



Fiscal Audit

**DEPARTMENT OF FINANCE
AND
URBAN REDEVELOPMENT AUTHORITY**

**ANNUAL AUDIT OF THE TAX ABATEMENT AND TAX
INCREMENT FINANCING PROGRAMS**

Report by the
Office of City Controller

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May 2023

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

May 2023

To the Honorable Mayor Edward Gainey and
Honorable Members of Pittsburgh City Council:

We are pleased to present this annual audit of the City's **Tax Abatement and Tax Increment Financing Programs**, conducted pursuant to the Power of the Controller under 404(b) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

Tax Abatement Programs (TAPs) are locally governed by City Ordinance Chapters 265 and 267 and are managed by the City's Department of Finance (Finance). Tax Increment Financing (TIF) is locally governed by §201.11 of City Ordinance and managed by the Urban Redevelopment Authority (URA). Therefore, we coordinated with both entities, among some others, to understand, document, and analyze the activities of these programs.

Being that this audit is administered annually, part of our process had to entail an organizational strategy for (1) monitoring Prior Findings and (2) reporting current Findings, both in a means that allows clear tracing of statuses. Therefore, please also see our report *2023 Follow-Up: Tax Abatement & Tax Increment Financing Programs*, which was published separately and simultaneously to this report. Our follow-up report provides an aggregated review of all Prior Findings reported by our Office, relevant to TAPs and TIFs, between 2017 – 2021. With some major core concerns noted in Prior Findings having overlapped, this relabeling process has allowed us to more concretely separate and identify those concerns under new Finding headers.

Among those Prior Findings, we noted that the digital information system slated to automate Finance's calculation and retention processes is still not active, even though over \$4 million has been spent on that system as of January 2020. In our current audit, we also noticed some misalignment with City Ordinance, a general lack of internal controls, and questionable abatement calculations. Since our formal Exit Meeting, Finance has indicated that its calculations were correct due to additional eligible abatements; however, this expanded eligibility was not clearly indicated in the department's internal spreadsheet listing active abatements, and the identified abatement program did not align with the calculations provided. In our future audit procedures, we will ensure to engage further with Finance on the details of the Findings we have reported.

With that said, we acknowledge the staffing challenges, even at the administrative level, that Finance has faced in past few years. In our recent conversations with the department, we got the impression that its administrators are excited to standardize operations and hopeful of the ongoing progress.

Concerns of staffing, retention of documentation, and alignment with Ordinance were also evident in our review of the URA's materials. Having said that, one of the URA's Prior Findings was closed—Finding #3 of 2021, which noted that the TIF committee had been inactive since March 2019. In 2022, the URA did provide evidence of an existing committee and records of its meetings.

In summarizing our procedures, we reviewed data and samples received during prior audits administered by our Office. In doing so, we identified and removed any samples previously reviewed from the current data provided by the Department of Finance and URA and selected new samples from the fresh population for testing. We then tested the materials received against legislative requirements and internal policies and procedures, as applicable. The results of our research and testing can be found in the [Audit Procedures](#) and [Findings and Recommendations](#) portions of this report.

We appreciate the cooperation, patience, and support of the staff we coordinated with 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

The annual fiscal audit of the **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. Also, in accordance with the City's Code of Ordinances, **§265.12** and **§267.10**, the Controller is to perform a yearly audit to include the following:

“...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.”

As part of this accounting process, the Controller is also to complete the following:

“...document the total production, conversion, and removal of residential, commercial, and industrial units that result from projects or properties granted tax abatements described herein, including those associated with program compliance for the purposes of determining eligibility for exemptions, as delineated on a per-project basis.”

Resolution 577 of 2017 further authorizes the Controller’s Office to audit the abatement programs and associated agencies, departments, authorities, and entities within the Office’s jurisdiction, pursuant to the power granted by the Pittsburgh Home Rule Charter. As indicated therein, the audit’s scope “shall be from January 1, 2007, to present time.”

SCOPE AND METHODOLOGY

Our most recent prior report was published in [April 2021](#). This 2023 report picks up where the 2021 report left off as part of the continuation of this ongoing review. During this annual audit, we reviewed data, samples, and projections for the programs initiated between **2007 – 2040**.

The objectives of this audit were to determine whether or not procedures, internal controls, and overall fiscal accuracy relating to the administration of the programs were adequate during examined period of time. In order to achieve this objective, we performed the following procedures:

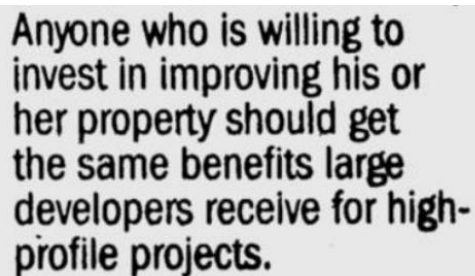
- Reviewed Chapters [201](#), [265](#), [267](#), and [915](#) of City Ordinance to understand legislations connected to the programs as passed by City Council.
- Reviewed legislative Acts and resolutions governing the tax credit, reduction, and abatement programs offered by the City.

- Interviewed department administrators with the Department of Finance and the Urban Redevelopment Authority (URA).
- Reviewed the URA's internal guidelines and any agreements connected to sample testing.
- Reviewed and tested samples and data provided by both the Department of Finance and URA.
- Reviewed prior data sheets and samples provided by the Department of Finance and the URA to ensure that current sample testing did not duplicate testing from prior audits.
- Reviewed, compiled, and organized all Findings and Recommendations noted in prior reports to determine and document the status of each. We also assessed the status by reviewing prior and current documentation provided by the auditees.

BACKGROUND

The increase of “deteriorating areas” has been a growing concern for the City of Pittsburgh because various forms of residential instability, crime, and overall loss of City revenue are borne from neighborhood deterioration. The HUD User article “[Neighborhoods and Violent Crime](#)” indicates that, as of the summer of 2016, violent crime in the United States (U.S.) had notably declined in comparison to the prior 20 years; however, areas of high crime tended to be disadvantaged and deteriorating neighborhoods.¹ The article cites a research study from the National Bureau of Economic Research (NBER) called “[Foreclosure, Vacancy, and Crime](#),” which examined the effects of foreclosures on communities in Pittsburgh. Although the article notes that foreclosures do not have a significant impact on overall crime, foreclosure-driven vacancies do, and, per the study, violent crime in a specific area of Pittsburgh increased by 19% just in proximity of a newly vacant house.²

Some studies have even drawn possible connections between environmental disorder and personal health. This possible correlation is discussed in the RAND Corporation article “[Does Neighborhood Deterioration Lead to Poor Health?](#)” It states that residents of deteriorating neighborhoods had higher rates of negative health conditions and even premature death.³ The RAND Corporation article references a study published by the American Public Health Association called “[Neighborhood Physical Conditions and Health](#).” The study specifically examined the relationship between boarded-up housing and neighborhood health in proximity of these structures.



Anyone who is willing to invest in improving his or her property should get the same benefits large developers receive for high-profile projects.

Figure 1: Excerpt from "Taxing Pittsburgh" by Christopher Briem. Published in the Pittsburgh Post-Gazette on February 18, 2007.

The factors that seem to go in hand with neighborhood deterioration can also influence population decline. The population of Pennsylvania at large decreased by 25,569 between July 1, 2020, and July 1, 2021, according to the U.S. Census Bureau.⁴ Pittsburgh alone experienced a natural population decline of 10,838 between 2020 and 2021—results of a higher number of deaths to births and also population migration, according to a Pittsburgh Perspectives report called “2021 Population Estimates for the Pittsburgh Region” published online by the University of Pittsburgh.⁵ Back in 2007, the economist Christopher Briem of the University Center for Social

¹ Sackett, Chase. “Neighborhoods and Violent Crime.”

<https://www.huduser.gov/portal/periodicals/em/summer16/highlight2.html>

² Cui, Lin and Walsh, Randall. “Foreclosures, Vacancy, and Crime.”

