Fiscal Audit

City of Pittsburgh's Department of Finance-Real Estate Division & Urban Redevelopment Authority (URA) of Pittsburgh

Tax Abatement & Tax Incremental Financing Programs

Report by the
Office of City Controller

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CITY CONTROLLER

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December 30, 2019

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MICHAEL E. LAMB CITY CONTROLLER

First Floor City-County Building • 414 Grant Street • Pittsburgh, Pennsylvania 15219

December 30, 2019

To the Honorables: Mayor William Peduto and
Members of Pittsburgh City Council:

As authorized by §265.12 and §267.10 of the City of Pittsburgh's Code of Ordinances, the Office of the City Controller is pleased to present this Fiscal Audit of the **City's Tax Abatement & Tax Incremental Financing Programs** conducted pursuant to the Controller's powers under Section 404(b) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

The City of Pittsburgh's City Council enacted an ordinance, amending and supplementing the Pittsburgh Code of Ordinances, Title II: Fiscal, Article IX: Property Taxes, Chapter 265: Exemptions for Residential Improvements, and Chapter 267: Exemptions for Industrial and Commercial Improvements by requiring the performance of yearly audits by the City Controller and submission of said audits to City Council. More specifically the ordinance states, the scope of the audit should include an accounting of all the projected and catalogued value of all assessment reductions, tax credits, and tax abatements issued through this Chapter, as well as projections of incoming revenue upon expiration of any assessment reductions, tax credits, and tax abatements issued through these programs in the most recent calendar year prior to the commencement of the audit.

We performed certain procedures to assess the process by which the City's tax abatement programs (TAP) are administered as well as to determine the total estimated projections of available TAP funds due to expiration. An estimated total of $4,811,673 in revenue is projected to be newly available for collection by the City due to the future expiration of TAPs over a future period of 10 years (i.e. 2020-2029). We also performed certain procedures to assess the process by which the City's tax incremental financing (TIF) programs are administered by the Urban Redevelopment Authority (URA) as well as to determine the total estimated projections of available TIF funds due to expiration. An estimated total of $12,598,142 in revenue is projected to be newly available for collection by the City due to the future expiration/retirement of TIF (i.e. TIF bond/note) over a future period of 20 years (i.e. 2020-2039).

We noted a continued need for review of current processes in place regarding the review and approval of TAPs. Specifically, one parcel was approved for the Local Economic Stimulus program despite having a delinquent tax history of open charges yet to be remitted to the City. We also noted that abatements for TAPs reviewed were not properly calculated and applied, due to assessment value used. Furthermore, the actual communication between the County Assessors and the City of said assessment values is inadequate. These issues and our recommendations are further discussed in the Result section of this report.

We appreciate the cooperation of the staff involved with the management of the fund as well as their patience during the course of our audit.

Sincerely,

Michael E. Lamb
City Controller

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INTRODUCTION

This fiscal audit of the **City's Tax Abatement & Tax Incremental Financing Programs** was conducted pursuant to the Controller's powers under Article IV, Section 404(b) of the Pittsburgh Home Rule Charter.

SCOPE AND METHODOLOGY

Our procedures were conducted pursuant to the Article IV, Section 404(b) of the City of Pittsburgh Home Rule Charter. Our procedures included a review of the data provided for the period 2010-2039.

The objectives of this audit are to examine, evaluate, and present the accounting of all projected and catalogued value as well as projections of incoming revenue upon expiration of any assessment reductions, tax credits, and tax abatements issued through Chapters 265 and 267 of the City of Pittsburgh's Code of Ordinances.

We compiled historical data from parcels with expired abatements, which was provided to us by the City's Department of Finance-Real Estate (DoF-RE) Division that included all tax abatement programs starting from 2010 to 2019. We also compiled data from parcels being actively abated, which are an increase in potential revenue to be collected by the City from 2020-2029. We also performed limited testing to vouch for the reliability of the data and evaluate internal controls related to the data.

Additionally, we compiled historical data from projects receiving tax incremental financing (TIF), which was provided to us by the Urban Redevelopment Authority (URA) of Pittsburgh that included real estate and parking TIFs starting from 2014-2019. We also compiled data from projects actively receiving tax incremental financing, which are an increase in potential revenue to be collected by the City from 2020-2039. We also looked to obtain TIF data needed to determine if TIF projects are meeting original/amended revenue projections and debt service obligations.

Our procedures consisted primarily of inquiries and the examination of documents supporting data that was provided to us. These procedures were neither designed nor intended to be a detailed audit of the Department of Finance-Real Estate Division or the URA of Pittsburgh. Accordingly, the information presented in this report only pertains to the data that was made available to us and the related records examined. Specifically we:

- Interviewed personnel involved with the tax abatement and tax incremental financing programs to gain an understanding of the programs and related internal controls.

- Examined and analyzed data made available to us showing the historical and projected potential revenue to be collected from the expiration of these programs.

- Reviewed general procedures related to the administration of the tax abatement and tax incremental financing programs.

- Reviewed Chapters 201, 265, and 267 of the City of Pittsburgh's Code of Ordinances as well as the Pennsylvania Tax Incremental Financing Act.

- Performed testing of records from sampled parcels approved for tax abatement programs.

- Inquired with the URA regarding availability of TIF data needed to determine if TIF projects are meeting original/amended revenue projections and debt service obligations.

- Assessed whether Findings and Recommendations issued in the 2018 Fiscal Audit Report were implemented.

