



Fiscal Audit

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

**Tax Abatement & Tax Increment Financing Programs**

Report by the  
Office of City Controller

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April 22, 2021

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CITY OF PITTSBURGH  
**OFFICE OF THE CITY CONTROLLER**  
Controller Michael E. Lamb

April 22, 2021

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 \$5,875,165 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. 2021-2030). We also performed certain procedures to assess the process by which the City's tax increment 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. 2021-2040).

The City's Department of Finance entered into a contract with CSS, Inc. in January, 2020 for the implementation of a new Business and Real Estate Tax Management system. The new real estate system is anticipated to be fully implemented by June/July of 2021. Once it is fully operational, it is expected to automate the calculation of abatements, digitally store abatement documentation, and adequately monitor abatements applied throughout each parcel's duration.

We noted that the TIF Committee, which is responsible for the review, implementation, and monitoring of regulation and contractual compliance of TIF proposals, has been inactive since March, 2019. The Urban Redevelopment Authority indicated that they plan to reinstate the TIF Committee by Q4 2021.

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,

A handwritten signature in black ink that reads "Michael Lamb". The signature is written in a cursive, flowing style.

Michael E. Lamb  
City Controller

## **INTRODUCTION**

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This fiscal audit of the **City's Tax Abatement & Tax Increment 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**

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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 2011-2040.

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 2011-2020. We also compiled data from parcels being actively abated, which are an increase in potential revenue to be collected by the City from 2021-2030. We 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 increment financing (TIF), which was provided to us by the Urban Redevelopment Authority (URA) of Pittsburgh that included real estate and parking TIFs starting from 2014-2020. We also compiled data from projects actively receiving tax increment financing, which are an increase in potential revenue to be collected by the City from 2021-2040. We also looked to obtain TIF data needed to determine if TIF projects are meeting original/amended revenue projections and debt service obligations. Lastly, we inquired with the URA regarding the formation of the TIF Committee and whether they actively review the TIF proposal, implementation, and monitoring of regulation and contractual compliance, per §201.11 of the City's Code of Ordinances.

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 increment 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 increment financing programs.
- Reviewed Chapters [201.11](#), 265, and 267 of the City of Pittsburgh’s Code of Ordinances as well as the [Pennsylvania Tax Increment 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 the URA in conjunction with the TIF Committee has routinely reviewed TIF proposals, implementations, and monitored regulation and contractual compliance, as specified in the City’s Code of Ordinances.
- Assessed whether Findings and Recommendations issued in the [2019 Fiscal Audit Report](#) were implemented.

## **BACKGROUND**

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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.

City Council later passed an Ordinance further amending Chapters 265 and 267 of the Pittsburgh Code of Ordinances, effective August of 2019. The amendment supplemented existing tax abatements programs to respond to the current need of residents in the City. Per said Ordinance, “The City can use the tax abatement structure to increase the production of quality affordable and mixed income housing, to spur redevelopment in areas of low investment, to ensure housing that is affordable to households with low, very-low, and extremely-low incomes in areas of high opportunity throughout the city, and to increase available employment opportunities within the city.” Council created a revised structure for tax abatements to allow for the City to provide greater oversight and accountability for the public, which will be further detailed in the section entitled [Current Amended Tax Abatement Programs](#).

## **PRIOR TAX ABATEMENT PROGRAMS**

The City of Pittsburgh offers tax abatements in the form of assessment reductions and/or tax credits 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. The tax abatement programs detailed in this section of the report were 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 reviewed and approved the Act 42 Residential, Act 42 Enhanced Residential, and Local Economic Stimulus programs. Allegheny County reviewed and approved the Commercial LERTA and Visitability Residential, while the URA reviewed and recommended for approval Residential LERTA and Residential Enhanced LERTA<sup>1</sup>.

The City of Pittsburgh has consolidated and replaced said tax abatement programs, which became effective June 30, 2020. Although the following abatement programs are no longer being offered, applications for parcels approved prior to said date will continue to receive abatements until their respective expiration. Additionally, the Department of Finance-Real Estate Division was granted

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<sup>1</sup> Initial review and recommendation for approval and/or 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.



the sole responsibility to administer current amended programs, eliminating participation from the URA and the County.

## *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 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 Commercial LERTA are reviewed by Allegheny County, which requires a completed application to be submitted along with a plan summary of improvements, cost of improvement(s) or construction, plan of proposed 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.
- ***Visitability 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.