<https://www.nber.org/papers/w20593>

³ Cohen, Deborah; Mason, Karen; Bedimo-Rung, Ariane; Scribner, Richard; Basolo, Victoria; Farley, Thomas; Spear, Suzanne; Kissinger, Patty; and Wildgen, John. “Does Neighborhood Deterioration Lead to Poor Health?”

https://www.rand.org/pubs/research_briefs/RB9074.html

⁴ U.S. Census Bureau. “QuickFacts: Pittsburgh City, Pennsylvania.”

<https://www.census.gov/quickfacts/fact/table/pittsburghcitypennsylvania/POP010220#POP010220>

⁵ Center for Social & Urban Research, University of Pittsburgh. “2021 Population Estimates for the Pittsburgh Region.”

<https://ucsur.pitt.edu/perspectives.php?b=20220331447305#:~:text=The%20Pittsburgh%20region%20is%20estimate,d,the%20regional%20population%20in%202020>.

and Urban Research expressed in a Post-Gazette article called “Taxing Pittsburgh” the opinion that population decline across all Pittsburgh neighborhoods would be barely offset by the legislation movements of the time to offer abatements for selected neighborhoods, starting with Downtown. He indicated that abatements should, instead, apply to every residential property because selective abating gives greater advantage to larger-scale developers and sticks residents who purchase or improve properties outside of selected zones with a higher tax bill.

Numerous articles and studies of similar content have been popping up in the media for some time and, for over a decade, the City of Pittsburgh has asked itself how this deterioration can be circumvented or reversed. While City officials have not always agreed on the potential approaches to incentivizing citizens and businesses to develop City properties, the legislation on abating property taxes has been in place for quite some time. The 2017 article "[Pittsburgh Officials Want Tax Breaks To Benefit City, Disagree On How To Do It](#)" by Margaret Krauss notes that City Council members were in disagreement on whether or not tax abatement legislation should be rewritten. Some questioned if additional tax breaks are, in fact, warranted, and others expressed concerns of prior legislation's risk-to-reward appeal to potential developers. A representative from Mayor Peduto's Office also noted that the original legislation was “cumbersome and confusing.” The clarity, transparency, and overall benefit of the prior legislation had been under construction, per public hearings, and the movement, at that time, was to streamline the abatement programs.⁶

As a result, the modern era of abatement programs can be legislatively divided into the [PRE-CONSOLIDATION](#) and [POST-CONSOLIDATION](#) periods. Prior to the consolidation, there were seven abatement programs and after the consolidation only four. The **post-consolidation** era initially became effective on January 1, 2020, via ordinance revisions to the following City Ordinance chapters: Chapter 265, *Exemptions for Residential Improvements*, and Chapter 267, *Exemptions for Industrial and Commercial Improvements*. The effective date with further chapter revisions were then implemented for June 30, 2020. Further down in this report, we will break down the differences between the two eras, but, for the sake of this audit, please note that most of our procedures centered on **pre-consolidation** abatements.

In short, “tax abatement” and “tax increment financing” refer to programs that offer tax reductions, exemptions, or postponements, and these programs are offered to tax payers and businesses. In principle, they are meant to energize the economy by incentivizing property developments and improvements, and when businesses get involved, it can also stimulate City job growth. The benefits of the various programs can ensure that owners are not negatively impacted by higher taxes as they make improvements to their homes and it rewards new buyers or builders with less taxes if they buy, improve, or build anew. Improving property value and/or building new residences on City property can, of course, attract new residents and improve the overall living quality of existing residents.

To understand our objectives, we must first review the legislations connected to tax exemptions on residential, industrial, and commercial properties and financing on larger-scale

⁶ Krauss, Margaret. “Pittsburgh Officials Want Tax Breaks To Benefit City, Disagree On How To Do It.” <https://www.wesa.fm/development-transportation/2017-07-12/pittsburgh-officials-want-tax-breaks-to-benefit-city-disagree-on-how-to-do-it>

redevelopments. We will now quickly define **(1) Tax Abatement Programs (TAPs)** and **(2) Tax Increment Financing (TIF)** programs as follows:

- (1) **TAPs** allow any persons making improvements to properties in deteriorated areas to apply for and receive tax exemption on incremental amounts of construction and renovation for a specific period of time. Prior to 2020, there were seven primary program categories available. As of July 1, 2020, a program consolidation was enacted to condense these into only four primary categories. We will discuss these in more detail later in this report. Please note that TAPs are managed by the City's **Department of Finance**.
- (2) **TIF programs** utilize future increased tax revenue generated by a large-scale redevelopment project to pay for certain eligible project costs. The goal is for the redevelopment to boost the City's economy in the present day—rather than waiting for and/or completely negating the redevelopment to occur in the future—by funding the project with tax revenue expected to be accrued in the future. We will discuss this in more detail later in this report. Please note that TIF programs are managed by the **URA**.

TAX ABATEMENT PROGRAMS (TAPs)

As indicated previously, TAPs are offered as an incentive to promote economic and neighborhood development and growth. Constructing residential real estate or making improvements to existing real estate can qualify the purchaser for property tax abatement or reduction for a certain period of time, which can vary depending on the location of the property.

Chapter 265, Exemptions for Residential Improvements, and **Chapter 267, Exemptions for Industrial and Commercial Improvements**, of City Ordinance establishes certain exemptions on improvements and construction, boundaries, guidelines on Visitability, guidelines on intergovernmental cooperation, and more. It also establishes the definition of “**deteriorating areas**” to be locations that are, as determined by City Council based on public hearings, physically impaired on one or more specific standards. See the figure below for an excerpt of this section.

- (b) **DETERIORATING AREAS.** Those locations in the City which Council, after public hearing, has determined to be physically impaired on the basis of one (1) or more standards including, but not limited to, the following:
- (1) The residential buildings, by reason of age, obsolescence, inadequate or outmoded design or physical deterioration have become economic and/or social liabilities.
 - (2) The residential buildings are substandard or unsanitary for healthful and safe living purposes.
 - (3) The residential buildings are overcrowded, poorly spaced, or are so lacking in light, space and air as to be conducive to unwholesome living.
 - (4) The residential buildings are faultily arranged, cover the land to an excessive extent or show a deleterious use of land, or exhibit any combination of the above which is detrimental to health, safety or welfare.
 - (5) A significant percentage of buildings used for residential purposes is more than twenty (20) years of age.
 - (6) A substantial amount of unimproved, overgrown and unsightly vacant land exists which has remained so for a period of five (5) years or more indicating a growing or total lack of utilization of land for residential purposes.
 - (7) A disproportionate number of tax exempt or delinquent properties exists in the area.

Figure 2: Excerpt from Ordinance §265.01(b) on Deteriorating Areas.

In the same chapter, it further defines deteriorated neighborhoods and properties and also targeted growth zones and districts.

- (c) **DETERIORATED NEIGHBORHOODS.** Any area containing unsafe, unsanitary or overcrowded buildings, vacant, overgrown and unsightly lots of ground; a disproportionate number of tax delinquent properties; excessive land coverage; defective design or arrangement of buildings, street or lot layouts; economically and socially undesirable land uses; impoverished, as certified to by the Department of Public Welfare and approved by the Department of Revenue under the "Neighborhood Assistance Act"; or blighted because of inadequate dwellings therein or because of inadequate planning of the area or the lack of proper light and air and open space.

Figure 3: Excerpt from Ordinance §265.01(c) on Deteriorating Neighborhoods.

(d) **DETERIORATED PROPERTY.** Any dwelling unit located in a deteriorated neighborhood; or a dwelling unit which has been, or, upon request, is certified by a health, housing or building inspection agency as unfit for human habitation for rent withholding, or other health or welfare purposes; or a dwelling unit which has been the subject of an order by an agency requiring the unit to be vacated, condemned or demolished by reason of noncompliance with laws, ordinances or regulations.

Figure 4: Excerpt from Ordinance §265.01(d) on Deteriorating Property.

The following is noted in §265.03: “Any persons making improvements to deteriorated residential property may apply for and receive tax exemption upon the improvements in the manner and in the amounts hereinafter provided.” Please note, however, that, per §265.06(g), properties cannot be in a state of tax delinquency to be eligible for an exemption; therefore, any tax delinquencies of the property or owner must be resolved before an exemption can be obtained.

