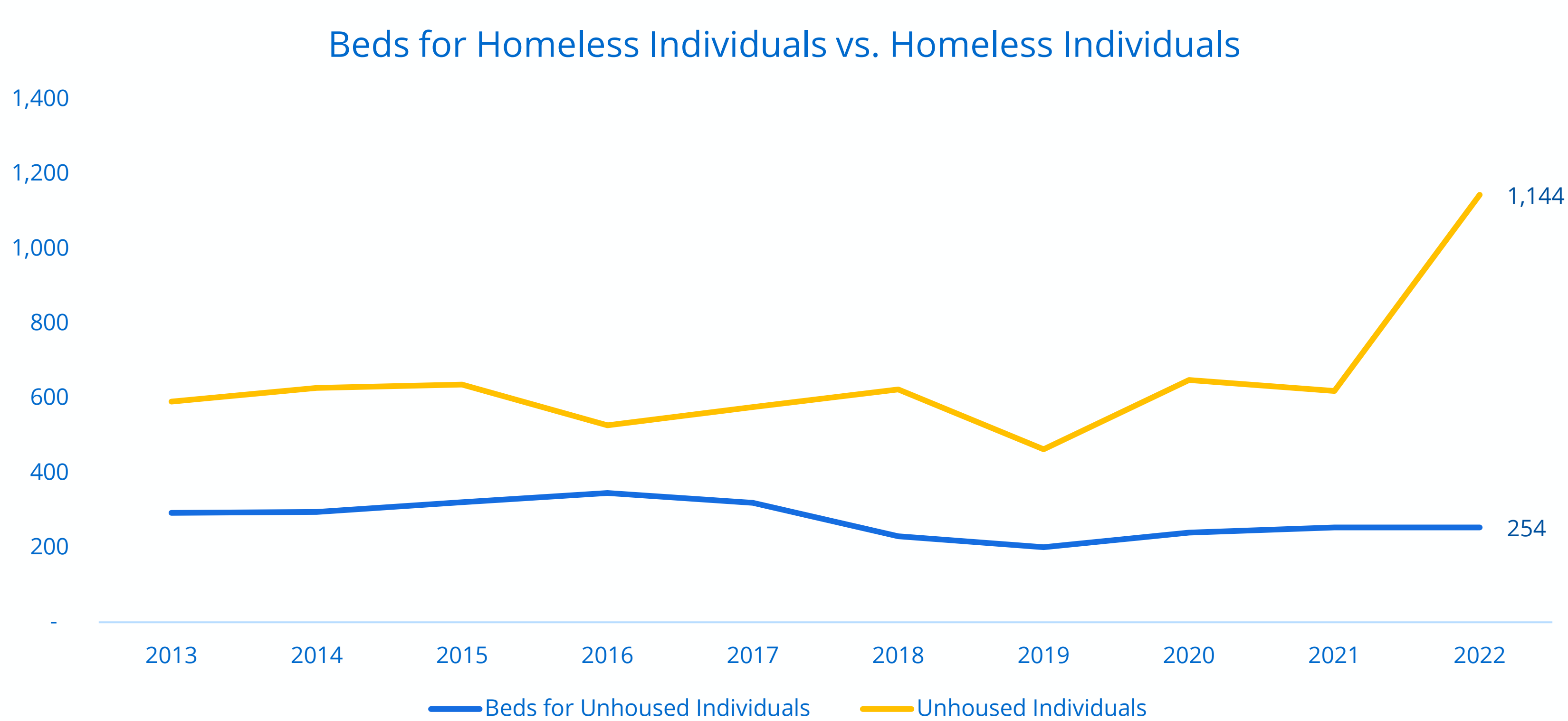
Chattanooga has seen a dramatic increase in homelessness since the start of the COVID-19 pandemic.

In the wake of the COVID-19 pandemic, the City saw an increase in the number of people experiencing homelessness. The increase of the homeless count far outpaced the number of available emergency shelter beds for homeless individuals.

The rapid increase in homeless counts in Chattanooga over the past few years has exposed gaps in Chattanooga's housing ecosystem for households making 0-30% AMI. Not only have there been an **insufficient number of no- or low-barrier shelters to serve the existing homeless population,** but there has also been a **scarcity of emergency assistance services and supportive services to help households move out of homelessness or secure stable, affordable housing,** with existing services having high barriers to participation**.** Furthermore, the City has **no homelessness prevention initiatives** to limit inflows of homelessness with eviction and focuses instead on reducing homelessness through housing places.