## CURRENT AMENDED TAX ABATEMENT PROGRAMS

City Council consolidated and replaced several real estate tax abatement programs, (Act 42, Local Economic Revitalization Tax Act (LERTA), Local Economic Stimulus, and Visitability Residential), effective January 1, 2020, into three primary abatement programs<sup>2</sup>. Specifically, Council passed [Ordinance 29 and 30 of 2019](#), Title II: Fiscal, Article IX: Property Taxes, Chapter 265: Exemptions for Residential Improvements and Chapter 267: Exemptions for Industrial and Commercial Improvements, which was later amended by [Ordinance 13 of 2020](#). The amended abatements are available city-wide with incentives for affordable housing, job creation, and/or investing in distressed areas or the Lower Hill District by offering longer and higher-value abatements to projects meeting certain requirements.

Specifically, as detailed in Chapter 265 of the City's Code Ordinances, the first abatement program includes:

- ***Owner-occupied Residential/For-Sale Development*** - The Enhanced Abatement includes a 10 year assement reduction of up to \$250,000 per year if:
  - A residential for-sale or owner-occupied property is in a CDBG-eligible location, or
  - A multi-unit for-sale or owner-occupied development includes at least 10% of units affordable to and occupied by households at or below 80% AMI, or
  - A for-sale or owner-occupied property is located in the Lower Hill District.

Lastly, as detailed in Chapter 267 of the City's Code Ordinances, the remaining two abatement programs include:

- ***Commercial Residential (Rental or Otherwise not Owner-Occupied)*** - The Enhanced Abatement includes a 10 year tax credit of up to \$250,000 per year if:
  - A residential property not owner-occupied includes at least 10% of its units affordable to and occupied by households at 50% AMI, or
  - A residential property not owner-occupied includes at least 60% of its units affordable to and occupied by households at 80% AMI, or
  - A residential property not owner-occupied is located in the Lower Hill District.
- ***Industrial, Commerical, or Other Business Structures*** - The Enhanced Abatement includes a 10 year tax credit of up to \$250,000 per year if:
  - The project creates at least 50 full-time jobs.

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<sup>2</sup> More information regarding the City's [Abatement Guidelines](#) and [Application](#) can be found on the Department of Finance's [website](#).

## 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 2011 through 2020. An estimated total of \$1,311,243 in revenue was newly made available for collection by the City due to the expiration of tax abatement programs applied to 480 parcels over a historical period of 10 years as indicated below:

<b>Table I-Estimated TAP Funds Available Due to Expiration (Per Year)</b>										
<b>For the period January 1, 2011 to December 31, 2020</b>										
<b>Program</b>	<b>2011</b>		<b>2012</b>		<b>2013</b>		<b>2014</b>		<b>2015</b>	
	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>
All Programs	\$ 41,178	15	\$ 136,328	24	\$ 167,835	36	\$ 248,469	61	\$ 332,257	72
<i>Newly Available</i> <sup>1</sup>	\$ -	0	\$ 95,150	9	\$ 31,507	12	\$ 80,635	25	\$ 83,787	11
<b>Program</b>	<b>2016</b>		<b>2017</b>		<b>2018</b>		<b>2019</b>		<b>2020</b>	
	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>
All Programs	\$ 471,823	144	\$ 608,109	201	\$ 741,271	252	\$ 882,127	336	\$ 1,311,243	480
<i>Newly Available</i> <sup>1</sup>	\$ 139,567	72	\$ 136,285	57	\$ 133,162	51	\$ 140,856	84	\$ 429,116	144