As indicated in the [BACKGROUND](#) portion of this report, there were two distinct eras of TAPs: [PRE-CONSOLIDATION](#) and [POST-CONSOLIDATON](#). Please read those sections of this report for more information on the programs.

PRE-CONSOLIDATION

Prior to July 1, 2020, seven TAP programs were available as shown in the figure below. Please note that parcels governed under these programs are still in effect because of the times of the applications and the abatement periods offered at the time. Over time, these pre-consolidation programs will phase out as abatement periods expire. Additionally, please note that due to the consolidation, references in this report to ordinance regarding pre-consolidation programs do not pertain to current ordinance but rather the ordinance at the time.

Program	Type of Abatement	Participating Taxing Body and Annual Abatement Limit	Abatement Period	Increment Abated	Current Use of Property	Future Use of Property	Eligible Area	Application Review
Act 42 Residential Pittsburgh Code Chapter 265	Assessment Reduction ¹	City	\$86,750 for New Construction \$36,009 for Renovations	3 years	100% Increase in tax due to improvement	Residential or Vacant Land	Residential, For-sale or Rental	City-wide Allegheny County
		School	\$86,750 for New Construction \$36,009 for Renovations					
		County	\$36,009 for New Construction & Renovations					
Act 42 Enhanced Residential Pittsburgh Code Chapter 265, Ordinance 9	Assessment Reduction ¹	City	\$250,000	10 years	100% Increase in tax due to improvement	Residential or Vacant Land	Residential, For-sale or Rental	28 Defined Areas City of Pittsburgh
Commercial LERTA Pittsburgh Code Chapter 267	Tax Credit ²	City	\$50,000	5 years	100% Increase in tax due to improvement	Commercial, Industrial or Vacant Land	Commercial or Industrial, For-sale or Rental	City-wide Allegheny County
Residential LERTA Pittsburgh Code Chapter 267, Ordinance 10 ³	Tax Credit ²	City	\$150,000	10 years	100% Increase in tax due to improvement	Commercial or Industrial	Residential Rental or Hotels	4 Defined Areas Urban Redevelopment Authority
		School	\$250,000	10 years	100% in Years 1 & 2; 90% in Years 3 & 4; 80% in Years 5 & 6; and so on			
		County	\$100,000					
Residential Enhanced LERTA Pittsburgh Code Chapter 267, Ordinance 10	Tax Credit ²	City	\$2,700	10 years	100% Increase in tax due to improvement	Commercial or Industrial	Residential, Separately assessed units	4 Defined Areas Urban Redevelopment Authority
Local Economic Stimulus ⁴	Tax Credit ²	City	\$250,000	10 years	100% in Years 1 & 2; 90% in Years 3 & 4; 80% in Years 5 & 6; and so on	Commercial, Industrial or Vacant Land ⁵	Residential, Commercial or Industrial	City-wide City of Pittsburgh
Visitability Residential ⁶	Tax Credit ²	City	\$2,500	5 years	100% Increase in tax due to improvement	Residential, Vacant Land, Commercial or Industrial	Residential, Single family, Duplex, Triplex, Adaptive reuse	City-wide Allegheny County
		County	\$2,500					

¹As assessment reductions, the total tax benefits of the Act 42 programs can change depending on the millage rate.
²As tax credits, the maximum benefits of the LERTA programs and the Local Economic Stimulus program cannot exceed the amounts listed above.
³Applications filed on or after July 1, 2012 through June 30, 2017 receive an abatement for the 100% increase in tax due to improvements for City taxes only.
⁴The Local Economic Stimulus applies to the incremental increase in taxes as a result of construction or improvements costs in excess of one million dollars (\$1,000,000).
⁵Under the Local Economic Stimulus, residential development can only occur as the conversion of existing commercial or industrial buildings and not as new construction on vacant land.
⁶The Visitability tax credit can be used concurrently with other residential tax abatement programs.

Figure 5: This table shows pre-consolidation TAPs (in effect prior to July 1, 2020).

Descriptions of these programs and their processes are provided in our [2021 audit report](#), but we will go through some of the most relevant factors below.

ACT 42 PROGRAMS

Section 1. The title and act of July 9, 1971 (P.L.206, No.34), entitled "An act authorizing local taxing authorities to provide for tax exemption for certain improvements to deteriorated dwellings; providing for an exemption schedule and other limitations," are reenacted and amended to read:

AN ACT

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 [an] exemption [schedule] schedules** and other limitations.

Figure 6: Excerpt from Act 42 of 1977, amending Act 34 of 1971.

There were two Act 42 programs offered prior to the consolidation: [Act 42 Residential](#) and [Act 42 Enhanced Residential](#). Both were established to provide **assessment reductions** on improvements or constructions in the City with Act 42 Enhanced Residential allowing for a greater reduction amount over a longer period of time. These programs are

authorized statewide via Act 42 of 1977, an amendment of Act 34 of 1971. An excerpt of this Act is provided in **Figure 6** shown.

Please see the breakdown of these plans below.

Act 42 Residential:

- Applications must be submitted within 180 days of the issuance of the building permit.
- Applications were reviewed by the Department of Finance.
- Available for 3 years as an assessment reduction based on millage rate.
- For renovations or new constructions on residential or vacant land Citywide.
- To be used for residential, for-sale, or rental.
- Total amounts reduced limited to \$86,750 on new constructions in the base year.
- Total amounts reduced limited to \$36,009 for renovations in the base year.

Act 42 Enhanced Residential:

- Applications must be submitted within 180 days of the issuance of the building permit.
- Applications were reviewed by the Department of Finance.
- Available for 10 years as an assessment reduction based on millage rate.
- For renovations or new constructions on properties within 28 specific areas:
(1) Uptown District, (2) Downtown District, (3) Allentown, (4) Arlington, (5) Beltzhoover, (6) California-Kirkbride, (7) East Allegheny, (8) Elliott, (9) Esplen, (10) Fineview, (11) Hays, (12) Hazelwood, (13) Homewood North, (14) Homewood South, (15) Homewood West, (16) Knoxville, (17) Larimer, (18) Lincoln-Lemington-Belmar, (19) Lower Lawrenceville, (20) Manchester, (21) Marshall-Shadeland, (22) Mount Oliver, (23) Perry South, (24) Sheraden, (25) Spring Garden, (26) Upper Hill, (27) Upper Lawrenceville, and (28) West End.
- To be used for residential, for-sale, or rental.
- Total amounts reduced limited to \$250,000.

LOCAL ECONOMIC REVITALIZATION TAX ASSISTANCE ACT (LERTA) PROGRAMS

LOCAL ECONOMIC REVITALIZATION TAX ASSISTANCE ACT
Act of Dec. 1, 1977, P.L. 237, No. 76 Cl. 53
AN ACT
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. (Title amended July 13, 1988, P.L.518, No.90)

Figure 7: Excerpt from Act 76 of 1977.

There were three Residential LERTA programs offered prior to the consolidation: [Commercial LERTA](#), Residential LERTA, and Residential Enhanced LERTA. Unlike Act 42 programs, which offer assessment reductions, these programs offered **tax credits** for improvements or constructions on real estate.⁷ Commercial LERTA was available Citywide, whereas Residential LERTA and Residential Enhanced LERTA were available in specified locations. These programs are authorized via Act 76 of 1977. An

⁷ Assessment reductions will decrease the assessment amount, which will lower the amount of taxes due on the property. A tax credit, on the other hand, is a direct decrease of the taxpayer's bill.

excerpt of this Act is provided in the figure shown. Please note that, in accordance with Chapter 267, exemptions can only be granted if the improvements or constructions are completed by the end of the third calendar year following the year the building permit was issued.

Please see the breakdown of these plans below.

Commercial LERTA:

- Available for 5 years once approved.
- Applications were reviewed by the County of Allegheny.
- For renovations or new constructions intended for commercial, industrial, or rental use Citywide.
- Total credit limited to \$50,000.

