



HEALTH, EDUCATIONAL, AND HOUSING FACILITY BOARD

City of Chattanooga, Tennessee MONTHLY MEETING MINUTES

John P. Franklin City Council Building
J.B. Collins Conference Room
1000 Lindsay Street
Chattanooga, TN 37402

for

July 21, 2021

12:00 p.m.

Present were Board Members: Gregg T. Gentry (Vice-Chair), Richard Johnson, Amanda Jelks (Secretary), Charles D. Paty, and Johnika Everhart. Absent were Hicks Armor (Chair), Dr. John W. Schaerer, and Alexa C. LeBoeuf.

Also present were Valerie Malueg (Attorney); Sandra Gober and Zach Gentry (ECD); Thomas Robinson (Alco Management); Jay Moneyhun (Bass Berry & Sims); and Steve Barrett (Husch Blackwell LLP).

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

MINUTES APPROVAL FOR THE FEBRUARY 24, 2021, MEETING

On motion of Mr. Johnson, seconded by Ms. Jelks, the minutes of the May 26, 2021, meeting, were approved as submitted.

There was no person present wishing to address the Board.

1. Mr. Gentry presented the next order of business: **“FINAL RESOLUTION OF THE HEALTH, EDUCATIONAL AND HOUSING FACILITY BOARD OF THE CITY OF CHATTANOOGA, TENNESSEE AUTHORIZING ISSUANCE OF NOT TO EXCEED \$10,500,000 PRINCIPAL AMOUNT COLLATERALIZED MULTIFAMILY HOUSING BONDS (BATTERY HEIGHTS APARTMENTS PROJECT), SERIES 2021.” (HEB2021-07)** Mr. Jay Moneyhun (Bass Berry & Sims) is serving as bond counsel for this bond financing for Battery Heights. This project has been before this Board a few times. Initially, they came with a preliminary bond resolution which was adopted and allowed the developer to apply for bond allocation and low income housing tax credits to THDA which is the state authority in Tennessee that allocates bond authority and tax credits to these types of projects. The THDA took this application along with other applications and approved the allocation and has awarded this project bond allocation and now they are back before the Board to seek final approval for the bond financing. There are maybe a few newer members of the Board and would like to recap to go through this type of transaction. They are doing substantial rehabilitation to this project renovating

all the units and in order to qualify for the tax credits, at least 50% of the project cost has to be financed with tax exempt bonds. The resolution authorizes the bond issuance of up to \$10.5 million. The Board issued those bonds, and the Board serves purely as a conduit. None of the Board's assets are at stake to pay the bonds back and are relying solely on the amounts that come from the developer to pay off the bonds.

This type of transaction is sometimes called a "cash collateralized bond issuance" which is short-term, and the bonds are only outstanding while they are actually doing the construction and rehabilitation. Typically, the bonds are only outstanding for about two to three years and are paid off. During the entire time, the bonds are collateralized with cash or treasuries. So if there is a default, the bondholders have cash to pay off the bonds. There is very little risk. The bonds are rated by a rating agency and have a AA+ rating. They basically get the rating of what cash or treasuries would be because they are cash collateralized.

The underwriter that will sell the bonds to the public is Raymond James. This is probably the most utilized bond financing structure for this type of project over the past ten years. Also, the developer, some of you may remember back a few years ago, did a very similar bond issuance through this board for Woodlawn Apartments which is another rehab. The same structure worked well then and is being used all over the state to do these types of projects. The resolution authorizes the officers of the Board to execute the bond documents prepared, circulated, and being reviewed by counsel. They are hoping to close some time in August. They will price the bonds about a week or two before the actual closing. The interest rate on these types of bonds is typically anywhere from .4% to .6%. The bondholders are not getting much interest because they are such a secure investment. The interest income to the bondholders is tax exempt. It is something that bondholders are looking for. There is demand for them. Institutional investors have no problems selling these bonds.