<sup>1</sup> 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 2021 through 2030. An estimated total of \$5,875,165 in revenue is projected to be newly available for collection by the City due to the future expiration of tax abatement programs applied to 787 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, 2021 to December 31, 2030										
Program	2021		2022		2023		2024		2025	
	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count
<b>Act 42:</b>										
Enhanced Residential	\$ 44,770	29	\$ 72,156	45	\$ 151,316	101	\$ 231,721	157	\$ 288,975	196
Residential	26,504	42	34,539	55	38,650	61	38,650	61	38,650	61
<b>Subtotal</b>	<b>\$ 71,274</b>	<b>71</b>	<b>\$ 106,695</b>	<b>100</b>	<b>\$ 189,966</b>	<b>162</b>	<b>\$ 270,371</b>	<b>218</b>	<b>\$ 327,625</b>	<b>257</b>
<b>LERTA:</b>										
Commercial	\$ 53,952	3	\$ 53,952	3	\$ 94,252	4	\$ 134,165	8	\$ 134,165	8
Residential	75,660	2	76,692	3	243,915	5	428,206	9	651,331	13
Residential Enhanced	23,727	10	142,688	64	181,502	80	227,087	103	239,458	108
<b>Subtotal</b>	<b>\$ 153,338</b>	<b>15</b>	<b>\$ 273,331</b>	<b>70</b>	<b>\$ 519,668</b>	<b>89</b>	<b>\$ 789,458</b>	<b>120</b>	<b>\$ 1,024,954</b>	<b>129</b>
Visitability Residential	\$ 500	1	\$ 500	1	\$ 500	1	\$ 500	1	\$ 500	1
Local Economic Stimulus	\$ -	0	\$ -	0	\$ -	0	\$ 21,112	2	\$ 224,792	6
<b>Grand Total</b>	<b>\$ 225,113</b>	<b>87</b>	<b>\$ 380,526</b>	<b>171</b>	<b>\$ 710,134</b>	<b>252</b>	<b>\$ 1,081,441</b>	<b>341</b>	<b>\$ 1,577,870</b>	<b>393</b>
<i>Newly Available<sup>1</sup></i>	\$ -	0	\$ 155,414	84	\$ 329,608	81	\$ 371,306	89	\$ 496,429	52
Program	2026		2027		2028		2029		2030	
	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count
<b>Act 42:</b>										
Enhanced Residential	\$ 373,412	259	\$ 416,787	287	\$ 509,523	347	\$ 628,478	431	\$ 706,320	489
Residential	38,650	61	38,650	61	38,650	61	38,650	61	38,650	61
<b>Subtotal</b>	<b>\$ 412,062</b>	<b>320</b>	<b>\$ 455,437</b>	<b>348</b>	<b>\$ 548,173</b>	<b>408</b>	<b>\$ 667,128</b>	<b>492</b>	<b>\$ 744,970</b>	<b>550</b>
<b>LERTA:</b>										
Commercial	\$ 134,165	8	\$ 134,165	8	\$ 134,165	8	\$ 134,165	8	\$ 134,165	8
Residential	868,274	18	1,747,764	29	2,670,946	39	3,136,188	45	3,136,188	45
Residential Enhanced	254,393	114	330,000	145	351,291	153	367,166	159	369,866	160
<b>Subtotal</b>	<b>\$ 1,256,832</b>	<b>140</b>	<b>\$ 2,211,930</b>	<b>182</b>	<b>\$ 3,156,402</b>	<b>200</b>	<b>\$ 3,637,519</b>	<b>212</b>	<b>\$ 3,640,219</b>	<b>213</b>
Visitability Residential	\$ 500	1	\$ 500	1	\$ 500	1	\$ 500	1	\$ 500	1
Local Economic Stimulus	\$ 255,142	9	\$ 772,271	15	\$ 1,179,186	20	\$ 1,433,882	22	\$ 1,489,476	23
<b>Grand Total</b>	<b>\$ 1,924,536</b>	<b>470</b>	<b>\$ 3,440,138</b>	<b>546</b>	<b>\$ 4,884,261</b>	<b>629</b>	<b>\$ 5,739,029</b>	<b>727</b>	<b>\$ 5,875,165</b>	<b>787</b>
<i>Newly Available<sup>1</sup></i>	\$ 346,666	77	\$ 1,515,602	76	\$ 1,444,122	83	\$ 854,769	98	\$ 136,136	60

<sup>1</sup> Funds indicated as newly available per year; is a component of corresponding total per year.

## TAX INCREMENT FINANCING PROGRAMS

The City's of Pittsburgh's Tax Increment 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 tax increment, while deferring the remainder of the increment towards the repayment of the TIF bond or note<sup>3</sup>. 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 tax increment is 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 Increment 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

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<sup>3</sup> The URA's illustration of a typical TIF project's life cycle can be accessed [here](#).