Residential LERTA:

- Available for 10 years once approved.
- Applications were reviewed by the URA.
- For renovations or new constructions intended for residential rental or hotels in four specific areas: (1) Downtown District, (2) Uptown District, (3) Strip District, and (4) North Shore District.
- Total credit limited to \$150,000.

Residential Enhanced LERTA:

- Available for 10 years once approved.
- Applications were reviewed by the URA.
- For renovations or new constructions intended for residential, separately assessed units, in four specific areas: (1) Downtown District, (2) Uptown District, (3) Strip District, and (4) North Shore District.
- Total credit limited to \$2,700.

LOCAL ECONOMIC STIMULUS PROGRAM

This act shall be construed to authorize local taxing authorities to exempt new construction in deteriorated areas of economically depressed communities and improvements to certain deteriorated industrial, commercial and other business property thereby implementing Article VIII, section 2(b)(iii) of the Constitution of Pennsylvania.

Figure 8: Excerpt from Act 76 of 1977.

As with LERTA programs, Local Economic Stimulus is authorized via Act 76 of 1977 to provide certain tax exemptions on

improvements or constructions in “deteriorated areas of economically depressed communities.” An excerpt of this Act is provided in the figure shown.

Please see the breakdown of this plan below.

- Building permits had to be filed between January 30, 2012, and June 30, 2017.

- Applications were reviewed by the Department of Finance.
- Available for 10 years once approved.
- Total abatement limit of \$250,000 applied over the abatement period to the incremental increase in taxes resulting from development.
- This program supersedes LERTA programs when renovation or improvement costs exceed \$1 million.
- For renovations or new constructions intended for commercial, industrial, or residential use in four specific areas.
- Per §267.04(c), no exemption will be granted if the renovations or constructions are not completed by the end of the third calendar year following the year the initial building permit was issued.

VISITABILITY PROGRAM

[Visitability](#) offers tax credits on renovations or new constructions that build residential access to individuals with disabilities.

Please see the breakdown of this plan below.

- Applications were required to be filed within 90 days of the occupancy permit.
- Applications were reviewed by the County of Allegheny.
- Available as a tax credit for 5 years once approved.
- Total credit limit of \$2,500, which, unlike the other plans listed above, is the total maximum over the span of 5 years.
- This program can be used concurrently with other eligible abatement programs.
- For renovations or new constructions intended for residences, duplexes, triplexes, adaptative reuse, and single-family houses Citywide.

Please note that we did not encounter any [applications](#) or samples for Visitability during this audit.

POST-CONSOLIDATION

As discussed in the [BACKGROUND](#) portion of this report, City Council conversations were pointed at abatement programs back in 2017 and tilted towards streamlining them. In that same year, Pittsburgh's Affordable Housing Task Force (AHTF), comprised of committees of government representatives, released a report recommending "that the City work together with other taxing bodies to review tax incentive and abatement programs and that the City and other taxing bodies evaluate the feasibility of a set assessed value per unit for projects within certain affordability criteria." The report provided details on the City's opportunities to enhance the production of quality affordable and mixed-income housing.

Thereafter, in a public hearing held in October 2018, City Council assessed that abatement programs should be structured and updated to meet the City's needs, that construction costs for new single-family homes were not affordable to households earning less than the Area Median Income (AMI), and that the Council and the AHTF had identified the need for the City to increase homeownership opportunities for low and moderate incomes throughout the City. That hearing resulted in an initiative to revise the structure of the City's tax abatements.

After July 1, 2020, the programs discussed in the [PRE-CONSOLIDATION](#) portion of this report were discontinued and the programs shown in the figure below became effective. As part of this consolidation, Act 42 programs, LERTA programs, Local Economic Stimulus, and Visitability were blended into four project types: owner-occupied or for-sale development; commercial residential for development not occupied by the owner; industrial, commercial, or other business structure; visitable design. Under this new structure, the first three programs allow for standard and also enhanced abatements—the enhanced abatements permitting higher reductions or credits over longer periods of time if certain criteria are met—while tax credits for visitable design are available if the improvement or construction includes visitability features.

This consolidation was authorized by City Ordinances [29](#) and [30](#) of 2019, which was amended in 2020 via Ordinance [13](#). These changes in legislation made the amended programs available Citywide with higher incentives for developments of specific criteria in [Community Development Block Grant \(CDBG\)](#) areas or the Lower Hill District. Please note that CDBG programs are funded by the federal government. These grants are distributed for use in various projects with the objective to improve the housing and economic needs of low- and moderate-income residents and neighborhoods. The City's homepage for CDBG information can be found on the Office of Management and Budget's portion of the City's website under [Community Development](#).

Per the new program chart shown in the figure below, applicants can receive either an assessment reduction or tax credit, depending on the type of development. The chart below can be located on the Department of Finance's portion of the City website under [Real Estate Forms](#).

City Of Pittsburgh Summary of Amended Tax Abatement Programs

The City of Pittsburgh has consolidated and replaced several real estate tax abatement programs (Act 42, Local Economic Revitalization Tax Act/LERTA, Local Economic Stimulus, and Visitability) effective July 1, 2020. The amended abatements are available city-wide with incentives for affordable housing, job creation, and/or investing in distressed (CDBG-eligible) areas or the Lower Hill District by offering longer and higher-value abatements to projects meeting certain requirements.

Project Type	Abatement Type	Standard Abatement	Enhanced Abatement	Legislation
Owner-occupied residential/for-sale development	Assessment reduction	<ul style="list-style-type: none"> 3-year assessment reduction Up to \$175,000 per year 	<ul style="list-style-type: none"> 10-year assessment reduction Up to \$250,000 per year if: <ul style="list-style-type: none"> 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 	Chapter 265
Commercial residential (rental or otherwise not occupied by the owner)	Tax credit	<ul style="list-style-type: none"> 3-year tax credit Up to \$125,000 per year 	<ul style="list-style-type: none"> 10-year tax credit Up to \$250,000 per year if: <ul style="list-style-type: none"> A residential property not to be occupied by the property owner includes at least 10% of its units affordable to and occupied by households at 50% AMI OR A residential property not to be occupied by the property owner includes at least 60% of its units affordable to and occupied by households at 80% AMI OR A residential property not to be occupied by the property owner is located in the Lower Hill District 	Chapter 267
Industrial, commercial, or other business structures	Tax credit	<ul style="list-style-type: none"> 3-year tax credit Up to \$125,000 per year 	<ul style="list-style-type: none"> 10-year tax credit Up to \$250,000 per year if the project creates at least 50 full-time jobs 	Chapter 267

Figure 9: Table showing post-consolidation TAPS (in effect as of July 1, 2020). The prior seven programs have been condensed into three categories that now have standard- and enhanced-abatement criteria and one category for Visitability of Design (not shown in the chart).

OWNER-OCCUPIED RESIDENTIAL/FOR-SALE DEVELOPMENT

Under [Chapter 265](#) of City Ordinance, owner-occupied developments can receive assessment reductions.

- (1) **Standard abatements** can last up to 3 years with a maximum of \$175,000 per year.
- (2) **Enhanced abatements** can last up to 10 years with a maximum of \$250,000 per year, if:
 - The development is in a CDBG-eligible location;
 - A multiunit, for-sale, or owner-occupied development includes at least 10% of units affordable to and occupied by households at or below 80% AMI;
 - A for-sale or owner-occupied property is located in the Lower Hill District.

COMMERCIAL RESIDENTIAL

Under [Chapter 267](#) of City Ordinance, commercial-residential programs apply for rentals or otherwise when the owner is not occupying the development. Applicants of this category can receive a tax credit.

- (3) **Standard abatements** can receive a 3-year tax credit with a maximum of \$125,000 per year.
-
- (4) **Enhanced abatements** can receive a 10-year tax credit with a maximum of \$250,000 per year, if:
- A property development includes at least 10% of its units affordable to and occupied by households at 50% AMI;
 - A residential property includes at least 60% of its units affordable to and occupied by households at 80% AMI;
 - A property is located in the Lower Hill District.