BACKGROUND

The City of Pittsburgh's City Council enacted Resolution 577 of 2017, which was later amended on February of 2018, supplementing the Pittsburgh Code of Ordinances, Title II: Fiscal, Article IX: Property Taxes, Chapter 265: Exemptions for Residential Improvements, and Chapter 267: Exemptions for Industrial and Commercial Improvements by requiring the performance of yearly audits by the City Controller and submission of said audits to City Council. More specifically, the ordinance states, the scope of the audit should include an accounting of all the projected and catalogued value of all assessment reductions, tax credits, and tax abatements issued through this Chapter, as well as projections of incoming revenue upon expiration of any assessment reductions, tax credits, and tax abatements issued through these programs in the most recent calendar year prior to the commencement of the audit.

TAX ABATEMENT PROGRAMS

The City of Pittsburgh offers assessment reductions, tax credits, and tax abatements as incentives to promote economic and community development and growth. These special tax provisions are made available in accordance with various state legislature and city ordinances and are for a limited time to encourage improvements and developments in deteriorating properties and areas around the City. These tax abatement programs are administered by the City's Department of Finance-Real Estate Division in conjunction with the URA of Pittsburgh and Allegheny County's Office of Property Assessments. The City of Pittsburgh reviews and approves the Act 42 Residential, Act 42 Enhanced Residential, Commercial LERTA, and Local Economic Stimulus programs. Allegheny County reviews and approves the Visitability Residential, while the URA reviews and approves Residential LERTA and Residential Enhanced LERTA[1].

ACT 42

Act 42 of 1971 was reenacted and amended in 1977, "authorizing local taxing authorities to provide for tax exemption for certain improvements to deteriorated dwellings and for improvement of deteriorating areas by the construction of new dwelling units; and providing for exemption schedule(s) and other limitations". The City of Pittsburgh offers the Act 42 Residential and Act 42 Enhanced Residential programs, in which it forgoes tax revenues due to an increase in property assessments as a result of property development or renovations for a specified period of time in exchange for specific actions that contribute to the economic and community development in distressed neighborhoods. Under this act, the City abates taxes due to such activity and is awarded as set dollar amounts that are received as tax credits or reduction of the assessed property value.

Applications for both Act 42 programs are reviewed by the Department of Finance-Real Estate Division, which require a completed application as well as building permit issued within 180 days of the application. Once the application is reviewed, it is approved and marked as pending in the City's Real Estate system. The applicant is required to complete any construction or renovations

[1] Initial review and approval of applications performed by the DoF-RE, URA, and Allegheny County does not ensure that the parcel that applied for the TAP will be abated; it is encumbant upon the applicant to complete construction, obtain an ordinance, and have their property assessed, in order for the the abatement to be applied to their real estate tax bill.

on the property and file for an ordinance, in order for the County to complete the property assessment. An updated file with the new assessments is sent to the City's Supervisor of Property Management and uploaded into the Real Estate system.

The two types of Act 42 Programs offered by the City are further detailed below:

- ***Act 42 Residential*** - Available for 3 years as an assessment reduction (based on millage rate) for renovations or new constructions on residential or vacant land to be used for residential, for sale or rental. Applications were previously reviewed by the County but are now reviewed by the City. The total amounts reduced are limited to $86,750 on new constructions and $36,009 for renovations. The application must be filed within 180 days of the issuance of the building permit.

- ***Act 42 Enhanced Residential*** - Same as above program except for the assessment reduction is available for 10 years and up to $250,000 and is available for property located in 28 specified areas.

LERTA

The Local Economic Revitalization Tax Assistance Act (LERTA) of 1977 was amended in 1988, "authorizing local taxing authorities to provide for tax exemption for certain deteriorated industrial, commercial and other business property and for new construction in deteriorated areas of economically depressed communities; providing for an exemption schedule and establishing standards and qualifications". The City of Pittsburgh offers the Commercial LERTA, Residential LERTA, and Residential Enhanced LERTA, in which it provides tax credits to qualifying development programs within 4 defined areas (except for Commercial LERTA) in the City.

Applications for the Commericial LERTA are reviewed by the DoF-RE Division, which requires a completed application to be submitted along with a plan summary of improvements, cost of improvement(s) or construction, plan of purposed construction, and a copy of the building permit issued within 180 days of the application. A copy of the application is forwarded to the Allegheny County's Office of Property Assessments, who in return provides a schedule to DoF-RE Division upon completion of the assessment. Meanwhile, applications for the Residential LERTA and Residential Enhanced LERTA are reviewed by the URA of Pittsburgh, which requires a completed application to be submitted along with a summary of improvements, neighborhood map showing location, copies of plans, specifications and construction cost, evidence of zoning compliance, sufficient financing and any historic designation/preservation approvals as well as a copy of the building permit issued within 180 days of the application.

Once the application is reviewed, it is approved and marked as pending in the City's Real Estate system. The applicant is required to complete any construction or renovations on the property and file for an ordinance, in order for the County to complete the property assessment. An updated file with the new assessments is sent to the City's Supervisor of Property Management and uploaded into the Real Estate system.

The three types of LERTA Programs offered by the City are further detailed below:

- ***Residential LERTA*** - Available for a period of 10 years with the credit limited to $150,000 for new construction or renovations. Typically, the current use of property is commercial or industrial and the future use of property is for residential rental or hotels in 4 defined geographic areas within the city.

- ***Residential Enhanced LERTA*** - Similar to above except for the annual limit of $2,700 for new construction or renovations. Typically, the current use of property is commercial or industrial and the future use of property is for residential, separately assessed units in 4 defined geographic areas within the city.

- ***Commercial LERTA*** - Available for 5 years with annual (tax) abatement limits at $50,000 for new construction or renovations. This is available for property city-wide.