Following a Housing First approach, the City has been successful in rapidly rehousing individuals with vouchers through a landlord engagement and housing navigation program that connects unhoused people to stable, affordable rental housing. It has typically identified 30 to 40 housing units per month and housed 35 households per month. As a result, the length of time in homelessness is under 3 months. Prior to the pandemic, the City used to house 700 people annually, but this number has fallen in recent years as smaller landlords went out of business during the COVID-19 pandemic.

BEDS FOR HOMELESS INDIVIDUALS VS. HOMELESS INDIVIDUALS (2013-2022)



HOUSING NEEDS RACIAL INEQUITY

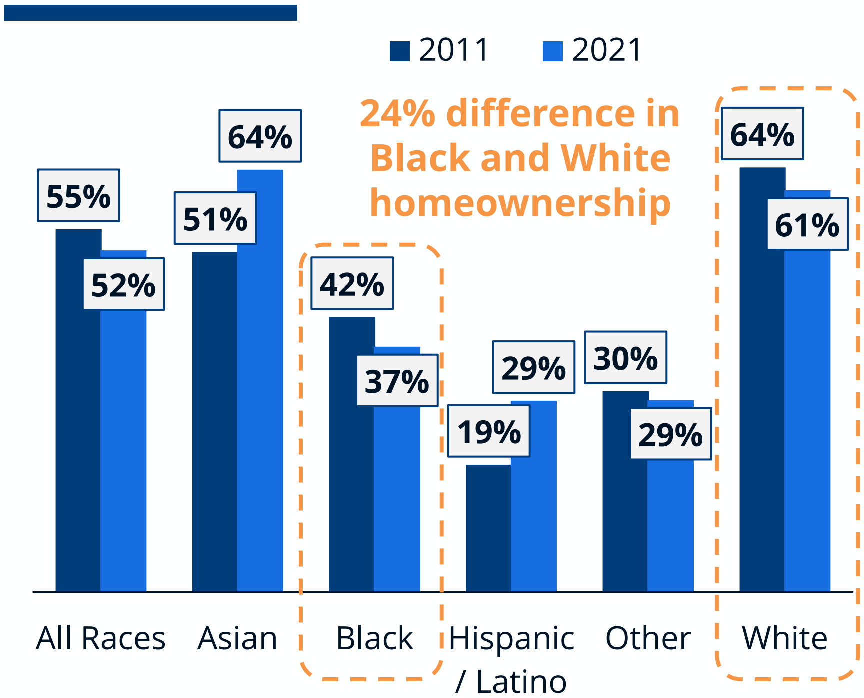
Black households face higher barriers to homeownership and rental affordability than White households in Chattanooga.

Access to Homeownership

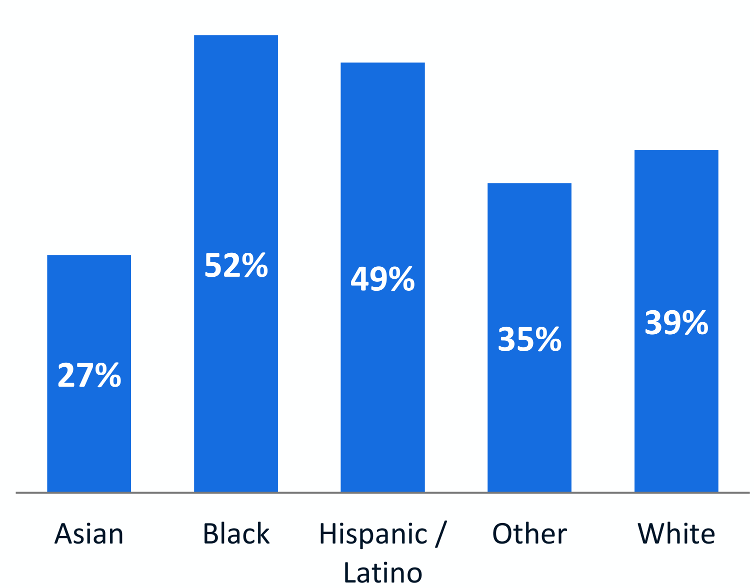
Black homeownership has been among the lowest in Chattanooga and has declined at the fastest rate of all racial groups in the past decade. Black, Latino, and Other households have significantly lower homeownership rates compared to white households in Chattanooga. Lower Black homeownership and racial wealth gaps are products of decades of systemic racism and redlining policies and practices that have targeted Black communities. Furthermore, racial disparities in homeownership are reinforced by current practices that create barriers to accessing homeownership for non-White households.