INDUSTRIAL, COMMERCIAL, OR OTHER BUSINESS STRUCTURE

Under [Chapter 267](#) of City Ordinance, developments of industrial, commercial, or other business structures can receive a tax credit.

- (5) **Standard abatements** can receive a 3-year tax credit with a maximum of \$125,000 per year.
-
- (6) **Enhanced abatements** can receive a 10-year tax credit with a maximum of \$250,000 per year, if the project creates at least 50 full-time jobs.

PROJECTED ANALYSIS ON TAPs

The table below indicates projections of the funds newly available—and due to the City—between 2023 – 2032 as a result of abatement expirations.

Table I: Estimated Projections of Available TAP Funds Due to Expiration (Per Year)										
For the period January 1, 2023, to December 31, 2032										
Program	2023		2024		2025		2026		2027	
	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count
Act 42:										
Enhanced Residential	\$ 77,674	56	\$ 158,080	112	\$ 215,334	151	\$ 302,417	214	\$ 345,792	242
Residential	7,198	11	22,462	34	26,961	41	26,961	41	26,961	41
Subtotal	\$ 84,872	67	\$ 180,542	146	\$ 242,295	192	\$ 329,378	255	\$ 372,753	283
LERTA:										
Commercial	\$ 40,300	1	\$ 82,488	5	\$ 95,824	6	\$ 95,824	6	\$ 95,824	6
Residential	167,223	2	351,514	6	574,639	10	688,605	15	1,406,437	26
Residential Enhanced	38,814	16	84,597	39	96,968	44	111,903	50	188,064	81
Subtotal	\$ 246,337	19	\$ 518,600	50	\$ 767,431	60	\$ 896,332	71	\$ 1,690,325	113
Visitability Residential	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0
Local Economic Stimulus	\$ -	0	\$ 10,220	2	\$ 177,720	6	\$ 204,277	9	\$ 663,947	15
Grand Total	\$ 331,209	86	\$ 709,362	198	\$ 1,187,446	258	\$ 1,429,987	335	\$ 2,727,025	411
Newly Available¹	\$ -	0	\$ 378,153	112	\$ 478,084	60	\$ 242,541	77	\$ 1,297,038	76
Program	2028		2029		2030		2031		2032	
	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count
Act 42:										
Enhanced Residential	\$ 437,478	302	\$ 554,036	387	\$ 640,353	443	\$ 720,697	488	\$ 821,193	547
Residential	26,961	41	26,961	41	26,961	41	26,961	41	26,961	41
Subtotal	\$ 464,439	343	\$ 580,997	428	\$ 667,314	484	\$ 747,658	529	\$ 848,154	588
LERTA:										
Commercial	\$ 95,824	6	\$ 95,824	6	\$ 95,824	6	\$ 95,824	6	\$ 95,824	6
Residential	2,173,923	36	2,836,564	43	3,056,370	45	3,237,909	46	3,248,630	47
Residential Enhanced	212,364	90	229,284	97	234,684	99	450,663	183	491,071	201
Subtotal	\$ 2,482,111	132	\$ 3,161,672	146	\$ 3,386,878	150	\$ 3,784,395	235	\$ 3,835,525	254
Visitability Residential	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0
Local Economic Stimulus	\$ 1,034,639	20	\$ 1,038,866	21	\$ 1,089,959	23	\$ 1,089,959	23	\$ 1,089,959	23
Grand Total	\$ 3,981,189	495	\$ 4,781,535	595	\$ 5,144,151	657	\$ 5,622,012	787	\$ 5,773,638	865
Newly Available¹	\$ 1,254,164	84	\$ 800,346	100	\$ 362,616	62	\$ 477,861	130	\$ 151,626	78

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

TAX INCREMENT FINANCING (TIF) PROGRAMS

TIF programs, also referred to as “tax diversion programs,” are managed by the URA, a public Authority harnessing the responsibility of renovating blighted urban areas. These TIF programs are public financing tools used in larger-scale developments. Therefore, public infrastructure can be partially financed via bonds or bank loans and repaid by future tax revenue generated from the new development. The tax basis is paid back to the applicable taxing body, but the additional tax revenue is paid back to the servicing debt, per any agreement established at the onset of the TIF.

In similar spirit to TAPs, the TIF programs accord with the overall vision of City Council—and recommendation of the AHTF, noted in the [POST-CONSOLIDATION](#) portion of this report—to improve the City’s property value. Members of the URA are, in fact, either directly on the AHTF and/or involved in the assessments generated by the task force. This allows the URA to be proactively involved in the strategies for urban development. For more information on the URA’s connection with the AHTF, click [here](#).

The URA offers three categories of public financing: TIF, Transit Revitalization Investment District (TRID), and Parking Tax Diversion (PTD). In accordance with the URA’s [website](#), 31 TIF and TRID projects were completed as of 2017, financing up to “\$336 million in critical public infrastructure investments that have leveraged nearly \$3 billion in private capital.” The URA advised us on September 26, 2022, that, as of that date, there was only one active TRID program. The information provided in this report will focus specifically on **TIF programs**.

PROJECTED ANALYSIS ON TIF PROGRAMS

The table below summarizes data provided by the URA that projects the amount available to be collected by the City between 2023 – 2042 as a result of TIF expirations and retirements.

Table II: Estimated Projections of Newly Available TIF Funds Due to Expiration (Per Year)						
For the period January 1, 2023, to December 31, 2040						
	2023		2024		2025	
Program	Amount	Count	Amount	Count	Amount	Count
Real Estate	\$ 128,529	1	\$ 128,529	1	\$ 207,007	2
Parking	54,326	1	54,326	1	54,326	1
Total	\$ 182,855	2	\$ 182,855	2	\$ 261,333	3
<i>Newly Available</i> ¹	\$ 182,855	2	\$ -	0	\$ 78,478	1
	2026		2027		2028	
Program	Amount	Count	Amount	Count	Amount	Count
Real Estate	\$ 207,007	2	\$ 1,359,534	4	\$ 1,586,917	5
Parking	54,326	1	293,956	3	453,495	4
Total	\$ 261,333	3	\$ 1,653,490	7	\$ 2,040,412	9
<i>Newly Available</i> ¹	\$ -	0	\$ -	0	\$ 386,922	2
	2029		2030		2031	
Program	Amount	Count	Amount	Count	Amount	Count
Real Estate	\$ 1,586,917	5	\$ 1,668,810	6	\$ 1,668,810	6
Parking	453,495	4	453,495	4	453,495	4
Total	\$ 2,040,412	9	\$ 2,122,305	10	\$ 2,122,305	10
<i>Newly Available</i> ¹	\$ -	0	\$ 81,893	1	\$ -	0
	2032		2033		2034	
Program	Amount	Count	Amount	Count	Amount	Count
Real Estate	\$ 1,668,810	6	\$ 2,476,713	8	\$ 2,476,713	8
Parking	453,495	4	823,425	6	968,082	7
Total	\$ 2,122,305	10	\$ 3,300,138	14	\$ 3,444,795	15
<i>Newly Available</i> ¹	\$ -	0	\$ 533,536	1	\$ 144,657	1
	2035		2036		2037	
Program	Amount	Count	Amount	Count	Amount	Count
Real Estate	\$ 1,943,177	7	\$ 4,693,726	9	\$ 4,693,726	9
Parking	823,425	6	968,082	7	968,082	7
Total	\$ 2,766,602	13	\$ 5,661,808	16	\$ 5,661,808	16
<i>Newly Available</i> ¹	\$ 644,297	3	\$ -	0	\$ -	0
	2038		2039		2040	
Program	Amount	Count	Amount	Count	Amount	Count
Real Estate	\$ 4,693,726	9	\$ 5,113,796	10	\$ 5,113,796	10
Parking	1,373,367	8	1,373,367	8	1,373,367	8
Total	\$ 6,067,093	17	\$ 6,487,163	18	\$ 6,487,163	18
<i>Newly Available</i> ¹	\$ 405,285	1	\$ 420,070	1	\$ -	0

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

AUDIT PROCEDURES

To provide reasonable assurance of the statements provided in audit reports, the Controller's Office will gather and review materials from the department; legislative resolution; and, if applicable, ordinance. Research, documentation, and testing is administered, as necessary, to assess the accuracy of the financial statements made by the department(s) managing the trust fund.

