



Affordable Housing Payment-in-Lieu-of-Taxes (PILOT)

Program Guidelines

City of Chattanooga

Health, Educational, and Housing Facility Board

Purpose

To incentivize construction or renovation of multi-unit housing that provides units affordable to low- and moderate-income households.

Program Overview

The City of Chattanooga, in partnership with the Health, Educational, and Housing Facility Board (HEB), administers a program that provides partial property tax abatements for a period of fifteen years. In return, participating property owners must designate a share of rental units as income-restricted and affordable to low- and moderate-income households. The percentage of tax abatement granted is determined by both the number of affordable units provided and the depth of affordability achieved.

Eligibility and Project Requirements

- **Project Location:** The proposed project must be located within the City of Chattanooga.
- **Project Scale:** The proposed project must include a minimum of 10 housing units.
- **Project Type:** The proposed project must be multi-unit housing that is either new construction or renovation of an existing structure involving substantial capital improvement.
- **Site Control:** The applicant must own the property or have an enforceable option to purchase at the time of application.
- **Zoning Entitlements:** The proposed project must be allowed under the current zoning of the property. If rezoning is needed, this must be complete prior to PILOT application.
- **Application Timing:** Applicants must have a signed PILOT Lease and Agreement with the HEB before the commencement of construction or rehabilitation of the project.

Abatement Terms and Financial Structure

- **Calculation of PILOT Abatement:** The eligible tax abatement percentage for each project is determined using the PILOT Calculator published on the City of Chattanooga's website. The calculation is based on the difference between market rents, based on HUD- published Annual Small Area Fair Market Rent, and affordable rents, as determined by HUD-published Area Median Incomes. The PILOT Calculator is updated regularly to reflect new HUD figures and adjustments to City or County tax rates.

- **Calculation of PILOT:**

The required annual payment in lieu of taxes shall equal the sum of:

1. **Predevelopment Taxes:** the taxes payable to the City and County in the year of application. This dollar amount will be fixed.
2. **Hamilton County School Taxes:** the portion of Hamilton County taxes that is dedicated to the schools, levied against the full value of the improvements. This dollar amount will fluctuate with reappraisals and changes to the tax rate.
3. **Unabated Taxes on the Improvements:** the portion of City and County taxes (excluding school taxes) on the full value of the improvements that remains payable after the abatement percentage is applied. A project with a 100% abatement will owe \$0 in unabated taxes. A project with, for example, a 60% abatement would owe the remaining 40% of City and County taxes on the improvements, and the actual dollar amount will fluctuate with reappraisals and changes to the tax rate.

- **Calculation of PILOT (LIHTC):**

For projects that leverage Low Income Housing Tax Credits, the PILOT Agreement will contain a fixed schedule of PILOT payments for the duration of the PILOT term. The annual payments recorded in the schedule shall equal the sum of:

1. **Predevelopment Taxes:** the taxes payable to the City and County in the year of application.
2. **Hamilton County School Taxes:** the estimate of the school taxes owed on the improved value as recorded in the application's PILOT Calculator. The estimate shall utilize the projected valuation provided by the Hamilton County assessor during the Application Conference. The school tax portion of the PILOT payment will increase 3% annually.

- **PILOT term:** The PILOT will remain in effect for 15 years, beginning in the first tax year in which the project is placed in service. The project must comply with all affordability requirements for the duration of this period.
- **Renewal:** Participants may apply for renewal for a second 15-year PILOT term if the project has remained in compliance with program guidelines and the PILOT Agreement. Renewal terms, including affordability requirements, will be based on the PILOT program in effect at the time of the renewal application and may be subject to negotiation with the City.
- **Subsidy Layering:** Projects receiving Low-Income Housing Tax Credits (LIHTC) and/or

HUD subsidies are eligible and may combine those funds with PILOT abatements. Projects that use the City's Voluntary Incentives Program (VIP) cannot count VIP-required affordable units toward their PILOT tax abatement. However, developers may combine the two programs within the same project, meeting the baseline VIP requirements and using the PILOT to provide additional affordable units.