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 Increment Financing, which were made available for collection by the City of Pittsburgh from 2014 through 2020. An estimated total of \$6,357,473 in revenue was newly made available for collection by the City due to the expiration of Tax Increment Financing (i.e. TIF bond/note) applied to 20 projects over a historical period of 7 years as indicated below:

<b>Table III-Estimated TIF Funds Available Due to Expiration (Per Year)</b>								
<b>For the period January 1, 2014 to December 31, 2020</b>								
<b>Program</b>	<b>2014</b>		<b>2015</b>		<b>2016</b>			
	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>		
Real Estate	\$ 549,673	3	\$ 807,423	4	\$ 2,170,001	5		
Parking	-	0	-	0	387,251	1		
<b>Total</b>	<b>\$ 549,673</b>	<b>3</b>	<b>\$ 807,423</b>	<b>4</b>	<b>\$ 2,557,252</b>	<b>6</b>		
<i>Newly Available</i> <sup>1</sup>	\$ -	0	\$ 257,750	1	\$ 1,749,829	2		
<b>Program</b>	<b>2017</b>		<b>2018</b>		<b>2019</b>		<b>2020</b>	
	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>	<b>Amount</b>	<b>Count</b>
Real Estate	\$ 2,385,658	7	\$ 2,637,128	8	\$ 2,732,260	10	\$ 3,740,545	14
Parking	673,841	2	673,841	2	1,575,197	4	2,616,928	6
<b>Total</b>	<b>\$ 3,059,499</b>	<b>9</b>	<b>\$ 3,310,969</b>	<b>10</b>	<b>\$ 4,307,457</b>	<b>14</b>	<b>\$ 6,357,473</b>	<b>20</b>
<i>Newly Available</i> <sup>1</sup>	\$ 502,247	3	\$ 251,470	1	\$ 996,488	4	\$ 2,050,016	6

<sup>1</sup> 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 Increment Financing, which are projected to be available for collection by the City of Pittsburgh from 2021 through 2040. 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 Increment 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, 2021 to December 31, 2040										
Program	2021		2022		2023		2024		2025	
	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count
Real Estate	\$ 3,740,545	14	\$ 3,740,545	14	\$ 3,869,074	15	\$ 3,869,074	15	\$ 3,947,552	16
Parking	2,616,928	6	2,616,928	6	2,671,254	7	2,671,254	7	2,671,254	7
<b>Total</b>	<b>\$ 6,357,473</b>	<b>20</b>	<b>\$ 6,357,473</b>	<b>20</b>	<b>\$ 6,540,328</b>	<b>22</b>	<b>\$ 6,540,328</b>	<b>22</b>	<b>\$ 6,618,806</b>	<b>23</b>
<i>Newly Available</i> <sup>1</sup>	\$ -	0	\$ -	0	\$ 182,855	2	\$ -	0	\$ 78,478	1
Program	2026		2027		2028		2029		2030	
	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count
Real Estate	\$ 3,947,552	16	\$ 5,100,079	18	\$ 5,327,462	19	\$ 5,327,462	19	\$ 5,409,355	20
Parking	2,671,254	7	2,910,884	9	3,070,423	10	3,070,423	10	3,070,423	10
<b>Total</b>	<b>\$ 6,618,806</b>	<b>23</b>	<b>\$ 8,010,963</b>	<b>27</b>	<b>\$ 8,397,885</b>	<b>29</b>	<b>\$ 8,397,885</b>	<b>29</b>	<b>\$ 8,479,778</b>	<b>30</b>
<i>Newly Available</i> <sup>1</sup>	\$ -	0	\$ 1,392,157	4	\$ 386,922	2	\$ -	0	\$ 81,893	1
Program	2031		2032		2033		2034		2035	
	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count
Real Estate	\$ 5,409,355	20	\$ 5,409,355	20	\$ 5,683,722	21	\$ 6,217,258	22	\$ 6,217,258	22
Parking	3,070,423	10	3,070,423	10	3,440,353	12	3,440,353	12	3,585,010	13
<b>Total</b>	<b>\$ 8,479,778</b>	<b>30</b>	<b>\$ 8,479,778</b>	<b>30</b>	<b>\$ 9,124,075</b>	<b>33</b>	<b>\$ 9,657,611</b>	<b>34</b>	<b>\$ 9,802,268</b>	<b>35</b>
<i>Newly Available</i> <sup>1</sup>	\$ -	0	\$ -	0	\$ 644,297	3	\$ 533,536	1	\$ 144,657	1
Program	2036		2037		2038		2039		2040	
	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count
Real Estate	\$ 6,217,258	22	\$ 8,434,271	23	\$ 8,434,271	23	\$ 8,607,847	24	\$ 8,607,847	24
Parking	3,585,010	13	3,585,010	13	3,990,295	14	3,990,295	14	3,990,295	14
<b>Total</b>	<b>\$ 9,802,268</b>	<b>35</b>	<b>\$ 12,019,281</b>	<b>36</b>	<b>\$ 12,424,566</b>	<b>37</b>	<b>\$ 12,598,142</b>	<b>38</b>	<b>\$ 12,598,142</b>	<b>38</b>
<i>Newly Available</i> <sup>1</sup>	\$ -	0	\$ 2,217,013	1	\$ 405,285	1	\$ 173,576	1	\$ -	0