OTHER PROGRAMS

The City of Pittsburgh offers the Local Economic Stimulus abatement program. The application is reviewed by the City of Pittsburgh's Department of Finance-Real Estate Division, which requires a completed application as well as a copy of the building permit issued within 180 days of the application. Additionally, the City also offers the Residential Visitability Design tax credit program, which provides a tax credit for new construction or renovations that provides accessibility for individuals who are disabled. The application is reviewed by the Allegheny County Office of Assessments, which requires a completed application as well as a copy of the building permit and Visitability Design Inspection Report issued within 90 days of the application.

Once the application is reviewed, it is approved and marked as pending in the City's Real Estate system. The applicant is required to complete any construction or renovations on the property and file for an ordinance, in order for the County to complete the property assessment. An updated file with the new assessments is sent to the City's Supervisor of Property Management and uploaded into the Real Estate system. The tax credit for the Visitability Residential program is capped at $500 tax credit per year for five years.

The two other types of Tax Abatement Programs offered by the City are further detailed below:

- ***Local Economic Stimulus*** - Tax credit available for 10 years that is applied to the incremental increase in taxes as a result of construction or improvements costs in excess of one million dollars. The annual (tax) abatement is limited to $250,000 for new construction or renovations. Typically, the current use of property is commercial, industrial or vacant land and the future use of property is for residential, commercial or industrial. This credit is offered for property city-wide and applications are reviewed by the City.

- ***Visibility Residential*** - Tax credit available for 5 years which can be used concurrently with other residential tax abatement programs. The annual (tax) abatement limited to $2,500 for new construction or Renovations. Typically, the current use of property is residential, vacant land, commercial or industrial and the future use of property is for residential, single family, duplex, triplex, adaptive reuse. This is offered for property city-wide and applications are reviewed by Allegheny County. Data provided indicated only $500 fund available from expiration of the credit under this category.

HISTORICAL ANALYSIS-TAPs

The City's Department of Finance-Real Estate Division provided historical data from parcels with expired abatements, which were made available for collection by the City of Pittsburgh from 2010 through 2019. An estimated total of $882,127 in revenue was newly made available for collection by the City due to the expiration of tax abatement programs applied to 336 parcels over a historical period of 10 years as indicated below:

Table I-Estimated TAP Funds Available Due to Expiration (Per Year)
For the period January 1, 2010 to December 31, 2019

	2010		2011		2012		2013		2014	
Program	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**
All Programs	$ 19,444	5	$ 41,178	15	$ 136,328	24	$ 167,835	36	$ 248,469	61
Newly Available [1]	*$ -*	*0*	*$ 21,735*	*10*	*$ 95,150*	*9*	*$ 31,507*	*12*	*$ 80,635*	*25*

	2015		2016		2017		2018		2019	
Program	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**
All Programs	$ 332,257	72	$ 471,823	144	$ 608,109	201	$ 741,271	252	$ 882,127	336
Newly Available [1]	*$ 83,787*	*11*	*$ 139,567*	*72*	*$ 136,285*	*57*	*$ 133,162*	*51*	*$ 140,856*	*84*

[1] Funds indicated as newly available per year; is a component of corresponding total per year.

PROJECTED ANALYSIS-TAPs

The City's Department of Finance-Real Estate Division provided data from parcels being actively abated, which are projected to be available for collection by the City of Pittsburgh from 2020 through 2029. An estimated total of $4,811,673 in revenue is projected to be newly available for collection by the City due to the future expiration of tax abatement programs applied to 742 parcels over a future period of 10 years as indicated below:

Table II- Estimated Projections of Available TAP Funds Due to Expiration (Per Year)
For the period January 1, 2020 to December 31, 2029

	2020		2021		2022		2023		2024	
Program	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**
Act 42:										
Enhanced Residential	$ 83,357	51	$ 127,744	80	$ 155,130	96	$ 234,278	152	$ 314,593	208
Residential	40,299	64	64,006	103	67,093	108	67,093	108	67,093	108
Subtotal	*$ 123,655*	*115*	*$ 191,750*	*183*	*$ 222,222*	*204*	*$ 301,370*	*260*	*$ 381,686*	*316*
LERTA:										
Commercial	$ 240,881	3	$ 294,953	6	$ 294,953	6	$ 344,953	7	$ 348,504	8
Residential	3,450	1	79,022	3	80,054	4	247,278	6	431,569	10
Residential Enhanced	61,131	25	84,858	35	206,108	89	244,921	105	290,507	128
Subtotal	*$ 305,461*	*29*	*$ 458,833*	*44*	*$ 581,115*	*99*	*$ 837,152*	*118*	*$ 1,070,580*	*146*
Visitability Residential	$ -		$ 500	1	$ 500	1	$ 500	1	$ 500	1
Local Economic Stimulus	$ -		$ -		$ -		$ -		$ 22,815	2
Grand Total	**$ 429,116**	**144**	**$ 651,083**	**228**	**$ 803,837**	**304**	**$ 1,139,022**	**379**	**$ 1,475,580**	**465**
Newly Available [1]	*$ -*	*0*	*$ 221,966*	*84*	*$ 152,755*	*76*	*$ 335,185*	*75*	*$ 336,558*	*86*