- **Annual Program Cap:** The total value of affordable housing tax abatements awarded under the PILOT program shall not exceed \$2 million in any fiscal year.
- **Application Fee:** Upon application submission, a \$1,500 application fee is due, payable to the City of Chattanooga. 501(c)3 organizations are exempt from the application fee. Checks should be mailed or hand delivered to:

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

- **Closing Fee:** At financial closing for the project, a closing fee for the PILOT will be due. Checks shall be payable to the Health, Education and Housing Facility Board, according to the following fee schedule:
 - \$1,000 - \$50,000 of annual abatement granted: **\$5,000** closing fee
 - \$50,001 - \$100,000 of annual abatement granted: **\$10,000** closing fee
 - \$100,001 or more annual abatement granted: **\$15,000** closing fee

Legal Structure

Under the Tennessee Constitution, local governments cannot directly abate property taxes. However, property owned by a local government is tax-exempt. Chattanooga's Affordable Housing PILOT program operates by titling the property in the name of the Health, Education, and Housing Facilities Board (HEB) and leasing it back to the developer. The arrangement is governed by a **PILOT Lease** and **PILOT Agreement**, both of which use standardized City contracts available on the City's website. Key Provisions include:

- **Predevelopment Tax Freeze:** The predevelopment property value is frozen at the time the PILOT Lease is executed. If construction does not begin within one year, the lease will be terminated, and the property returned to private ownership and full taxation.
- **PILOT Term Start:** The affordability period and 15 year PILOT term begin once a Certificate of Occupancy is issued. If the Certificate of Occupancy is not issued within three years, the lease will be terminated, and the property returned to private ownership and full taxation.
- **Ownership Transfer:** Ownership of a property with a PILOT Agreement may be transferred, but the PILOT cannot be assigned without prior written approval from HEB and a written commitment by the assignee to assume all obligations under the original

agreement. The assignee must also demonstrate experience managing similar multi-unit projects.

- **Ongoing Compliance:** HCI and HEB, or their designee, will monitor projects for compliance throughout the PILOT term. If a project is not completed substantially as represented in the application, the HEB may terminate the lease, and the property will return to private ownership and full taxation.
- **Early Termination Penalty:** If the owner defaults or voluntarily exits the program before the end of the 15-year term, they must make an additional in-lieu payment equal to 150% of the abatement value at the time of termination.

Programmatic Requirements

Unit Size and Quality: Income-restricted units must be comparable to market rate units in terms of quality, size, configuration, and location within the project.

Fair Housing Compliance: Property owners must comply with all applicable fair housing laws. Prior to the issuance of a Certificate of Occupancy, applicants must provide the City of Chattanooga with documentation verifying completion of a Fair Housing Training conducted by a nationally certified training organization.

Lease Requirements: Tenant leases for income-restricted units in projects receiving an Affordable Housing PILOT **must include** the following terms:

1. **Rent determination:** The lease must notify the tenant that their monthly rent is set in accordance with the City of Chattanooga's Affordable Housing PILOT Program and that the allowable rent will be updated annually based on the HUD Area Median Income.
2. **Income Verification:** The lease must inform the tenant that their gross household income at the time of lease signing determines their eligibility for a rent-restricted unit. Tenants will be required to periodically verify their income to confirm ongoing eligibility.
3. **Income-Based Eligibility:** The lease must state that the tenant will become ineligible to remain in the unit if their gross household income exceeds 140% of the income limit for their unit.
4. **Notice of Rent Changes:** The lease must guarantee at least 60 days advance notice prior to any rent increase. The notice must include the new rental amount, the effective date of the change, the reasons for the change, and a statement of the tenant's right to meet with the landlord to discuss the change.
5. **Expiration of Program Requirements:** The lease must state the month and year when the PILOT lease and program affordability requirements are scheduled to expire. In addition, property owners are required to provide written notice to all income-restricted tenants at least twelve months prior to the expiration of the PILOT lease.