ORGANIZATION OF FINDING DATA

To better organize and track our **Findings and Recommendations** for this annual audit, we aggregated all data from prior audit reports into an internal database and generated the *2023 Follow-Up: Tax Abatement & Tax Increment Financing Programs* report. That report was published separately but complements this report by way of summarizing all prior audit activity administered by the Controller's Office and providing a trackable identifier for each Finding and Recommendation. This will allow us to more easily track the status of each Finding, unique to the Department of Finance and/or URA respectively. We found this to be a necessary step in our procedures being that we are required to perform this audit annually.

For example, [Finding #2](#) of this report (i.e., 2023-02-DOF), as described in the [FINDINGS AND RECOMMENDATIONS](#) portion of this report, is tied to a Finding originally reported as "Reliability of Estimates and Projected Revenue from Expired Programs" from 2017—Finding #2 of 2017, to be precise. That original Finding has been tagged in our internal database as "2017-02-DOF" and closed so that it can be tracked under the header "Lack of Sufficient Documentation" going forward. Please note that Findings #1 – 4 of this report (i.e., 2023-01-DOF, 2023-02-DOF, 2023-03-DOF, and 2023-04-DOF) are connected to unresolved Findings provided in our prior reports.⁸ Please see the [FINDINGS AND RECOMMENDATIONS](#) section below for more information. Under each Finding, a note "Origin of Finding" will point to when the issue was first reported on. Completely new Findings will not have origin references.

Please refer to the Addendum of the report *2023 Follow-Up: Tax Abatement & Tax Increment Financing Programs* for an overview of all Findings and Recommendations reported between 2017 – 2023. This follow-up report and all other fiscal audit reports can be located on the Controller's portion of the City website under [Fiscal Audits](#).

⁸ For the purpose of our internal tracking, please note that "DOF" in, for instance, "2023-01-DOF" refers to "Department of Finance."

UNDERSTANDING TAP CALCULATIONS

The review of tax credit calculations for TAPs includes an understanding of the TAP data sent to the auditors at the beginning of the audit and the assessments issued by the County of Allegheny. The TAP data we receive lists all active parcels by abatement program and indicates the calculation made by the Department of Finance based on the base valuation of the property, as provided by the County of Allegheny via the assessments, and the millage rate.⁹ Once performed, the calculation can be compared to the associated program's maximum to ensure that there is no overage.

For example, Residential Enhanced LERTA has a maximum allowable tax credit of **\$2,700**. The original, or "base," assessment is subtracted from the post-construction valuation to determine the amount eligible for tax credit. That number is then multiplied by the millage rate to determine the property tax amount, but the reduction cannot exceed that maximum. Even if post-construction valuation multiplied by the millage rate is higher than the maximum, the maximum tax credit should be applied. If a property's base valuation is, for instance, \$0; its post-construction valuation is \$400,000; and its associated millage rate is 0.00806, its eligible tax credit will be **\$2,700**. Refer to the following example of this calculation:

Base valuation of property = 0
Calculation of amount eligible for tax reduction = \$400,000 - \$0 = \$400,000
Amount eligible for tax reduction = \$400,000
City millage rate = 0.00806
Calculation of property tax = \$400,000 x 0.00806 = 3,224¹⁰
Tax credit due = **\$2,700** (maximum)

Since the tax credit for Residential Enhanced LERTA cannot exceed \$2,700, calculations that exceed this maximum will default back down to the maximum.

In testing samples, one of our procedures is to reproduce the calculations manually inputted by the Department of Finance. In performing the calculation formula above, we will compare our recalculated tax credit to the information provided by the department in its data sheet. This also requires that we validate the amount of the base valuation and post-construction valuation provided in the County of Allegheny's assessment history. As noted previously, each program has an associated maximum, and the last step of each calculation is to ensure that this maximum is not exceeded.

⁹ A "mil" is 1/10 of a cent. The millage rate for the City of Pittsburgh is \$8.06. Please see "What is Millage?" on Department of Finance's portion of the City's website under [Tax FAQs](#).

¹⁰ This calculation is an example of a property tax bill calculation. The Department of Finance has an online calculator via its *Property Tax Worksheet*, which can be located [here](#).

REQUISITES OF PRE-CONSOLIDATION TAPs

For the purpose of this report, we will focus on **pre-consolidation** requirements, being that the majority of our procedures revolved around the pre-consolidation programs, which will continue to be the case until those abatements phase out. In this section, we will discuss some of the requirements of the seven pre-consolidation programs.

While the seven individual programs respectively have certain requirements specific to the program, each of them required the submission of an application within 180 days of the issuance of a building permit. For LERTA and Local Economic Stimulus programs, per §267.05(a), the property owner was required to provide the following items to the URA prior to applying for a building permit: (1) evidence of zoning compliance, (2) evidence of sufficient financing for the project, (3) evidence of any required historic designation/preservation approvals, and (4) copies of the plans and specifications the project.

Once the permit was obtained, the applicant would indicate the permit number and the date issued on the abatement application and also include a copy of the permit with the application.

<hr/> Building Permit # (attach copy to application)	<hr/> Date Issued
---	--------------------------

Figure 10: Partial snapshot of Local Economic Stimulus application. All applications request this information.

Of course, all program applications required standard personal information from the applicant, including the owner’s name, contact information, and signature.

Some applications, like those for Act 42 programs and Local Economic Stimulus, requested written descriptions of the construction plans be provided on the application form, per example shown in the figure below. Attachments could be included, as necessary. As shown in the figure, applicants would also have to indicate the type of development, whether for improvement or construction.

This application must be filed within 180 days of the issuance of the building permit. A copy of the building permit must be attached to this application.

Application For

_____ **Property Improvement(s):** Repair, construction or reconstruction including alterations and additions.
Ordinary upkeep and maintenance and/or aesthetic modifications do not constitute improvement.

_____ **Residential construction:** Building or erection of dwelling units upon vacant land or on land specifically prepared to receive a new structure.

Types of improvements or new construction and summary of plan-include dimensions and quantity of types of materials:
(Attach additional sheets if necessary.)

Figure 11: Partial snapshot of application form. This field is standard on Act 42 and Local Economic Stimulus applications.

LERTA applications, on the other hand, specifically requested “Necessary Attachments,” as shown in the figure below.

Necessary Attachments:

- Summary of the improvements having the effect of converting all or a portion of the property to residential use. Please include the type of residential use (e.g. rental, condos) intended for the property.
- Neighborhood map showing location of project site.
- Copies of the plans, specifications, and construction costs.
- Copy of the building permit.
- Evidence of zoning compliance.
- Evidence of sufficient financing.
- Evidence of historic designation/preservation approvals.

I hereby certify that the statements made in this application are true and correct to the best of my knowledge, information and belief.

Figure 12: Snapshot of "Necessary Attachments" requirement provided on LERTA application forms.

An internal-use-only portion is also included with all applications, although the contents and requirements of this section differs depending on the form. In all cases, there are fields in the internal-use section for noting the date the application was received. For both Act 42 programs and Local Economic Stimulus, there are also fields for approvals of the abatement applications. The figure below displays the internal-use section for Local Economic Stimulus applications.

CITY TREASURER USE ONLY: Received: _____ Approved: _____ By: _____ Date: _____	PROPERTY ASSESSMENT USE ONLY: Received: _____ Data Entry: _____ QA/CQ: _____ INITIALS AND DATE MUST BE FILLED IN ALL LOCATIONS
---	---

Figure 13: Snapshot of internal-use section for Local Economic Stimulus forms.

REQUISITES OF TIF PROGRAMS

TIF programs were initially authorized statewide via [Act 113 of 1990](#), amended by Act of 164 of 1992. This legislation permits the creation of "Tax Increment Districts" and bestowed power upon redevelopment authorities to work with developers to finance large-scale projects. TIF programs are available if development is planned within an approved District.

