

City of Knoxville
Affordable Rental Development Program
12/29/2017

Purpose of the Program:

The City of Knoxville has established an affordable rental development program funded with an initial amount of \$2 million for the creation of new affordable and workforce rental housing. This fund is in response to the need for standard rental units that are affordable to low and moderate income renters. Knoxville has lost hundreds of affordable units over the last few years and at the same time, market rents have been steadily climbing. In an effort to increase the supply and long-term availability of rental housing options for persons with modest incomes, this fund has been created to incentivize the development of quality affordable rental housing.

Eligible Applicants:

Eligible applicants may be private individuals, for-profit or non-profit entities or public agencies. All applicants must have development capacity and be able to document successful experience in the type of project proposed. Applicants must also have the financial capacity to complete the project. Developers are expected to be current on all property taxes, to have good maintenance and management history with existing rental properties and to have no record of fair housing violations.

Eligible Projects:

Funds are available for **new** construction of multifamily (5+ units) projects and for retrofitting of existing buildings that will have 5+ units within the city limits of Knoxville. Properties may be located anywhere within the City limits of Knoxville and can be mixed income housing, low income housing or supportive housing for special needs (as long as sufficient operating funds are available from other sources). Funding awards will be determined by several factors, such as cash flow, income of target tenants and maximum rents. The maximum award is \$30,000 per unit. Rehabilitation of existing rental units is not eligible under this program, but is eligible through the City's Rental Rehabilitation Program.

Developers will be required to meet with all active neighborhood organizations in the community where the project will be located and consider all community input regarding the proposed project. Construction plans and designs must be provided to Community Development for review and approval.

All developments will be required to have Energy Star Certification or meet energy efficiency guidelines established by Community Development. The additional cost for Energy Star certification may be provided in part with a grant. The amount of the grant will be determined on a case by case basis based on project need.

Financing:

Funding will be provided in the form of a Deferred Payment Loan (DPL) which forgives over the length of the loan. The length of the loan will correspond with the length of the restrictive (affordability) period. The DPL will be secured with a Trust Deed and will typically be subordinate financing. Proceeds from the DPL will pay actual construction costs according to the construction contract and payment schedule. Other financing strategies will be considered on a case by case basis, such as a providing a payable loan.

Restrictions:

All funded units must be leased to households earning less than 100% of median income, adjusted for family size and will be restricted to affordable rents for a specified period of time (affordability period) with priority for those developments that lease to persons at less than 80% of area median income. The initial maximum rent will be the current year's Fair Market Rents (FMR), published by the U.S. Department of Housing and Urban Development. An exception to the FMR may be requested if a development will be located within the Central Business Improvement District (CBID) of the City of Knoxville. Rent increases throughout the affordability period must be approved by the City and will be limited to 2% per year or the current year's FMR, whichever is lower. The affordability period will be between 10 and 20 years, depending on the amount of assistance provided and the established occupancy and rent limits.

Developers who wish to serve very low income tenants (<50%) and agree to rents lower than Fair Market Rents will typically qualify for a higher funding level than developers who serve low income tenants (50%- 100%) and agree to FMR. Occupancy and maximum rents will be determined at the beginning of the project and will be enforced with a Restrictive Covenant on the property.

All tenant income must be verified with acceptable documentation prior to leasing a restricted unit. To insure compliance with these restrictions, developers will be required to contract with a property management firm that has LIHTC property management or equivalent experience. The firm must be approved by the City of Knoxville.

If HOME funds are provided to a project in addition to the local funds, then all HOME rules and City of Knoxville Rental Rehabilitation Program rules will apply. In the case of conflicting rules, the more restrictive rule will apply.

Monitoring:

Projects will be monitored annually for compliance with all restrictions. Monitoring will also include scheduled on-site visits. The frequency will depend on the number of units in the project but will be at least once every three years.

Application Process and Funding Priorities:

Applications will be taken on an on-going basis and will be available from the Community Development Department or online at the City of Knoxville website. Should the demand for program funds exceed the amount available, funding will be awarded with consideration of the following priorities:

- 1) Assisted units will be targeted for households earning 80% of area median income or below.
- 2) Project is located close to public transportation.
- 3) Project is located close to jobs, schools and amenities such as shopping, medical facilities and services.
- 4) Project will redevelop an existing vacant, blighted property.

Approval:

Community Development staff will recommend project approval and funding amounts to City Council, who will provide final approval.