Ms. Valerie Malueg only wanted to add for the minutes that there was the required TEFRA hearing held back in October 28, 2020. That hearing was given a public notice and it was held in compliance with the IRS rules. Mr. Moneyhun stated that is another requirement in order to apply the THDA bond allocation to hold a TEFRA hearing which is required to be done to issue bonds on the tax exempt basis. After the hearing is held, the Mayor or the elected body has to also approve the issuance of the bonds, and they have received the approval from the Mayor. Ms. Malueg stated correct.

Mr. Thomas Robinson thanked the Board for holding a special meeting and coming in for one topic. Mr. Robinson thanked the Board for what has been multiple meetings over the past six months. Some are new and some have been for all those. In October, there was an initial resolution on financing. In December, the same board approved a PILOT agreement, and then they applied to THDA in January and got approval for bonds and credit. The THDA underwrites the project, the rehabilitation, and the affordability commitments, and has a significant program for administering these projects. Since then they have applied for a permanent first mortgage which the funds they use will cash collateralize the bonds which is a HUD insured first mortgage. Then they lined up their tax credit investor which is Regions Bank which also worked on the Woodlawn now Bayberry project.

Battery Heights is 142 units, it is about a 150-year old apartment community that has served low income residents and market residents of Chattanooga for 50 years. His boss said Alco has a joke that he feels he is perfectly healthy and somebody asked him why he walks with a limp and he said because he is over 50 years old and he gets a little beat up. An apartment at 50 needs a pretty significant renovation to continue to provide quality housing for another 15, 30, 40, 50 years. The plan is to renovate the property and upgrade all of the kitchen systems, the bathroom systems, the air-conditioner, the water heaters, new windows, new siding, new roofs. It is a very substantial renovation of the property. They had an opportunity to expand on some things that have been going on at Battery Heights which they have a long-term resident services program, a full-time staff member that works with members of the community to provide afterschool programs, meals in the summer, tutoring, computer center, so they are working on the space that they are expanding opportunities there. They are excited. This is the business they are in and think they can make a difference at Battery Heights.

Mr. Robinson is in Acquisitions and Development. Mr. Johnson asked what is the percentage of occupancy currently? Over the last year, it has been about 93-95%. During the renovation for the folks, did you say that you are not completely removing them, and are going to do it in stages? Yes, they are. The folks that will be moved during the process since they are 92% will be impacted. What will be the plans for them? Mr. Robinson responded that they do not move anyone. They have a year-long construction program that really goes trade by trade, room by room. They cannot say that it is not a little bit inconvenient to have your apartment worked on over the course of a year. They have found over doing thousands of apartment units that it is preferable and more stable for people to continue to live where they live and not have to find a new place to live in an interim period. It involves a lot of communication from the property management staff, the contractor, and they work step by step so one day they will replace windows. Mr. Johnson stated that is understandable there will be some disruption, but no one would be displaced even from any amount of time. Mr. Johnson stated that just for his education, does Alco primarily buy properties and refurbished them or rehabbed them or do you actually do new construction as well or combination? They have not done new construction in a long time. They buy properties and renovate it.

Ms. Jelks stated going back to the displacement of residents, they are still going to remain in their present unit, but when they are refurbishing their kitchen and bathroom, are they going to lose access to either of those for more than that same day? Mr. Robinson stated no, you will always have a working kitchen and restroom facility in your apartment. They do budget. Sometimes things come up during construction that you have to do more basic work. They set aside a budget in case that someone would need to stay in a hotel for a few days while work was done in their apartment, and what they do is they coordinate that with the live communication. They found something that is going to come up, this is how they will do that, they pay for it, it is a lot of work, but they try to avoid that.

Ms. Everhart stated she is new and her question is for when you are coming into the homes and people are still occupying them and they have children, say there is a hazard, say a child goes while you are reconstructing and there is an injury, what is the resolve, is there a plan for that if something happens because you are going into people's houses. She has three children so she can just imagine them running around while somebody is renovating. What is the plan if someone gets hurt? Is there enough money to provide some type of service if something happens to an individual

in a home? Mr. Robinson stated everyone carries insurance during the project. Fortunately, that has not been an issue that has come up in the many units that they have renovated. It really does come down to communication. This is what we are going to be doing, this is where people are going to be working, these are the things that will be affected, working with the residents to insure that they do create a safe environment.