Non-White households, especially Black households, experience disproportionately high mortgage denial rates, which creates a major obstacle to homeownership access for a rapidly growing segment of Chattanooga's population. Income alone is not the primary factor hindering access to ownership, a Black household earning $100K has a higher mortgage denial rate than a White household earning $35K. The most cited reason for denial is credit scores. In addition, when loans are granted to non-White households, they are structured to disadvantage non-White households. Higher interest rates increase the cost of homeownership for non-White households compared to their White counterparts, across all income categories.

COMPARATIVE HOMEOWNERSHIP RATES BY RACE (2011-2021)



SHARE OF COST-BURDENED RENTERS BY RACE (2021)



Access to Affordable Rental Homes

The racial wealth gap for renters parallels existing dynamics in homeownership access. Black and Latino renters experience the highest rates of housing cost burden compared to other racial groups, paying over 30% of their income in monthly housing expenses.

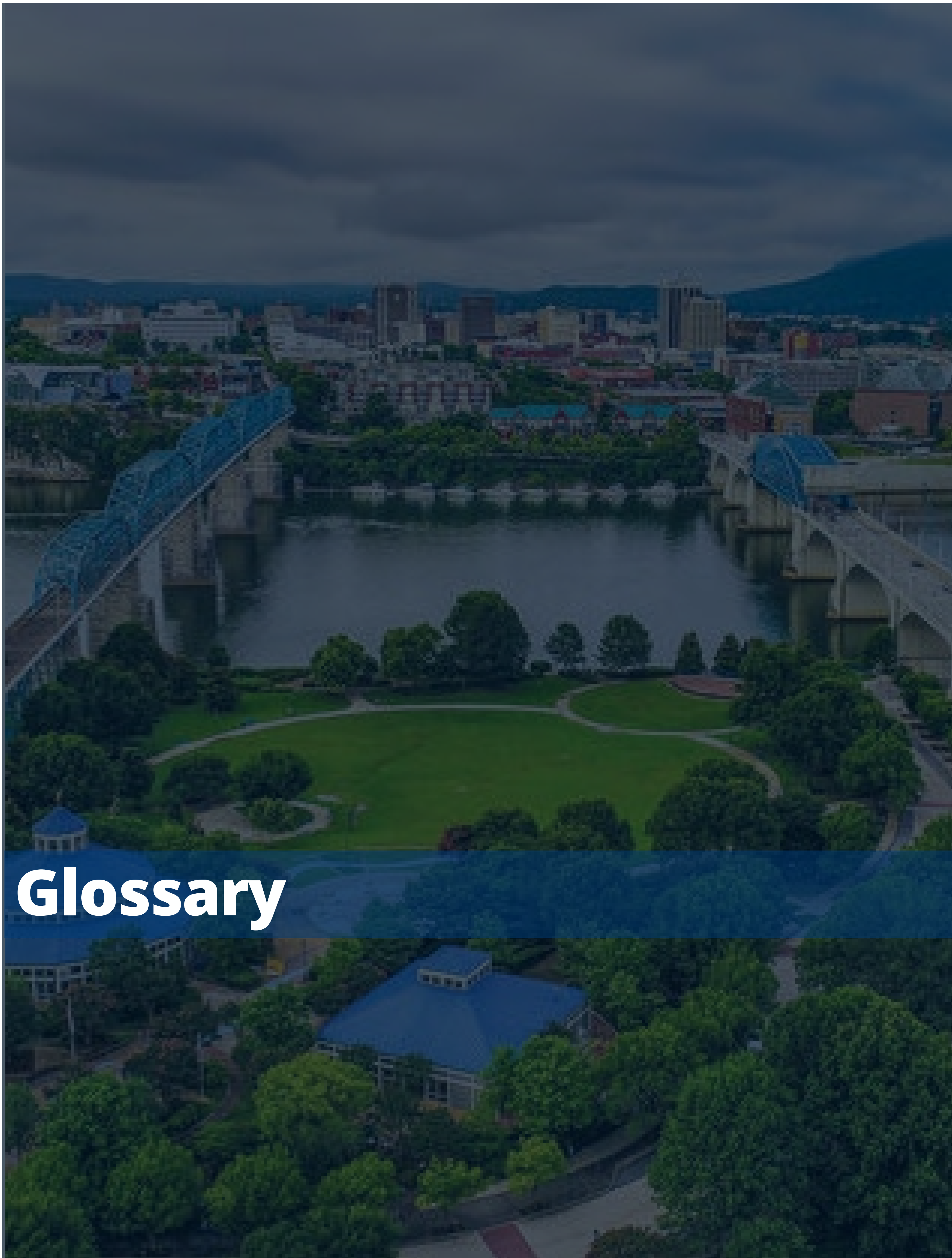
Area Median Income

AREA MEDIAN INCOME

Chattanooga, TN –GA MSA AMI (2023)					
AMI	**30%**	**50%**	**60%**	**80%**	**100%**
1 Person	$16,740	$27,900	$33,480	$44,600	$55,800
2 Person	$19,110	$31,850	$38,220	$51,000	$63,700
3 Person	$21,510	$35,850	$43,020	$57,350	$71,700
4 Person	$23,880	$39,800	$47,760	$63,700	$79,600
5 Person	$25,800	$43,000	$51,600	$68,800	$86,000
6 Person	$27,720	$46,200	$55,440	$73,900	$92,400
7 Person	$29,640	$49,400	$59,280	90,000\	$98,800
8 Person	$31,530	$52,550	$63,060	$84,100	$105,100

Footnote: Income limits for households making up to 50% AMI and 80% AMI are the exact numbers provided by HUD, and the other income limits are extrapolated from these figures.

Source: HUD FY 2023 Income Limits Summary



Glossary

GLOSSARY

Area Median Income (AMI)
AMI represents the midpoint in the distribution of household incomes within a certain geographic region. HUD publishes annual AMI levels for regions, adjusted for family size. The HUD-provided AMI is used to determine applicants' eligibility for both federally and locally funded housing programs where participation is dependent on income levels.

American Rescue Plan Act (ARPA)
ARPA is a stimulus package passed by the federal government in March 2021. It includes several provisions aimed at supporting housing and homelessness initiatives, such as funding for emergency rental assistance, homeless assistance grants, and homeowner assistance. Additionally, the ARPA provides funding for the construction and preservation of affordable housing, as well as resources for fair housing enforcement and rural housing programs.