<sup>1</sup> 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 Increment 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 Increment 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 representatives of the City, URA, Allegheny County, and the Pittsburgh Board of Education, as specified in [§201.11\(f\)](#).

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 gauge 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.

During our review the URA confirmed the current status of the TIF Committee, including last meeting date and composition. They indicated that March, 2019 was their last meeting date and that the composition of the committee included URA staff only. The URA has indicated that the TIF Committee will be reinstated at a future date.

## *UPDATED ASSESSMENT*

The Controller's Office is working with the URA to compile data required to assess whether TIF Projects are meeting original revenue projections and debt service obligations. Below is a summary of the information requested to complete such assessments.

Throughout the course of the audit, we requested specific information to assess the ongoing performance of TIF projects. We had requested such data from the URA during the prior audit, yet it was not provided until the current audit. We met with URA staff to discuss their process of data collection and their access to said data. We attempted to further clarify the rationale and specifics of the information requested in order to satisfy our audit objectives.

Specifically, we requested TIF revenues collected per project, in order to compare estimated versus actual increase in tax revenues for the period of 2018-2020. The data provided did not sufficiently detail actual tax revenues collected per project needed to make such comparisons. The URA indicated that the City tax revenue data was not available on a per project basis.

We noted, the estimated tax revenue is calculated at the onset of each project and is not updated throughout its duration. Best practice would require ongoing updates to estimated tax revenue collections throughout the life of each TIF. This information should be readily visible to all parties. Further discussion with the URA confirmed that updates are not made to the initial estimated tax revenues calculated at the onset of each project, nor did they indicate any anticipated change in the future.

Additionally, we requested data for estimated versus actual jobs generated per TIF project for the period of 2018-2020. In addition, we requested applicable Job Reports as is required in the URA's TIF Guidelines<sup>4</sup>, which was adopted in 2011 and amended in 2018. The URA provided a projection of 11,245 jobs to be created/retained, versus the 5,920 actual jobs created/retained from TIF projects during 2019 and 2020. The URA indicated that they have not collected the annual Job Reports, but will do so going forward. Thus, an assessment of jobs resulting from the TIF program on a per project basis was not possible with the extent of information that the URA was able to currently provide. The URA clearly needs to ensure that TIF recipients (developer/lessees) provide actual job creation data, as required by §201.11(c)(8) and §201.11(d)(6) of the City's Code of Ordinances, as well as the section entitled 'Reporting & Related Ordinances-URA Jobs Report' of the URA's TIF Guidelines.

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<sup>4</sup> Per URA's TIF Guidelines, section entitled 'Reporting & Related Ordinances-URA Jobs Report', "For the duration of the TIF District, the applicant must submit an annual update on jobs within the development and must provide up to date job information upon the URA's request. Upon the completion of the project, the applicant will have five years to meet its pre-development employment goals. The TIF Applicant and/or related entity shall be required to submit a plan to the City of Pittsburgh for achieving a workforce which is comprised of at least 35% City Residents within the five year period following the commencement of business operations, and an affidavit of commitment to achieve this employment plan. The TIF Recipient must utilize CareerLink prior to TIF implementation. If TIF funds are used in the private development, any shortfall in actual versus estimated jobs may result in monetary damages that would be specified in the Funding Agreement".