TIF projects are governed locally by City Ordinance §201.11. This ordinance permitted the Department of Finance and Mayor's Office to enter into cooperation agreements with the URA, County of Allegheny, and Pittsburgh School District for the financing, monitoring, implementing, and terminating of TIF projects. There are two relevant portions of the ordinance referenced above: requirements of TIF applications and the financial terms of the TIFs.

As indicated in the ordinance (i.e., §201.11[c]), developers are required to submit the following items as part of the TIF application:

- (1) Name of developer;
- (2) Location of the proposed project;
- (3) Project summary and description of compliance with specific requirements, including a demonstration of how the project will impact the City's economy and eliminated blighted conditions within the District, that peripheral improvements will also occur in immediate or adjacent communities, that the project will attract or retain jobs, that the project will generate additional tax revenues above those dedicated to the TIF, that dedicated TIF increases in tax revenue will be pledged to debt obligations, that a sufficient level of commitment to the market exists to warrant the project, and that the ability to lease space and support the TIF is evident;
- (4) Economic feasibility study;
- (5) Specific delineation of costs;
- (6) Specific delineation of the project's financing;
- (7) Names, addresses, zip codes, phone numbers and titles of associated principles;
- (8) Job plans to utilize City residents for at least 50% of jobs created;
- (9) Maps showing existing uses and conditions in the District;
- (10) Maps showing proposed improvements and uses in the District;
- (11) Statement of any proposed methods, if applicable, for resident displacement caused by the plan.

(8) The developer must make an effort to utilize City residents to fill at least fifty (50) percent of the new jobs created. The plan should include, but not be limited to the following information:

- a. The specific number of new jobs created or number of jobs retained as a result of the implementation of the TIF project.
- b. The specific job titles and/or classifications with pay scales, if available, for jobs to be created or retained, whether the jobs are permanent or temporary and the estimated duration of any temporary jobs.
- c. Whether the new jobs being created result directly from employment by the developer or indirectly through lessees.
- d. An affirmative plan by the employer, the City and the URA for informing and training City residents for potential employment resulting from the implementation of the project.
- e. An agreement by the developer and/or the lessees that for a period of five (5) years from the date of substantial completion of the project as determined by the URA, it will consider for employment and interview candidates referred by the City's Employment and Training Division for all new permanent non-supervisory positions.
- f. Certification that the developer will abide by the City's Minority Business Enterprise/ Women's Business Enterprise Executive Order.
- g. A statement describing the company's past record of hiring City residents and minorities/women.

Figure 14: Excerpt from §201.11(c)(8) on the plan specifications of City job requirements.

Please see the figure included in regard to the specific documentation needed to support Item 8 above (i.e., §201.11[c][8]). As shown in the figure, the developer must show that at least 50% of the jobs created via the TIF will go to City residents and provide specifications on that plan—for instance, the number of new jobs that will be created, training plans, agreements by the developer that referrals made by the City's Employment and Training Division will be considered for 5 years post-development, certifications of compliance

to the City's Minority Business Enterprise/Women's Business Enterprise (MBE/WBE) Executive Order, etc.

The figure below is a snapshot of the full list of financial terms as indicated in the last three subsections of §201.11.

(d) Financial terms shall be as follows:

- (1) A sum not to exceed sixty (60) percent of the incremental taxes generated by the project over twenty (20) years, or ten (10) percent of the total development cost, which ever is the lowest; or
- (2) A sum not to exceed seventy-five (75) percent of the incremental taxes generated by the project over ten (10) years, or ten (10) percent of the total development cost, which ever is the lowest; or
- (3) In special cases, the tax diversion could be increased to seventy-five (75) percent over twenty (20) years to those projects demonstrating significant value added or multiplier effects. The total proceeds will not exceed ten (10) percent of the total development cost.
- (4) If the TIF is used to help build a revenue generating entity (such as a hotel, department store, etc.), assistance will be available through this policy in the form of a deferred payment loan. The loan is repayable to the extent the business's revenues are in excess of the acceptable rate of return for the particular business standard. The interest rate will be equal to sixty (60) percent of the prime rate, but in no case shall it be less than five (5) percent.

The business will be required to provide a copy of an audited annual financial statement in this regard.

- (5) TIF Funds can be as a cashflow participation vote. In the excess, the URA will be paid a certain percentage of the cashflow above the level that allows developers to earn an acceptable rate of return. The percentage must be agreed upon prior to the closing of the TIF.
- (6) If the project is to retain jobs, an analysis of where the employees reside will be made. If most employees reside the city, the county will be requested to make a higher contribution than other taxing bodies.

(e) As the projects get financial support, the City should continue to make a commitment to the revitalization of the neighborhoods. To this effect, the URA will be required to:

- (1) Charge a fee of two (2) percent of the proceeds, with one (1) percent to be used for neighborhood development.
- (2) If the TIF is placed as a loan, all loan repayments will be used in full for neighborhood development. Special efforts will be made to include non-CDBG neighborhoods.

(f) A TIF Committee will be formed to review the TIF proposal, implementation, and monitoring of regulation and contractual compliance. The committee will be comprised of City Council members and representatives of the city, URA, County of Allegheny, and the Pittsburgh Board of Education.

(Ord. 28-1998, eff. 12-31-98)

Figure 15: Excerpt from §201.11, subsections (d), (e), and (f) regarding the financial terms.

FINDINGS AND RECOMMENDATIONS

FINDING #1: IMPLEMENTATION OF INFORMATION SYSTEM (FINANCE)

ORIGIN OF FINDING: FINDING #1 OF 2017 (2017-01-DOF)¹¹

The new Real Estate system mentioned originally by the Department of Finance in 2017 still has not been implemented. The manual system used by the department did not, as of 2017, allow for data filtering or retention of historical information for abatements flagged as expired. The filtering issue was resolved in 2019, allowing for better retention of abatement data; however, the new Real Estate system was not in place. In fact, in all years of our audit procedures after 2017 (i.e., 2018, 2019, and 2021), the department indicated that the implementation of a new system was in process, and, in 2020, [Contract 53205](#) was executed between the City and CSS, Inc. to purchase an integrated tax and real estate management system. This purchase was allowable pursuant to Resolution 724 of 2019. As of December 2022, the new system is not operational, despite a contracted cost to the City of over \$4 million.

The department administrators informed us that numerous barriers have postponed the implementation of the new system—among those barriers being turnover in staffing and issues with CSS, Inc. system specifications in relation to the business operation of the programs. As noted in our *2023 Follow-Up: Tax Abatement & Tax Increment Financing Programs* report, this Finding was originally reported in 2017 but will be carried on under this new header until the new information system has been fully implemented.

RECOMMENDATION

In accordance with Contract 53205, the system should have been fully implemented by June 2021. Section 1.5 of the contract notes that CSS, Inc. agrees to provide support services and maintenance in a timely manner. The department should assess the impact of this delay and submit a service request—or follow up on the status of any existing service requests submitted—to CSS, Inc. and the City’s Innovation & Performance department. The objective of the service request should be to ensure that the system be fully implemented and operational as soon as possible.

At minimum, the system should be able to, once implemented, provide the following capabilities:

- Digital retention and preservation of all TAPs, regardless of status (e.g., active, expired, pending);
- Digital retention of historical data and supporting documentation;
- Automation of TAP calculations and projections;
- Automated detection of missing data or information, prompting or flagging the department to act;

¹¹ See *2023 Follow-Up: Tax Abatement & Tax Increment Financing Programs* for more information.

- Automated notification of required actions (e.g., notifications of approvals, rejections, and status).

AUDITEE RESPONSE (FINANCE)

The Real Estate Tax platform of the new tax system, while delayed, should be fully developed by end of year 2023. The system will perform all recommended functions related to TAP's. Until implementation is complete, Finance has developed processes to improve record-keeping and reporting which include checklists to insure all supporting documentation is accounted for, as well as imaged to be stored electronically. Additionally, reports track application statuses and required actions.