Mr. Johnson asked how much notice do they have? A week or two weeks where you are going to be starting on the unit, do you give detail specific? Mr. Robinson stated that they try to let them know, the way their contractor likes to work is trade by trade, one trade will roll from unit to unit in a building and then building to building so you can get advance notice. This is where we are in the project, this is when we anticipate being in your unit to do this work. He cannot say exactly how long the notice is, but it is advance.

Mr. Paty asked as a result of the improvements, will there be an increase in rentals, the amount of the rent? Mr. Robinson stated there are two things going on at the property. ADA 142 units have a Section 8 housing assistance payment contract which is HUD rental assistance. The residents that are in those units, the contract rent that is agreed upon with HUD will go up, the residents' rent in those units will stay the same because it is based upon their income, their max at 30% of their income for renting utilities. The current market rate units, those units will go up over time and what they have agreed to with the City is that any resident that lives in a market unit now will not have their rent increased for a year during construction. Then the next year, there will be a staggered increase, a two bedroom would be about \$800 to \$850 in its final condition, so they would have a staggered increase on the way. Mr. Paty stated on a follow-up, since he was not here, as far as the PILOT agreement, what is the percentage of the units that have to qualify for you to have gotten the PILOT? You have to have so many units for lower income to qualify for the PILOT. Mr. Robinson stated that this is 100%. Mr. Robinson stated that 100% of units will be – this is an average tax credit technical issue. It is an average income. The average income of the apartments will be about 59% of the area median income. Some units are restricted to 40%, some at 60%, and some at 80%. One hundred percent total are going to be below 80% with the average being below 60%.

Mr. Johnson would like to commend Mr. Robinson and will do his due diligence on the City's proclamation for Bayberry. It sets a good standard and baseline. They have the same confidence as Battery Heights. Mr. Gentry thanked Mr. Robinson.

After further discussion, a motion was made by Mr. Johnson, seconded by Mr. Paty, to approve this resolution. The resolution was unanimously adopted by roll call vote 5-0.

Mr. Robinson stated that they should be done after a year of construction and will make sure to invite the Board to the grand opening.

DISCUSSION

Discussion was had regarding changing the meeting date to the Third Monday of the month. Mr. Armor has requested that the meeting date be changed in order to participate on a more routine basis. Mr. Gentry stated he will be in meetings from 9:30 to 12:00, sometimes a little later and on occasion he would have to be late. Mr. Gentry stated that 50% of the time he would be late, and the other 50% of his time, he would be on time. If it is a meeting he is committed to

he cannot miss every Monday, that he cannot step out of. Mr. Paty does not have a problem with the date. Mr. Johnson stated it works okay for him. Ms. Jelks stated she will be rolling off of the Board this fall, but we do have a few lawyers on the Board and Mondays are their standard motion days in Hamilton County, so she imagines there might be some attendance issues with that. Ms. Everhart stated she cannot do a Monday, it is not a good day for her. Ms. Jelks stated you never know when the Court is going to end, you might go at 9:00, and they may not even speak to you until 2:30. Mr. Armor is also available on Fridays. Mr. Armor is not available on Tuesday, Wednesday or Thursday. The meeting needs to be in person, and there is no proxy voting. Mr. Gentry asked if the Board would want to consider a different time on Monday? Mondays are out with the lawyers. Mr. Paty asked about a Friday early? Mr. Johnson stated that typically Fridays is his travel day, he is either gone the Thursday p.m. to Sunday or Monday. That is just one and not always so. Mr. Paty asked to send an e-mail to everybody and say these are the issues. Ms. Malueg asked that it could be put back on the agenda for the next meeting.

There being no further business, the meeting adjourned at 12:30 p.m.

Respectfully submitted,


Amanda Jelks, Secretary

APPROVED:


Hicks Armor, Chair