Lastly, we requested data necessary for assessing whether TIFs are meeting Debt Service Obligations for TIF Projects for the period of 2018-2020. The URA provided limited TIF data detailing the issue/maturity year, original loan amount, total principle paid, and outstanding balance as of year 2020 for ten TIF projects. However, five of the ten TIF projects did not distinguish between the Real Estate versus Parking TIF types that they contained. Additionally, the data provided did not include any surplus/deficit information, nor the minimum payment due per project.

During 2020, the URA has experienced a high degree of organizational turnover, thus creating a marked lack of continuity of personnel in various strategic positions. This precluded their ongoing efforts in gathering TIF data requested in order to evaluate compliance with regulations detailed in the City's Code of Ordinances regarding TIF programs.

## DEBT PAYMENTS-TIFs

The Urban Redevelopment Authority of Pittsburgh provided data from projects currently funded by Tax Increment Financing programs. An estimated total of \$34,434,593 remains outstanding for 10 TIF projects as indicated below:

TIF Project	TIF Type	Year Issued	Year of Maturity	Loan Amount	Total Principal Paid	Outstanding Balance as of 2020	Outstanding Loan Amount Remaining
Panther Hollow (CMU)	Real Estate/Parking	2003	2022	\$ 4,130,000	\$ 3,080,000	\$ 1,050,000	25%
Center Negley	Real Estate	2005	2024	2,140,000	1,200,000	\$ 940,000	44%
Pittsburgh Technology Center	Real Estate/Parking	2008	2026	5,000,000	2,495,000	\$ 2,505,000	50%
Bakery Square Project	Real Estate/Parking	2009	2027	10,500,000	4,678,164	\$ 5,821,836	55%
Eastside Target	Real Estate	2010	2029	2,500,000	1,086,765	\$ 1,413,235	57%
Gardens at Market Square	Real Estate/Parking	2013	2032	8,636,370	2,078,577	\$ 6,557,793	76%
Union Trust	Parking	2017	2033	2,808,400	182,375	\$ 2,626,025	94%
350 Oliver	Parking	2015	2033	7,000,000	889,262	\$ 6,110,738	87%
Fifth Market (3 PNC)	Real Estate/Parking	2017	2037	12,415,000	5,255,000	\$ 7,160,000	58%
Smallman Street	Real Estate	2019	2038	3,784,860	3,534,894	\$ 249,966	7%
<b>Totals</b>				<b>\$ 58,914,630</b>	<b>\$ 24,480,037</b>	<b>\$ 34,434,593</b>	

## **FINDINGS & RECOMMENDATIONS**

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### **2020 FINDINGS & RECOMMENDATIONS**

We performed testing on a sample of parcels participating in the [prior Tax Abatement Programs](#) (TAPs) only, as the City recently started receiving applications for the [current amended Tax Abatement Programs](#) and will not be included for testing on this audit. We sampled 10% of the parcels actively abated, resulting in a total sample size of 74 parcels. We requested supporting documentation for said samples from the City's Department of Finance-Real Estate Division (DoF-RE), for which they provided documentation for 53 (72%) of the samples requested. The documents consisted of applications, permits, and recommendation for approval and/or approval letters. Additionally, the DoF-RE provided the assessment history for each sample, which is used in the calculation of the abatement. We completed limited testing on the samples provided to determine if there was sufficient supporting documentation, proper recommendation for approval and/or approval was documented, and the abatement amounts applied were properly derived. The outcome of said testing is further detailed in the findings below.

We also assessed whether the Urban Redevelopment Authority (URA) of Pittsburgh, in conjunction with the TIF Committee, has routinely reviewed TIF proposals, implementations, and monitored regulation and contractual compliance, as specified in the City's Code of Ordinances.

The results of our audit are grouped between DoF-RE and the URA, independent of each other. Furthermore, the results of said testing and assessments are further detailed in the remainder of the report, in addition to findings, recommendations, the auditee's response, and status<sup>5</sup>.

#### *DEPARTMENT of FINANCE-REAL ESTATE DIVISION*

##### **Finding #1: 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 a total of six parcels with abatement amounts that were incorrectly derived and applied. Specifically, four parcels were under-abated by a total of \$581.36, while two parcels were over-abated by a total of \$1,316.53 during the year tested (i.e. 2020).

The DoF-RE entered into a contract with CSS, Inc. in January, 2020 for the implementation of a new Business and Real Estate Tax Management system. The DoF-RE assured us that the new system would automate the calculation of abatements once it is fully operational. However, we are aware that the DoF-RE manually calculates the abatement amount for parcels already participating in the abatement programs. Therefore, it is vital that the DoF-RE ensure that all parcels actively receiving abatements are receiving the correct tax credit and/or assessment reduction.