Tenant leases for income-restricted units **shall not include** any of the following:

1. **Agreement to be Sued:** Any clause in which the tenant agrees to be sued, admit guilt, or consent to judgement in favor of the owner in connection with the lease.
2. **Treatment of Property:** Any clause allowing the owner to take, hold, or sell the tenant's

personal property without notice and a court decision. This prohibition does not apply to agreements regarding property left behind after move-out, which may be disposed of in accordance with state law.

3. **Excusing Owner from Responsibility:** Any clause releasing the owner or the owner's agents from legal responsibility for their actions or negligence.
4. **Waiver of Notice:** Any clause waiving the tenant's right to receive notice before the owner institutes a lawsuit.
5. **Waiver of Legal Proceedings:** Any clause permitting eviction without a civil court proceeding or before a court decision on the rights of the parties.
6. **Waiver of Right to Appeal:** Any clause requiring the tenant to waive their right to appeal or otherwise challenge a court decision.
7. **Mandatory Payment of Legal Costs:** Any clause obligating the tenant to pay attorney's fees or legal costs regardless of the outcome of a proceeding. (Tenants may only be obligated to pay such costs if they lose the case.)
8. **Termination of Tenancy:** Any clause allowing the owner to terminate tenancy or refuse lease renewal except for:
 - a. Serious or repeated violation of lease terms,
 - b. Violation of federal, state, or local law,
 - c. Completion of a transitional housing period, or
 - d. Other good cause.

Any termination or non-renewal must be preceded by at least 30 days' written notice specifying the grounds for the action.

Application and Approval Process

Application materials are available on the City's website and must be submitted through the City's PILOT Application portal. Complete applications include the following components:

1. **Program Guidelines** with the appropriate signatures (this document)
2. **Application Worksheet** (download Excel from the PILOT website)
3. **Supporting Documents** (PDF)
4. **\$1,500 Application Fee** (instructions above)

The Affordable Housing PILOT approval process involves four steps and typically requires three to four months from submission to final execution. A flow chart is provided at the end of this document. Applicants are strongly encouraged to contact the City's Housing Division before submitting an application.

1. **Initial Application Submissions:** Once submitted, the Housing and Community Investments (HCI) Division will review the application for completeness. If materials are missing or incorrect, staff will notify the applicant. Once complete, the application will receive an **Initial Completeness Approval** and be forwarded to the Hamilton County Assessor's Office for review.

2. **Application Conference:** HCI will schedule a meeting with the applicant and the County Assessor's Office. At this meeting, the Assessor will provide an appraised value of the improvements, which is used in the abatement calculation. Applicants may revise their unit mix based on this appraisal and resubmit their updated application to HCI. Once reviewed, HCI will issue **Preliminary Approval**.
3. **City Council Approval:** The HCI team will assist the applicant in meeting with City Council members and preparing for a project presentation. A resolution to grant an Affordable Housing PILOT will be placed on the Council agenda for a vote. Projects that receive **City Council Approval** may proceed to HEB for execution. Projects financed with Low-Income Housing Tax Credits (LIHTC) do not require City Council approval and move directly to HEB for execution following the Preliminary Approval.
4. **HEB Execution:** The HCI team will schedule the project presentation at a Health, Educational, and Housing Facility Board (HEB) meeting, held monthly on the third Monday. During this stage, the PILOT Lease and Agreement are finalized using the City's standard forms (available on the City's website). The HEB will vote on a resolution to **execute the PILOT Lease and Agreement**.

In reviewing PILOT applications, the City evaluates whether the incentive is necessary to deliver quality affordable housing that remains financially viable for the full affordability period while allowing a reasonable return on the developer's investment. This review considers factors such as neighborhood market demand, the developer's experience and financial capacity, the project's sources and uses of funds, cost reasonableness, and financial commitments. The City may also draw on guidelines or evaluations from other agencies, such as THDA or HUD, and reserves the right to reject proposals that do not align with program expectations.

