

**Metropolitan Government of Nashville and Davidson County**

**Health and Educational Facilities Board**

**Payment in Lieu of Tax (PILOT) Program for Mixed-Income Housing**

**GENERAL PROGRAM DESCRIPTION**

**Adjustment 1, Effective \_\_\_\_\_**

**Purpose**

The Mixed-Income PILOT aims to incentivize mixed-income housing with income-restricted units targeted to households between 50% and 80% AMI in development that would not otherwise include income-restricted units.

**Program Overview**

Based on the percentage of income-restricted units made available, the Metropolitan Government offers a program whereby a percentage of property taxes is abated for a specified number of years.

Each year, the Metropolitan Housing Division will publish income and rent guidelines for income-restricted units.

**Program Parameters**

- Project must be in Nashville-Davidson County.
- The project must demonstrate a range of rents, and at least 60% of the units must not be income-restricted unless the project is zoned DTC.
  - For projects zoned DTC, the Mixed Income PILOT program will not subsidize more than 50% of the units.
- The Mixed-Income PILOT cannot be combined with other PILOT programs or LIHTC.
- The Mixed-Income PILOT term will be 15 years with the opportunity to renew for an additional 15 year term.
- Requires new construction or significant capital improvement resulting in increased property assessment value (payment in lieu of taxes must never be lower than the tax liability at the time of application).
- Abatement only applies to residential portion of the development.
- All units must be built and maintained to uniform standards in both construction and operations. Income-restricted units must be comparable to unrestricted units.
- Must comply with fair housing laws.
- Abatement percentage based on post-construction/improvement tax liability.
- Adjustments to the Mixed Income PILOT program will not apply to projects with existing PILOT agreements.

**Program Cap**

Total annual approved abatement cannot exceed \$2 million.

## Program Design

The Mixed-Income PILOT program is designed to adapt to market conditions throughout Nashville-Davidson County while supporting county-wide housing priorities. The Housing Division will use a PILOT Calculator to evaluate each project using a consistent set of inputs and priority factors.

The PILOT Calculator provides three main functions:

- **Gap Sizing:** The Calculator estimates the financial gap created by offering income-restricted units by comparing estimated market rents with income-restricted rents published annually by the Housing Division.
- **Project Characteristics and Priority Alignment:** Each project is evaluated on how well it aligns with county-wide housing priorities by weighting certain project characteristics within the Calculator. These characteristics may include, but are not limited to:
  - Depth of affordability
  - Share and distribution of income-restricted units
  - Location
- **Abatement Determination:** Using the rent-difference calculation and priority adjustments, the Calculator determines the Year 1 PILOT, the percentage of the improvement value to be abated, and the PILOT schedule for the 15-year term.

On an annual basis, the Housing Division will review and update the Calculator methodology to ensure it accurately reflects current market conditions and county-wide housing priorities. All underlying factors used in the Calculator will be published on the Housing Division's webpage following each annual review to promote transparency, predictability, and ease of use for applicants.

Applicants may use the published Calculator and related documentation to evaluate the feasibility of their projects prior to submitting a PILOT request.

## PILOT Abatement Calculation

The Mixed-Income PILOT Calculator determines the value of the abatement by estimating the rent difference between the projected market rents and the income-restricted rents, up to the maximum allowable abatement for Year 1 of the PILOT term.

The maximum abatement is calculated by applying the maximum abatement percentage to the difference between the estimated tax levy and the current tax levy of the parcel(s) on which the project will be constructed.

The Year 1 PILOT is calculated by subtracting the abatement value from the estimated tax levy of the completed project and current tax levy of the parcel(s) on which the project will be constructed. If the applicant accrues abatement above the maximum, the Year 1 PILOT is calculated by subtracting the maximum abatement value from the estimated tax levy.

The effective abatement percentage is equal to the share of the difference between the estimated tax levy and the current tax levy that is abated in Year 1.

The full PILOT schedule is created by applying an escalation factor to estimate the tax levy for each subsequent year of the 15-year term. The difference between the estimated tax levy for each year and the current tax levy is then multiplied by the effective abatement percentage to determine the annual PILOT amount.

All factors used to estimate the rent difference and to generate the PILOT schedule will be published in the supporting materials on the Housing Division's webpage following each annual review.

### **Implementation and Oversight**

The Metropolitan Housing Division will assist the HEFB with the implementation and oversight of the Mixed-Income PILOT Program and will work with the HEFB to establish policies and procedures and appropriate enforcement mechanisms.

The Metropolitan Housing Division may contract with a third party for administrative services and operational support, such as income verification, compliance reviews, reporting, legal services, and market analyses.

Administrative and operational costs are supported by fees collected through the Program. Fees for legal services will be borne by the applicant developer in addition to the administrative and operational fees.

Pursuant to the Interlocal Agreement approved by RS2023-2252, the Metro Finance Department will handle all financial matters necessary as needed for the HEFB related to the Mixed Income PILOT program, and the Metro Law Department will provide services to the HEFB related to the Mixed Income PILOT program.