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<sup>5</sup> See [Addendum](#) for further definition of status types of current audit recommendations.

**Recommendation:**

The DoF-RE should take steps to ensure proper application and derivation of abatements for all parcels, both current and future recipients. Specifically, this would include creating a formal procedure for manual/automated calculations of abatements, in addition to verification checks for accuracy of abatements. Responsible parties for each step would be clearly identified. We also suggest that the DoF-RE take corrective actions to collect funds or issue credits to the parcels abated for the incorrect amounts that were identified in both prior and current audit reports.

**DoF-RE Response:**

Finance will work to ensure that current abatements are reviewed and calculated properly. Finance continues to work with Allegheny 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 IMPACT, the new tax and real estate system, flags can be set automatically to ensure both the City and Allegheny County are alerted when property assessment data is changed. Tax abatement calculations will happen automatically based on system criteria.

**Finding #2: Lack of Supporting Documentation**

The DoF-RE did not provide supporting documentation for 28% of the parcels requested, thereby precluding the samples from further testing. Thus, we were unable to vouch for the adequacy of the supporting documentation, validity of approval, and/or the accuracy of the derivation of abatement applied for said parcels. The DoF-RE had stated in response to the prior audit that all tax abatement documentation would be stored in a centralized document management system. However, the digital storage of documentation for approved parcels actively abated has yet to commence. While this presents risks commonly associated with inadequate safekeeping of documentation, it can also contribute to the DoF-RE being unable to retrieve documentation timely.

The DoF-RE reviews and approves applications for multiple TAPs, which include: Act 42 Residential, Act 42 Enhanced Residential, and Local Economic Stimulus. We noted several exceptions for parcels receiving abatements for the Act 42 programs during testing for the following attributes: (A) sufficient supporting documentation and (B) documentation of proper approval. More specifically, exceptions to attribute A were noted in 16 parcels, which was due to the absence of an application/building permit and/or the permit not being submitted within 180 days of the application. Additionally, exceptions to attribute B were noted in 13 parcels, due to the absence of an approval signature on the application and/or the absence of an application. Also, a copy of the permit was not provided for one parcel receiving an abatement for the Local Economic Stimulus program.

Lastly, we noted exceptions for the testing of said attributes for TAPs originally reviewed and recommended for approval and/or approved by the URA or Allegheny County. The application and recommendation for approval letter was not provided for one parcel



receiving an abatement for the Residential LERTA program as well as 11 parcels receiving an abatement for the Residential Enhanced LERTA, which were both reviewed and recommended for approval by the URA. We also noted that a copy of the permit for one parcel receiving an abatement for the Commercial LERTA was not provided, which was reviewed and approved by Allegheny County. We must note that upon review and recommendation for approval and/or approval of applications for said programs, the URA and Allegheny County are responsible for forwarding documentation to the DoF-RE for their receipt. Therefore, it is vital that the DoF-RE ensure that they obtain all of the appropriate documentation necessary for proper abatement administration.

**Recommendation:**

We maintain that the DoF-RE should create a detailed process and procedure 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, in addition to calculation and documentation of the tax abatement. Identification of responsible parties for each step should be clearly communicated and implemented in said procedure. Lastly, the DoF-RE should obtain all missing documentation to scan into the document management system for parcels being actively abated that were identified in both current and prior audit reports.

**DoF-RE Response:**

Finance will work to scan any hardcopies of applications and supporting documentation of old and current abatements. Implementation of IMPACT, the new tax and real estate system began in early 2020. All tax abatement and other applications will be electronic and accessible to customers on the Department of Finance’s webpage. In addition to the application, any supporting documents will be stored on a centralized document management system to allow for easy access.

*URBAN REDEVELOPMENT AUTHORITY of PITTSBURGH*

**Finding #3: Oversight of TIF Projects**

The URA, through the formulation of a TIF committee, is responsible for oversight of TIF proposals, implementations, and the monitoring of regulation and contractual compliance. Furthermore, §201.11 of the City’s Code of Ordinances states that the TIF Committee will be comprised of City Council members and representatives of the City, URA, County of Allegheny, and the Pittsburgh Board of Education.