Long-Term Compliance

- **Required Documentation before Occupancy:** After executing the PILOT agreement and prior to the release of the Certificate of Occupancy, property owners must provide the City with:
 - Documentation of having completed a Fair Housing Training with a nationally certified training organization.
 - A sample lease agreement and other documents provided to tenants of income-restricted units.
- **Affordability Compliance:** By August 1 of each year, all active PILOT participants must submit a compliance report prepared by a qualified third party (e.g., property management company, affordable housing consultant, or HUD contractor). The report must include:
 - A full rent roll.
 - Incomes of tenants in income-restricted units.

HCI will use the report to verify that the project complies with the rents and tenant income restrictions committed to in the PILOT Agreement. Failure to submit the required documentation, or evidence of non-compliance, will incur a \$30,000 per unit civil penalty

and may result in termination of the PILOT lease and the imposition of associated penalties.

- **Habitability Compliance:** The City may conduct inspections under Chapter 21, Article V of City Code – Interior Requirements in years 5, 10, 12, and 14 of the PILOT term. Inspections of unit interiors and public spaces may also occur at any time in response to tenant complaints. Failure to remedy cited violations within six months will incur a \$5,000 per non-compliant unit civil penalty and may result in termination of the PILOT lease and the imposition of associated penalties.
- **Owner Contact Information:** If ownership changes during the PILOT lease, the property owner must provide the City with updated contact information for both the principal owner and the property manager.

City Reporting

By March 15 of each year, HCI staff must provide the HEB with an annual report on the Affordable Housing PILOT Program. The report shall include:

- A list of all real and personal property owned by the HEB and its subsidiaries for which PILOT agreements have been executed.
- The assessed value of each property, as estimated by the Hamilton County Tax Assessor's Office.
- The date and term of the lease for each property.
- The amount of payments made in lieu of property taxes for each property.
- The date each property is scheduled to return to the regular tax rolls.

This report may also be provided to the City Council upon request.

Definitions

“PILOT” means the payment in lieu of ad valorem taxes. PILOTs shall be equal to the Hamilton County School portion of the property taxes according to the assessment of the complete project in any given year, plus the pre-development value at the “PILOT freeze” amount, plus the City and County taxes remaining after deducting PILOT abatement from the improvement value of the property.

“Predevelopment Value” shall be equal to the appraised value of the property according to the Hamilton County Tax Assessor at the time of the PILOT award and approval of the PILOT lease with HEB, prior to new improvements on the property. This amount shall be “frozen” at a fixed amount for the duration of the PILOT term.

“PILOT Abatement” means the amount that is subtracted from the assessed value of the improvements according to the affordability terms committed for each project. Abatement applies to up to one-hundred percent of the assessed value of the proposed improvements on the property.