Community Development Block Grant (CDBG)
The Community Development Block Grant program, authorized by the federal government in 1974, provides annual grants to participating state and local jurisdictions, called "non-entitlement" and "entitlement" communities, respectively. HUD determines the amount of each grant by using a formula comprised of several measures of community need, including the extent of poverty, population, housing overcrowding, age of housing, and population growth lag in relationship to other metropolitan areas.

Community Reinvestment Act (CRA)
The CRA became law in 1977 and is intended to address systemic inequities in accessing credit. The CRA encourages banks to help meet the credit needs of the entire community in which they do business, with a particular focus on low- and moderate- income (LMI) communities, consistent with safe and sound operations.

Cost Burden
A household is considered cost-burdened when 30% or more of their household income is spent on gross housing costs (can apply to renters or homeowners).

Down Payment Assistance
Down Payment Assistance improves access to affordable homeownership by reducing the upfront cost of homeownership through grants or forgivable loans provided to income-qualified households to cover a portion of the down payment and closing costs for a home. Down Payment Assistance helps low- and moderate-income households secure stable housing and build wealth. It is often paired with homeownership counseling to help first-time homebuyers learn the homebuying process and plan for the costs of buying and owning a home.

Extreme Cost Burden
A household is considered extremely cost-burdened households when 50% or more of their household income is spent on housing costs (can apply to renters or homeowners), often leaving them with very little to cover remaining household costs.

Gap Financing
Due to high development costs, building housing often requires additional subsidy. Public entities can increase the development of affordable housing by providing below-market "gap financing" loans to bridge the gap between the cost of development and the funding sources available through typical sources including equity, developer contributions, and the traditional debt that can be supported by rental income. Gap financing can be used to meet specific housing priorities, such as longer affordability terms, more units at deeper levels of affordability, or targeting development in high-opportunity areas.