Additionally, the Government Finance Officers Association’s (GFOA) best practice for ‘Establishing an Economic Development Incentive Policy’ provides a detailed template for the ongoing monitoring and proper compliance of incentive programs, such as TIFs. This would include examining performance standards and assessing whether goals are achieved relative to each TIF project. Specifically, this consists of monitoring job creation and retention as well as the TIF debt service payments.

Presently, the TIF Committee has been inactive since March, 2019 and was comprised of URA staff only. The URA acknowledged such inactivity, as no new TIF projects had been approved. However, the ongoing monitoring of existing TIF projects remains the responsibility of the TIF Committee, regardless of the lack of new TIF projects. Thus, the absence of an active TIF Committee results in the marked omission of adequate oversight and reporting regarding all TIF projects. The URA has now indicated that they will be reinstating the TIF Committee at a future date.

**Recommendation:**

The URA should reinstate the TIF Committee and ensure that it is comprised of City Council members and representatives of the City, URA, County of Allegheny, and the Pittsburgh Board of Education. The expectations of the TIF Committee should be clearly defined and understood by all members. Specifically, this would involve oversight of TIF proposals, implementations, and the monitoring of regulation and contractual compliance<sup>6</sup>. Furthermore, the results of such monitoring should be transparent to all. Lastly, the TIF Committee should adopt elements detailed in the GFOA’s best practice for ‘Establishing an Economic Development Incentive Policy’ as goals for their oversight.

**URA Response:**

In response to Finding #3: Oversight of TIF Projects, the URA accepts this finding.

The URA takes this finding very seriously. The finding is a result of personnel turnover and change of leadership over the course of the last 16 months. This was further complicated by COVID-19. The first step to correcting this is identifying proper staff responsibilities. In addition to the onboarding of two new Directors (Director of Finance & Director of Development Services), there have also been staff promotions to assist in improving the URA’s oversight of this project; namely, the Assistant Director of Policy & Development.

The Assistant Director of Policy & Development will take on the project management lead of correcting this finding. This individual has prior experience with TIFs, as well as familiarity with the GFOA best practice for ‘Establishing an Economic Development Incentive Policy’. Effective immediately, the URA will begin strategizing and planning for improvements to the TIF program in accordance with this policy. Additionally, we will work to reinstate the TIF Committee by Q4 2021.

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<sup>6</sup> See results of our efforts to obtain TIF information regarding the URA’s monitoring of regulations and contractual compliance, in the section entitled ‘[Updated Assessment](#)’.

## **UPDATE TO PRIOR 2019 REPORT**

A review of the Tax Abatement Programs was conducted in 2019 and a report was formally released on December 30, 2019. As a standard practice, we reviewed prior observations to assess the progress made on the implementation of prior recommendations. Below are observations noted in 2019 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<sup>7</sup> 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 purchased a new business tax and revenue management software in early 2020 with CSS Inc. under [Contract #53205](#). The new real estate system is expected to be fully implemented by June/July of 2021. Further review will commence at the time full implementation is completed.

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<sup>7</sup> 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.

## **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 receiving 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 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 (purchased in early 2020) will automatically issue notifications to property owners regarding status of abatement program. The new real estate system is expected to be fully implemented by June/July of 2021. Further review will commence at the time full implementation is completed.

## **Prior Finding #3: 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 receiving Residential and/or Commercial LERTA TAPs. There were a total of three 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.

**Prior 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.

**Prior 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.

**Current Status Update: Work In Progress**

DoF-RE purchased a new business tax and revenue management software in early 2020 with CSS Inc. under Contract #53205. The new real estate system is expected to be fully implemented by June/July of 2021. We were not provided with a procedure developed for calculation of abatements within the newly acquired software. Finance stated that the new software would automate said calculations, which we will review at the time full implementation is completed.

**Prior Finding #4: 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 five 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 four 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<sup>8</sup>.

**Prior 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.

**Prior 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.

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<sup>8</sup> 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.

### **Current Status Update: Work In Progress**

DoF-RE purchased a new business tax and revenue management software in early 2020, which would allow for documents to be stored on a centralized document management system. The new system is expected to be fully implemented by June/July of 2021. We were not provided assurance that said document management system is currently being implemented, nor any specifics regarding its capabilities. We will assess its adequacy at the time full implementation is completed.

## **ADDENDUM**

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### ***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.