	2025		2026		2027		2028		2029	
Program	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**
Act 42:										
Enhanced Residential	$ 372,508	247	$ 455,172	309	$ 497,084	337	$ 575,959	389	$ 583,948	393
Residential	67,093	108	67,093	108	67,093	108	67,093	108	67,093	108
Subtotal	*$ 439,601*	*355*	*$ 522,265*	*417*	*$ 564,177*	*445*	*$ 643,052*	*497*	*$ 651,041*	*501*
LERTA:										
Commercial	$ 348,504	8	$ 348,504	8	$ 348,504	8	$ 348,504	8	$ 348,504	8
Residential	500,187	12	743,472	17	1,547,933	28	2,420,877	37	2,420,877	37
Residential Enhanced	302,878	133	317,813	139	391,216	169	412,506	177	412,506	177
Subtotal	*$ 1,151,569*	*153*	*$ 1,409,789*	*164*	*$ 2,287,654*	*205*	*$ 3,181,887*	*222*	*$ 3,181,887*	*222*
Visitability Residential	$ 500	1	$ 500	1	$ 500	1	$ 500	1	$ 500	1
Local Economic Stimulus	$ 226,495	6	$ 263,475	9	$ 780,604	15	$ 978,245	18	$ 978,245	18
Grand Total	**$ 1,818,165**	**515**	**$ 2,196,029**	**591**	**$ 3,632,934**	**666**	**$ 4,803,684**	**738**	**$ 4,811,673**	**742**
Newly Available [1]	*$ 342,584*	*50*	*$ 377,864*	*76*	*$ 1,436,905*	*75*	*$ 1,170,750*	*72*	*$ 7,989*	*4*

[1] Funds indicated as newly available per year; is a component of corresponding total per year.

TAX INCREMENTAL FINANCING PROGRAMS

The City's of Pittsburgh's Tax Incremental Financing (TIF) program(s) began in 1993, pursuant to the Commonwealth of Pennsylvania Tax Increment Financing Act of July, 1990, as amended by Act 164 of 1992. This Act allows a given municipality to encourage economic development by creating Tax Increment Districts (TIDs) where they see fit. Furthermore, within the given 'District' developers can take advantage of TIF program(s) needed to fill any gaps in financing required for the completion of the project. Multiple TIF programs (i.e. both Real Estate and Parking TIF types) can be conducted within specific TIDs, and their resulting incremental increases in real estate taxes support a revenue bond or note that is issued by the Urban Redevelopment Authority (URA).

The TIFs are used to facilitate large-scale development that would not otherwise be economically feasible, by using future increased tax revenues (i.e. tax increments) resulting from the proposed development. TIF programs generally focus on projects that improve infrastructure, thereby creating benefits to the community through increased employment and a higher tax base that otherwise would not exist. TIF programs are often justified with the premise that developments made under these TIF programs essentially pay for themselves, as additional development and increased property values create increased tax revenues.

TIFs subsidize companies by diverting a portion of their taxes to assist in financing the development of specific geographic areas. As these areas develop with increased business and facilities, their property values also increase. The city collects the entire base amount of taxes along with a portion of the incremental taxes, while deferring the remainder of the increment towards the repayment of the TIF bond or note. The base taxes are derived from the assessed value of the property times the millage rate prior to the start of development, which are paid to the City, Allegheny County and Pittsburgh Public Schools. Meanwhile, the incremental taxes are derived from the additional tax revenue generated by the increase in property value or 'increment', which is used to fund the development costs. This continues until the TIF program expires, generally spanning seven to a maximum of twenty years.

APPLICATION PROCESS OF TIF PROGRAMS

The current URA TIF Guidelines and Application (established in 2011) were developed in an attempt to formalize and streamline their previous application process. Prior to 2011, the URA required each TIF Project to have an accompanying TIF plan. The creation of the URA TIF Guidelines and Application has improved the prior process, making it more user friendly and accessible to developers in need of Tax Incremental Financing within the City of Pittsburgh.

The process for applying for a TIF program begins with a TIF Orientation Meeting wherein the URA and the applicant review the requirements and ordinances that pertain to the proposed project. This is followed by submission of a TIF Application to the URA, which includes a narrative of the proposed project along with a preliminary site plan and rendering. Also, a summary of financing sources and proposed improvements is required, along with an estimate of the TIF request amount and justification for the TIF assistance. In addition, an indemnification letter, a Predevelopment Expense Deposit, and application fee accompany the TIF application. Lastly, as of October 10, 2019 applicants must complete and submit a p4 narrative, which will be used to gather benchmark information for future use and does not affect financing determinations.

The URA then reviews the application to assess eligibility of the project. If the project is deemed eligible, the URA will engage a consultant to perform an Economic Impact Study which estimates the expected impact of the project. At this point, the City, County and School District will consider resolutions of intent designating representatives from the URA and the taxing bodies to form the TIF Committee and authorize the URA to prepare a TIF plan. The TIF plan is comprised of 25 components, including the background and description of the project, estimated costs of the project, market analysis, the economic and fiscal employment impact, the TIF amount, current and projected assessed values, projected pledged revenue, maps, the TIF District establishment date, duration of the TIF District, and newly added p4 narrative.

At this point, the URA presents the proposed TIF plan to the TIF Committee for review. If the Committee decides to recommend the plan, Resolutions to Participate will be initiated by the adoption of ordinances or resolutions by the taxing bodies. A Cooperative Agreement between the URA and the applicable taxing bodies will then be executed. Included in the Cooperative Agreement is a Minimum Payment Agreement schedule designed to help ensure sufficient repayment of the TIF debt obligation. In the case that it is not paid off, the developer will be responsible for the remaining payments. Due to the costs associated with the TIF process and the issuance of debt obligations, the minimum project size is $20 million and the minimum TIF financing is $2 million. Exceptions may be granted by the URA Executive Director in cases where alternative financing is not available.