Housing Trust Fund
A pool of funding, usually public, that is dedicated to addressing housing issues. The focus an operations of housing trust funds vary widely across communities. As Federal funding for housing programs has declined nationally, and the need for affordable and stable housing has been growing, housing trust funds have expanded to help address growing housing insecurity. Locally-funded and controlled Housing Trust Funds can help replace lost federal funding and can help flexibly meet a range of local housing needs.

GLOSSARY

HOME Investment Partnership (HOME)

HOME was authorized by the federal government in 1990. It is a federal block grant to participating jurisdictions, which then use the funds to provide affordable rental and homeownership housing to low- and moderate-income families. When HOME funds are used for rental activities, at least 90% of the units must be occupied by households with incomes at or below 60% of AMI, with the remaining 10% are to be occupied by households with incomes at or below 80% of AMI. In rental properties with five or more HOME units, 20% of the units must be set aside for households with incomes at or below 50% of AMI. Depending on the amount of HOME subsidy per unit, HOME funding applies 5- to 20-year affordability restrictions on units.

Housing Choice Voucher

The Housing Choice Voucher (HCV) Program, also known as Section 8, is a federal program administered at the local level. These vouchers are Tenant-Based Vouchers, in which the voucher moves with the tenant, and the tenant is responsible for finding rental housing. Administered by HUD and managed at the local level by public housing agencies (PHAs), it is the largest HUD rental assistance program.

Individual Development Account

An Individual Development Account (IDA) is a type of savings account designed to help low-income individuals build assets and achieve financial stability and long-term self-sufficiency. People use IDAs to save money to start a business, pay for education, or buy a home. The JP Morgan Chase Institute found that reducing the amount of down payment while increasing the amount of reserves a household held in the bank to three months' housing costs greatly reduced the risk of foreclosure.

Low Income Housing Tax Credit (LIHTC)

The LIHTC Program is a federal program that provides a dollar-for-dollar tax credit to support the development of affordable rental housing. The LIHTC program distributes federal income tax credits to developers through state housing finance agencies, which are responsible for determining which projects receive tax credits under the state’s allocation. There are two general types of credits that can be awarded. 9% LIHTC are higher-value credits that cover a greater percentage of projects’ development costs and are awarded on a competitive basis. 4% LITHC cover a lower percentage of projects’ development costs and are generally awarded to any projects that meet specific programmatic requirements and are financially feasible. 4% credits are usually paired with tax-exempt bond financing to make up the difference.

Market-Rate Affordable Housing or Naturally Occurring Affordable Housing (NOAH)

Market-rate affordable housing is housing that is priced by market forces at levels that are affordable to low-income residents. Housing is traditionally considered affordable if the total housing cost (rent or mortgage plus utilities) for the household represents no more than 30% of its income. NOAH housing often makes up a significant portion of a jurisdiction’s affordable housing stock, in addition to publicly-subsidized housing.

Mortgage Loan Pool

A mortgage loan pool allows participating financial institutions and funders to jointly fund a program that originates mortgages with favorable terms to help low-income first-time homeowners access homeownership. Such a program both expands options and access for these homeowners and helps to minimize risk to banks who participate in offering nonconforming mortgages, such as those with lower down payment and other flexible guidelines.

Owner-Occupied Rehabilitation

Owner-occupied rehabilitation programs help maintain the affordability of homeownership by ensuring that income-qualifying homeowners can make necessary repairs to make their homes safe. These programs typically provide low-cost loans or forgivable loans or grants for qualifying homeowners (often low-income households and low- to moderate-income seniors) to make necessary repairs to major systems, weatherization or energy efficiency upgrades, and accessibility improvements.

GLOSSARY

Public Housing

Public housing is a type of affordable housing that has been traditionally owned by a local government agency or authority. In most places, this is a public housing authority. HUD provides federal aid to local housing authorities to operate housing for residents, who pay rents that they can afford. In the United States today, there are approximately 1.2 million households living in public housing units, managed by some 3,300 housing authorities (Source: HUD).