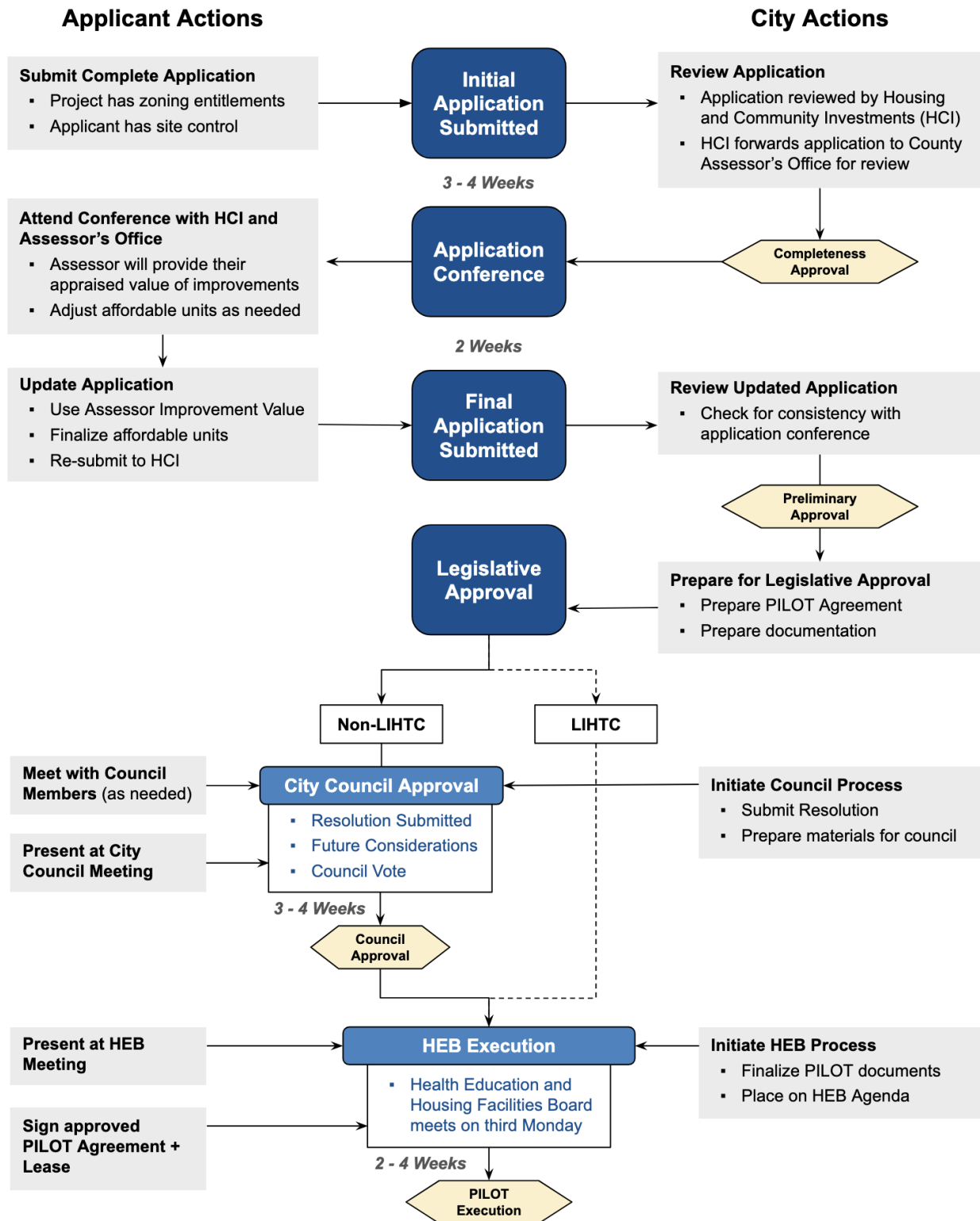
“Affordability terms” the number of affordable rental units committed at a certain level of affordability according to HUD Area Median income and size (according to bedrooms), which shall be documented in the PILOT agreement.

“PILOT Term” means the 15 year period of time during which annual PILOTs are due in exchange for provision of affordable rental units in accordance with the affordability terms of the PILOT.

“PILOT Lease” means the lease from the HEB to the developer of property subject to this Program.

“Substantial Capital Improvement” means at least improvements costing more than 50% of the building’s assessed value.

Affordable Housing PILOT Approval Process



Acknowledgement and Signature

This application is made in order to induce tax abatement for the project and applicant/s referenced below.

- The applicant acknowledges that they have reviewed the above Affordable Housing PILOT program guidelines and agrees to comply with those policies.
- All information materially significant in the consideration of the applicant is included. The applicant hereby represents that all statements contained in the attached application materials are true and correct.
- The applicant acknowledges and agrees that the PILOT Agreement and Lease shall not be executed until all necessary approval has been granted for the plans for the project.
- The applicant shall mail or hand deliver the \$1,500 application fee to the City of Chattanooga as specified above upon submission of this application.

Project Considered for PILOT

Project Name: _____

Project Address: _____

Primary Applicant

Name: _____

Title: _____

Company: _____

Primary Applicant Signature: _____

Co-Applicant

Name: _____

Title: _____

Company: _____

Co-Applicant Signature: _____