Upon the approval of the application and securing of finances, the developer will begin the construction, during which they submit reimbursement requests to the URA for review. Once approved, the requests are forwarded to the TIF Committee who will issue payment to the developer. Meanwhile, the developer of the TIF continues to pay Real Estate Taxes to the Three Taxing Bodies, namely the City, County, and School District. The Taxing Bodies will receive their respective base tax revenue from the project. At the time of project completion, there should be an increase in tax revenue, i.e. the ‘tax increment’. Each of the Taxing Bodies will pledge a specific percentage of the tax increment, (i.e. the increase in taxes above the base rate), which will be used to service the debt. The remaining ‘unpledged’ tax increment goes to the Taxing Bodies along with the aforementioned base tax revenue.

HISTORICAL ANALYSIS-TIFs

The Urban Redevelopment Authority of Pittsburgh provided historical data from projects with expired/retired Tax Incremental Financing, which were made available for collection by the City of Pittsburgh from 2014 through 2019. An estimated total of $4,307,457 in revenue was newly made available for collection by the City due to the expiration of Tax Incremental Financing (i.e. TIF bond/note) applied to 14 projects over a historical period of 6 years as indicated below:

Table III-Estimated TIF Funds Available Due to Expiration (Per Year)
For the period January 1, 2014 to December 31, 2019

	2014		2015		2016		2017		2018		2019	
Program	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**
Real Estate	$ 549,673	3	$ 807,423	4	$ 2,170,001	5	$2,385,658	7	$2,637,128	8	$2,732,260	10
Parking	-	0	-	0	387,251	1	673,841	2	673,841	2	1,575,197	4
Total	**$ 549,673**	**3**	**$ 807,423**	**4**	**$ 2,557,252**	**6**	**$ 3,059,499**	**9**	**$ 3,310,969**	**10**	**$ 4,307,457**	**14**
Newly Available [1]	*$ -*	*0*	*$ 257,750*	*1*	*$ 1,749,829*	*2*	*$ 502,247*	*3*	*$ 251,470*	*1*	*$ 996,488*	*4*

[1] Funds indicated as newly available per year; is a component of corresponding total per year.

PROJECTED ANALYSIS-TIFs

The Urban Redevelopment Authority of Pittsburgh provided data from projects currently funded by Tax Incremental Financing, which are projected to be available for collection by the City of Pittsburgh from 2020 through 2039. An estimated total of $12,598,142 in revenue is projected to be newly available for collection by the City due to the future expiration/retirement of Tax Incremental Financing (i.e. TIF bond/note) applied to 38 parcels over a future period of 20 years as indicated below:

Table IV-Estimated Projections of Available TIF Funds Due to Expiration (Per Year)
For the period January 1, 2020 to December 31, 2039

	2020		2021		2022		2023		2024	
Program	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**
Real Estate	$ 3,740,545	14	$3,740,545	14	$ 3,740,545	14	$ 3,869,074	15	$ 3,869,074	15
Parking	2,616,928	6	2,616,928	6	2,616,928	6	2,671,254	7	2,671,254	7
Total	**$ 6,357,473**	**20**	**$ 6,357,473**	**20**	**$ 6,357,473**	**20**	**$ 6,540,328**	**22**	**$ 6,540,328**	**22**
Newly Available[1]	*$ 2,050,016*	*6*	*$ -*	*0*	*$ -*	*0*	*$ 182,855*	*2*	*$ -*	*0*

	2025		2026		2027		2028		2029	
Program	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**
Real Estate	$ 3,947,552	16	$3,947,552	16	$ 5,100,079	18	$ 5,327,462	19	$ 5,327,462	19
Parking	2,671,254	7	2,671,254	7	2,910,884	9	3,070,423	10	3,070,423	10
Total	**$ 6,618,806**	**23**	**$ 6,618,806**	**23**	**$ 8,010,963**	**27**	**$ 8,397,885**	**29**	**$ 8,397,885**	**29**
Newly Available[1]	*$ 78,478*	*1*	*$ -*	*0*	*$ 1,392,157*	*4*	*$ 386,922*	*2*	*$ -*	*0*

	2030		2031		2032		2033		2034	
Program	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**
Real Estate	$ 5,409,355	20	$5,409,355	20	$ 5,409,355	20	$ 5,683,722	21	$ 6,217,258	22
Parking	3,070,423	10	3,070,423	10	3,070,423	10	3,440,353	12	3,440,353	12
Total	**$ 8,479,778**	**30**	**$ 8,479,778**	**30**	**$ 8,479,778**	**30**	**$ 9,124,075**	**33**	**$ 9,657,611**	**34**
Newly Available[1]	*$ 81,893*	*1*	*$ -*	*0*	*$ -*	*0*	*$ 644,297*	*3*	*$ 533,536*	*1*

	2035		2036		2037		2038		2039	
Program	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**	**Amount**	**Count**
Real Estate	$ 6,217,258	22	$6,217,258	22	$ 8,434,271	23	$ 8,434,271	23	$ 8,607,847	24
Parking	3,585,010	13	3,585,010	13	3,585,010	13	3,990,295	14	3,990,295	14
Total	**$ 9,802,268**	**35**	**$ 9,802,268**	**35**	**$ 12,019,281**	**36**	**$ 12,424,566**	**37**	**$ 12,598,142**	**38**
Newly Available[1]	*$ 144,657*	*1*	*$ -*	*0*	*$ 2,217,013*	*1*	*$ 405,285*	*1*	*$ 173,576*	*1*

[1] Funds indicated as newly available per year; is a component of corresponding total per year.