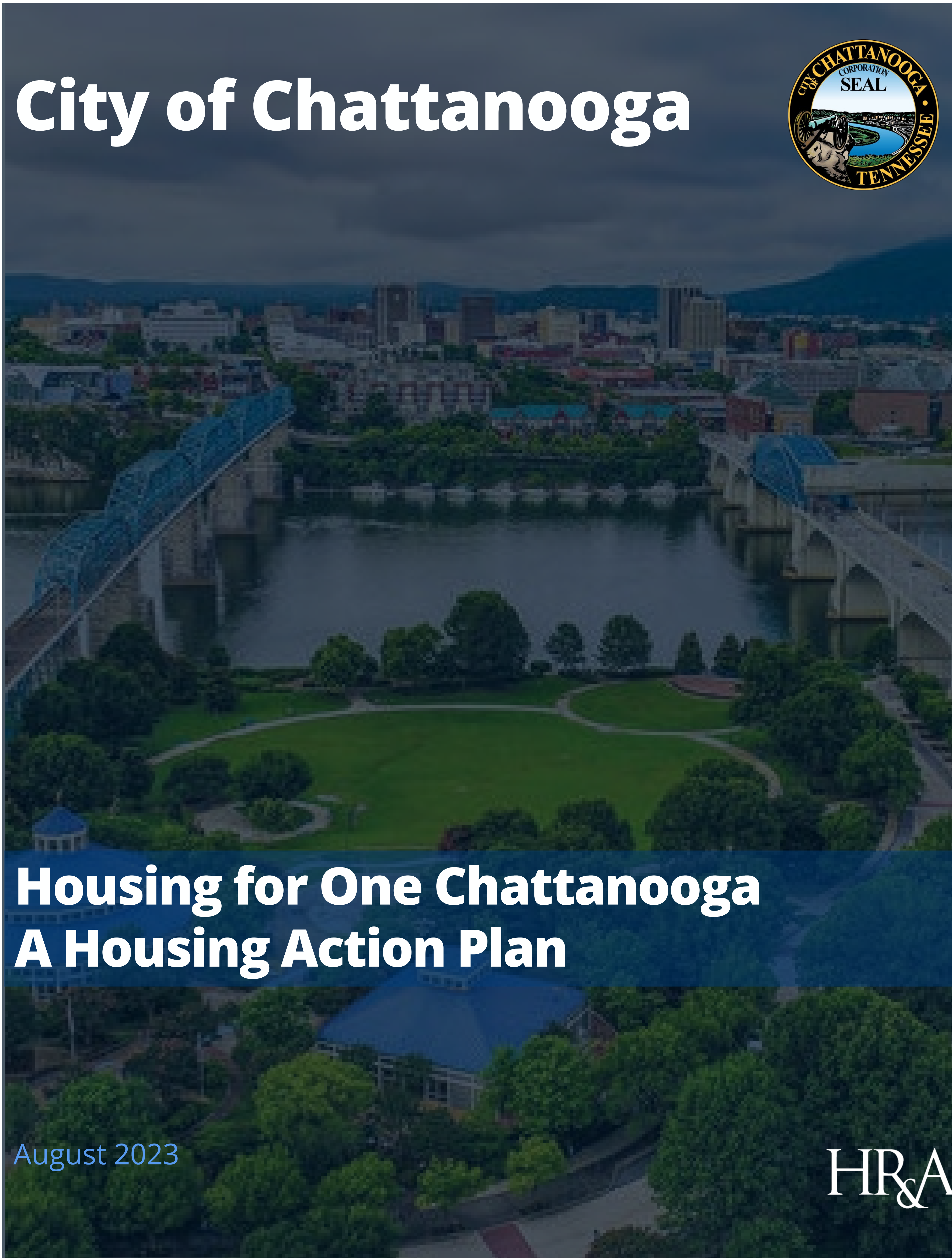
Public Land Disposition

Planning for the disposition of public land to support affordable housing can take several forms, including identifying suitable sites for affordable housing and making them available at a subsidy to developers, and selling some sites (including those not suitable for affordable housing) at market price and using proceeds to support other affordable housing efforts.

Public-Private Partnership

A collaboration between a government entity and a private sector organization to jointly develop and finance affordable housing projects. The government often provides land, funding, tax incentives, or other forms of support, while the private sector partner can contribute financing, expertise, and resources to design, build, and manage the housing development.

City of Chattanooga



Housing for One Chattanooga
A Housing Action Plan

August 2023

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