OVERSIGHT & TRANSPARENCY OF TIF PROJECTS

The Government Finance Officers Association (GFOA) has issued a best practice for 'Establishing an Economic Development Incentive Policy'. The GFOA recommends that jurisdictions create a policy on the appropriate parameters for use of economic development incentives, such as Tax Incremental Financing programs. Furthermore, said policy should contain the following elements: the Goals and Objectives of Economic Development, Financial Incentive Tools and Limitations, Evaluation Process, Performance Standards, and Monitoring and Compliance.

The City of Pittsburgh's Code of Ordinances currently contains Chapters 201, 265, and 267, which outline many aspects of the Tax Abatement and Tax Incremental Financing programs. Additionally, the Urban Redevelopment Authority of Pittsburgh has issued TIF Guidelines outlining requirements and procedures for developers seeking to utilize TIF. We reviewed Chapters 201, 265, and 267 of the City's Code of Ordinances in conjunction with the URA's TIF Guidelines in order to assess the sufficiency of coverage regarding the five elements suggested in the GFOA's best practice for 'Establishing an Economic Development Incentive Policy'.

Chapter 201 of the City of Pittsburgh's Code of Ordinances specifically cites the review and approval of the proposed TIF Plan, including the specific factors required and the criteria for subsequent evaluation of anticipated revenue generation. In particular, expected tax generation and job creation is detailed, in addition to the formation of a TIF Committee to review the TIF proposal, implementation, and monitoring of regulation and contractual compliance. This committee is to be comprised of City Council members and represenatives of the City, URA, Allegheny County, and the Pittsburgh Board of Education.

The GFOA's Best Practice for 'Establishing an Economic Development Incentive Policy' recommends development of an evaluation process which includes specific performance standards and monitoring and compliance processes. Furthermore, such performance standards help to guage the effectiveness and performance of the economic development projects. The policy would also outline remedies which the committee would use in the event that specific performance standards are not achieved. In addition, a process for the ongoing monitoring of the performance of the TIF Project which would examine performance standards and determine whether the goals are achieved. The policy would identify the frequency with which the committee receives status updates and related outcomes.

The Controller's Office is working with the URA to compile data required to assess whether TIF Projects are meeting orginal revenue projections and debt service obligations.

FINDINGS & RECOMMENDATIONS

2019 FINDINGS & RECOMMENDATIONS

We randomly selected a 10% sample for testing from each of the following Tax Abatement Programs (TAPs): Act 42 Residential, Act 42 Enhanced Residential, Commercial LERTA, Residential LERTA, Residential Enhanced LERTA, Local Economic Stimulus, and Visitability Residential; which resulted in a total sample size of 68. The Department of Finance-Real Estate Division (DoF-RE) provided 32 (47%) of the samples requested. These supporting documents consisted of applications, permits, and approval letters. Additionally, the DoF-RE provided the assessment history for each sample that is needed to calculate the amount abated. We were unable to test 36 (53%) samples due to supporting documentation not being provided by the DoF-RE. Conversely, we completed limited testing on the samples provided to determine if there was sufficient supporting documentation, proper approval was documented, and the abatement amounts applied were properly derived. We determined that 23 of the 32 samples received had adequate supporting documentation, were properly approved, and that the abatement was correctly applied and derived (i.e. no exceptions were noted).

Finding #1: Lack of Supporting Documentation

The DoF-RE recently centralized records pertaining to parcels approved for TAPs, in an attempt to make them more accessible. Despite their efforts to centralize records, providing all of the requested samples proved to be difficult. More specifically, we were unable to test 53% of the original sample size requested. Thus, we could not vouch for the adequacy of the supporting documentation, validity of approval, and the accuracy of the derivation of abatement applied. We also noted that records are currently stored and filed in paper form instead of being scanned into the computer. This not only presents risks commonly associated with inadequate safekeeping of documentation, but also can contribute to the DoF-RE being unable to retrieve documentation in a timely basis.

The City of Pittsburgh's DoF-RE review and approve applications for the Act 42 Residential, Act 42 Enhanced Residential, and Local Economic Stimulus. There were several exceptions noted during the testing of the following attributes: (A) sufficient supporting documentation and (B) documentation of proper approval. More specifically, there were a total of 5 parcels with exceptions to attribute A. The exceptions occurred due to the absence of a building permit and/or the permit not being submitted within 180 days of the application. Additionally, there were a total of 4 parcels with exceptions to attribute B. The exceptions occurred due to the absence of an approval signature on the application.

We noted a parcel was approved for the Local Economic Stimulus program despite having a delinquent tax history, which typically prohibits participation in the abatement program. The delinquency continued for the first four years of program participation, in which $31,782 of open charges remain due to the City while abatements were granted throughout that time[2].

[2] The open charges due to the City, School, and Library from 2015-2018 totaled $133,160. Abatements that the City granted during the same time period totaled $41,348.

Recommendation:

The DoF-RE should create a detailed process for the overall management of the City's abatement programs to include specific steps involved in the approval, communication, and documentation of tax abatements. This would include steps involving approval, identification of current assessed value, calculation, and documentation of the abatement, tax credit, and/or assessment reduction. Identification of responsible parties for each step should be clearly communicated and implemented.

DoF-RE Response:

We have selected a vendor for a new tax system which will start development in 2020. All applications will be electronic and accessible by customer via a customer portal. All images will be stored on a centralized document management system to allow accessibility but also it will follow the City's document retention policy. Customer will be able to see all actions taken on applications and follow progress. This will create the ability to follow a standard process (workflow) on all applications taken away the ability for staff to pick which order approvals are processed. Administration will be able to see when and by whom approvals are made as well as track SLAs. Delinquencies will be evaluated by the system using the tax account and will function as a compliance requirement for all applicants.

Finding #2: Calculation of Tax Abatements

The City of Pittsburgh's DoF-RE completes the calculations for the following TAPs: Act 42 Residential, Act 42 Enhanced Residential, Commercial LERTA, Residential LERTA, Residential Enhanced LERTA, Local Economic Stimulus, and Visitability Residential. We noted several exceptions to the attribute, which tested for the correct application and derivation of abatements, for sampled parcels recieving Residential and/or Commercial LERTA TAPs. There were a total of 3 parcels with exceptions to this attribute, due to abatement amounts being incorrectly derived and applied.

It appears to be common practice for Allegheny County to provide the City with Abatement Schedules for LERTA programs, which include the total abatement amount that is derived from the assessment value provided by the Allegheny County Office of Property Assessment. Any updates in assessment value post the initial issuance of the schedule does not prompt the County to reissue an updated schedule, thereby leaving the City to document any updates. It is not apparent which party is responsible for updating the assessment schedules that are used as the basis for calculating tax credits.

Recommendation:

The DoF-RE should take steps to ensure proper application and derivation of abatements. Specifically, this would include creating a formal process for the calculation of the abatement, tax credit, and/or assessment reduction that would identify responsible parties for each step. Most importantly, the City should continue to work with the County to formalize communication of the application and derivation of the abatement amount throughout the entire abatement period.

DoF-RE Response:

We are currently working with County to receive an updated property data set every month instead of twice per year to improve our ability to set flags on assessment changes during the year. Moving forward with the new system, flags can be set automatically to ensure both City and County are alerted when property assessment data is changed. Abatement calculations will happen automatically based on system criteria.

UPDATE TO PRIOR 2018 REPORT

A review of the Tax Abatement Programs was conducted in 2018 and a report was formally released on December 21, 2018. As a standard practice, we reviewed prior observations to assess the progress made on the implementation of prior recommendations. Below are observations noted in 2018 along with the progress on achieving such.

Prior Finding #1: Historical Data

The DoF-RE currently utilizes the same Real Estate software that was in use during our prior audits in 2017 and 2018. While the DoF-RE mentioned in 2018 that a new system would be purchased, final implementation is currently scheduled for 2020.

Upon expiration of the abatement period for a given parcel, it is standard practice for the DoF-RE to remove the abatement flag[3] in their Real Estate software. Once the abatement flag is removed from a parcel, the DoF-RE is unable to run reports for expired abatements which include each parcel's type of TAP, start date, and end date. Currently, in an effort to ensure that prior year(s) data is maintained, DoF-RE no longer removes the abatement flag newly expired parcels.

Prior Recommendation:

The DoF-RE should proceed with implementing new Real Estate software that captures historical data, such as: type of abatement program, start date, and end date. In the meantime, the DoF-RE should continue to work with auditors to verify programs being abated as well as ensuring historical data for newly expired parcels is maintained.

Prior DoF-RE Response:

No response provided.

Current Status Update-Work In Progress

DoF-RE confirmed the purchase of a new business tax and revenue management software in the late 2019 with an expected implementation date of year end 2020.

Prior Finding #2: Tracking and Updating Expired Programs

The DoF-RE has not formalized a procedure to be utilized by staff for the approval and expiration of parcels reveiving abatements. Applications that are approved prior to the abatement being applied are shown as pending until Finance is alerted that there is an increase in the assessment value. Once the applicant obtains an

[3] The abatement flag allows the DOF-RE to pull data into reports issued to the Controller's Office (CO) which includes the following: parcel/account number, type of abatement program, abatement status, start year and end year as well as the dollar amount of the city tax abated.

occupancy permit, it triggers an assessment by the County Assessors who enter the new value into the County real estate system, which in return is uploaded into the City's real estate system. A report is generated by the Real Estate division personnel that show properties with an increase in assessment. This report serves as an alert that the abatement period should start in the year of the increase. The abatement or assessment reduction amount is then calculated and entered into the system to update the real estate tax due. No information is automatically sent to the owner to communicate approval and/or amount of the abatement. This process creates the risk that the abatement may expire, but not be reflected; as a result the City may never collect the amount abated in taxes. A formal letter documenting the expiration of an abatement program is available to the property owner upon request.

Prior Recommendation:

Develop a formal notification letter template, which would notify the applicant that the parcel has been approved for the given TAP as well as the start and end dates.

Prior DoF-RE Response:

No response provided.

Current Status Update-Work In Progress

DoF-RE anticipates the new business tax and revenue management software will automatically issue notifications to property owners regarding status of abatement program. The Controller’s Office will continue to monitor said notification issuances.

Prior Finding #3: Minimum Payment Agreement

A Minimum Payment Agreement (MPA) schedule is developed as part of the Cooperation Agreement to identify funds required to satisfy the required debt service. It is critical that they be made completely and timely, any failure to which could affect the TIF’s ability to meet all of its obligations towards satisfying the debt.

A review of the data provided by the URA for the Mellon Client Service Center-Parking TIF for FY2016 revealed an oversight regarding a $70,260.61 shortfall in the Minimum Payment Due, as set forth in the Cooperation Agreement. This is the minimum amount that the developer must pay for debt service. This amount is scheduled to be paid twice a year in April and October. For 2016, the actual total amounts paid was $70,261.61 short of the scheduled minimum payments as per the MPA schedule.

A review of documentation made available shows that while an invoice in October 2016 was sent to the developer, no payment had been made nor was any follow up conducted. A discussion was held with the Vice President and Manager with Zion Bank, the trustee of the debt obligation, confirming that an invoice for the shortfall had been sent, but no proof of payment was available and no follow up was done to ensure that the requested payment had been made.

It must be noted that this missing payment was also noted in an external audit by an independent third party auditor. In reference to this missing minimum payment, the audit, dated January 2018, stated in Note 5: “There was no additional minimum payment made in 2016. The annual reduction of this receiveable and the related expense is not in accordance with Generally Accepted Accounting Principles and the opinion has been qualified to reflect the departure.”

Prior Recommendation:

It is critical that ongoing reviews of the payment amounts and due dates as agreed upon in the MPA schedule be conducted, including any past due amounts that remain outstanding. In addition, it is also critical to the success of TIF programs that documentation, whether for proof of payment or for recalculations of amounts due, be available and transparent.

Prior URA Response:

The Trustee determined that the account balance was sufficient to meet all debt requirements.

Trustee determined that the $70,261.61 did not need to be collected as doing so would have resulted in excess funds at Zions bank account which would have been returned to the Developer and not pay down debt or distributed to the taxing bodies.

The URA has received conflicting audit opinions as to the proper accounting for the Mellon TIF with one auditing firm stating that we have deviated from GAAP. We will be reaching out to other like organizations to determine which method follows government standards and will make necessary corrections prior to bond payoff in May 2019.

Current Status Update-Closed

Prior Finding #4: Lack of Supporting Documentation

We noted that the applications for the Residential LERTA and Residential Enhanced LERTA do not have a designated area for the date of submission. Given that the application must be submitted within 180 days after issuance of a building permit, the absence of an application date prevents verification of compliance, further resulting in the improper approval of applications.

Prior Recommendation:

The DoF-RE should consider utilizing OnBase, the City's documentation management software, to scan and store supporting documentation for expired and active parcels that received or are receiving an abatement. Additionally, all applications should be approved by a designated signer and be accompanied by proper documentation for TAPs reviewed and approved by both the DoF-RE and the URA. Lastly, we suggest that the URA review the format and contents of their applications used for the Residential LERTA and Residential Enhanced LERTA. These applications should include the submission date, which is needed to verify that the application be submitted within 180 days after issuance of a building permit.

Prior URA Response:

The URA will work with the DoF-RE to add a submission date field on the LERTA application template. The URA will review with the DOF-RE to determine if the LERTA application form needs modification.

At the time of application review, the URA will confirm that the permit issue date field is completed by the applicant before issuing approval. Please note that the applicant is required to submit a copy of the building permit with the LERTA application. The building permit issue date is noted on the permit.

Current Status Update-Closed

Prior Finding #5: Calculation of Tax Abatements

The City of Pittsburgh's DoF-RE completes the calculations for the following TAPs: Act 42 Residential, Act 42 Enhanced Residential, Commercial LERTA, Residential LERTA, Residential Enhanced LERTA, Local Economic Stimulus, and Visitability Residential. We did not receive samples for the Commercial LERTA or the Visitability Residential TAPs[4], therefore no testing was possible. Conversely, we noted several exceptions to the attribute, which tested for the correct application and derivation of abatements, for sampled parcels recieving Act 42 Enhanced Residential and the Residential LERTA TAPs. More specifically, there were a total of 6 parcels with exceptions to this attribute, due to abatement amounts being incorrectly derived and applied. Furthermore, 3 parcels were over-abated (i.e. tax payer paid less/city received less in taxes) in the amount of $178.94 and 3 parcels under-abated in the amount of $560.48 (i.e. tax payer paid more/city received more in taxes).

[4] Commercial LERTA and Visitability Residential TAPs are both reviewed by Allegheny County.

Prior Recommendation:

The DoF-RE should take steps to ensure proper application and derivation of abatements. Specifically, this would include utilizing additional staff to complete abatement calculations, the training of such, and additional levels of review.

Prior DoF-RE Response:

The Finance Department has added an additional staff person to assist with the process of reviewing abatements. A letter of approval will be sent to all applicants eligible for abatement.

In conclusion, the abatement program has been a manual process since it was first created. Steps are being taken to automate the process. The Finance Department is moving forward with a new Real Estate system which will eliminate improperly calculated abatements and abatements which have expired.

Current Status Update: Work In Progress

The DoF-RE should continue take steps to ensure proper application and derivation of abatements. Specifically, efforts to ensure that the new business tax and revenue management software system is fully implemented by year-end 2020, thereby precluding the need for manually calculating abatements.

ADDENDUM

CURRENT AUDIT RECOMMENDATIONS

Auditors obtain and report views of responsible individuals of the audited entity concerning the findings, conclusions, recommendations in the examination report, as well as any planned corrective actions. A specific status type has been assigned to the current audit findings and recommendations, using the following criteria:

- ***Accepted-***Auditee agrees with the recommendation and plans to implement within the prescribed time frame. Management is informed of a follow-up review that will be performed by the auditors.

- ***Declined-***Auditee does not agree with the recommendation and is not planning to implement. When management elects this option, they are advised of the responsibility for accepting the identified risk that generated the recommendation.

STATUS OF PRIOR RECOMMENDATIONS

Auditors evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements. A specific status type has been assigned to the prior findings and recommendations in the audit report, using the following criteria:

- ***Open-***Auditee has not fully implemented the prior recommendation; rationale may include:
  - Auditee declined prior audit recommendations and risk remains as described in current findings.
  - Efforts to address corrective actions have yet to commence.

- ***Work In Progress-***Auditee has initiated efforts to implement recommendations and corrective action steps continue as a work in progress.

- ***Closed-***One of the following conditions was noted:
  - Auditee implemented the prior recommendation, which was confirmed by auditors during the current fiscal audit; or
  - The recommendation is no longer relevant based upon changed conditions.