FINDING #2: LACK OF SUFFICIENT DOCUMENTATION (FINANCE)

ORIGIN OF FINDING: FINDINGS #2 OF 2017 (2017-02-DOF), #1 OF 2019 (2019-01-DOF), AND #2 OF 2021 (2021-02-DOF)¹²

A significant amount of documentation is either missing or not readily available. We requested **108 samples** from the Department of Finance and only received adequate supporting documentation for 11 samples. Therefore, required documentation was missing or incomplete for **97 samples**. Of those **97 (90%)** samples, **61 (56%)** samples were missing specific documents, like permits, required attachments, applications, abatement schedules, and/or plans for construction. **Thirty-six (33%)** of the samples were entirely absent.

In accordance with §265.06(b), persons who secure building permits for improvements or constructions of property within deteriorated areas can apply to request a tax exemption on the basis of the assessed valuation of that property. The following items are required:

- (1) The application itself;
- (2) A written request that includes the (2a) date of the building permit, (2b) the type of improvement or number and type of residential units for which the exemption is requested, (2c) a summary of the plan of improvements or construction of new residential unit, (2d) the actual cost of improvements or construction, and (2e) any additional information the City Treasurer may require.

In accordance with §267.05(a) and §267.05(c), the information listed below is required for Residential LERTA, Residential Enhanced LERTA, and Local Economic Stimulus programs:

- (1) The application itself,
- (2) Evidence of zoning compliance,
- (3) Evidence of sufficient financing for the project,
- (4) Evidence of any required historic designation and/or preservation approvals, and
- (5) Copies of the plans and specifications for the projection.

The image shows a form titled "Residential LERTA Programs Tax Abatement Application" with a revision date of 08/08/12. It includes a reference to "Pursuant to the Local Economic Revitalization Tax Assistance Act 76 of 1977 (71 p.s. §472 et seq.)" and a section for "TYPE OF ABATEMENT REQUESTED:" with checkboxes for "Residential LERTA" and "Residential Enhanced LERTA". A note states: "NOTE: APPLICATION FOR ANY LERTA ABATEMENT MUST BE FILED WITHIN ONE HUNDRED AND EIGHTY (180) DAYS AFTER ISSUANCE OF A BUILDING PERMIT. The filing of an application for tax abatement does not relieve the taxpayer from payment of real estate taxes, when due. If exemption is granted, the City Treasurer will refund the amount of City, County and School District tax overpaid. There is no exemption for any tax imposed on land. Please be aware there are different abatement levels for each program, which are described in the attached Tax Abatement Overview." The form has several fields for "Ward", "Property Address", "Owner's Name", "Owner's Mailing Address", "Building Permit #", "Date Issued", and "Construction Start Date", many of which are redacted with black boxes. A "Necessary Attachments:" section lists: "Summary of the Improvements having the effect of converting all or a portion of the property to residential use. Please include the type of residential use (e.g. rental, condos) intended for the property.", "Neighborhood map showing location of project site.", "Copies of the plans, specifications, and construction costs.", "Copy of the building permit.", "Evidence of zoning compliance.", "Evidence of sufficient financing.", and "Evidence of historic designation/preservation approvals."

Figure 16: Example of Residential LERTA application. See "Necessary Attachments" section.

In addition, Residential LERTA and Residential Enhanced LERTA applications contain (6) a section for "Necessary Attachments." This section will often reiterate the requirements stated in ordinance but sometimes also indicate additional requests. For example, in the **figure** to the left, the Necessary Attachments also requests a summary of the improvement, the type of residential use, and also a map showing the location of the project site.

In Finding #1 of 2018, we recommended that the department utilize the Citywide documentation software OnBase to store supporting documentation. Although the department indicated that documentation would be date-stamped and

¹² See 2023 Follow-Up: Tax Abatement & Tax Increment Financing Programs for more information.

scanned into OnBase and that a written policy would be created, it does not appear as though these action steps have been completed.

Please note that this core issue was documented in our 2017, 2019, and 2021 audit reports as well. The risk and magnitude of this continued problem is significant as the department is unable to provide supporting documentation that would allow for the Controller's Office and/or any other third party to validate the data provided and actions taken up to this point.

RECOMMENDATION

We recommend that the department **(1)** implement formal policies and procedures to standardize the expectations of its employees with respect to these programs and **(2)** ensure that the policies and procedures be known by multiple employees.

We are aware of a couple large barriers that the department faces: the loss of a key employee previously responsible for all aspects of the programs and the lengthy delay of a new filing and tracking system.

Unexpected employee attrition can certainly make daily operations complicated, especially when the procedures administered by that individual are not shared among other employees or documented in writing. Segregation of duties is essential for ensuring the survival of long-flowing operations.

On the other hand, the new Real Estate system has been talked about since at least 2017 and pending officially since 2020. The department has indicated that this system should make daily operations much easier. However, it does not seem prudent for the department to continue to wait on and, thereafter, completely rely on the implementation of a new Real Estate system. Better would be an internal policies and procedures document used by the department to delineate the retention of specific documentation and unify the processes administered by its employees. Although a system that allows digital storage of documentation will be quite helpful (once implemented), a physical retention and filing system—if known by multiple employees and documented in procedure—will contribute to better compliance now and serve as a backup in the longer term.

AUDITEE RESPONSE (FINANCE)

The Department of Finance has drafted formal written procedures that give specific instruction to all positions involved in the administration of the abatement programs. These procedures manually mimic the expected workflow of the TAP's process in the new tax system, when implemented. The programs are now managed by more than one employee, allowing for checks and balances and separation of duties. Also, there is a benefit of shared knowledge in the event of employee turn-over.

FINDING #3: LACK OF SUFFICIENT INTERNAL CONTROLS (FINANCE)

ORIGIN OF FINDING: FINDINGS #3 OF 2017 (2017-03-DOF) AND #4 OF 2017 (2017-04-DOF)¹³

The Department of Finance does not have sufficient internal controls in place to unify all processes and detect or prevent possible mistakes in the issuance, calculation, updating, or compliance of abatements. As noted in [Finding #2](#) of this report, 97 of 108 requested samples had exceptions as a result of our testing. We believe this to be rooted in a lack of operational control.

Please note the following components of this core issue:

- (1) Calculations are done manually and the work used in the calculation is not documented and retained.
- (2) Any documentation retained is filed physically only and is not readily available due to a lack of standardized processes and overall awareness of those processes among the staff.
- (3) Based on our observations, applicants are only sent notifications upon request; however, there are no controls in place to detect when abatements commence or expire.
- (4) Per §265.06(g), "No exemption shall be granted and any existing exemption shall be revoked if and for so long as there exists any tax delinquency with respect to the property or property owner." Finding #4 of our 2021 audit report noted that a parcel of Local Economic Stimulus had been approved while being in a tax-delinquent state. While the samples we reviewed for the current audit did not find any tax-delinquent parcels approved, the department's current internal controls do not appear sufficient to detect or prevent such improper approvals and to determine that no delinquencies are present. As noted earlier in this report, we were also unable to review all required information for a significant number of the samples requested and given and are, therefore, unable to say with any assurance whether or not improper approvals are still present. Since this risk is still at large, we are restating it here.
- (5) Of the samples received, 19 samples had no evidence of the applications being signed and approved.

RECOMMENDATION

We recommend that the department create an internal control system comprised of duty-specific procedures, standardization of recordkeeping practices, and verification and approval of certain steps. Please see the following numbered bullets, as they correspond to the components discussed above:

¹³ See 2023 *Follow-Up: Tax Abatement & Tax Increment Financing Programs* for more information.

- (1) Regardless of the implementation of a new Real Estate system, the department should document and **retain any work used in the calculation of abatements**.
- (2) As noted in [Finding #1](#) of this report, we acknowledge that the department faces difficulties caused by abrupt changes in staffing; however, a unifying **policy and procedure**, which is currently not in place, would allow for much easier and standardized transition of work in the event that key staff members depart. Policies and procedures, in general, are considered essential at every level when establishing a strong internal control system.
- (3) Notifications not only keep the applicant aware of processing statuses, they also act as snapshots of specific milestones, if retained. The department and any other interested parties can refer to these records to determine when abatements commence and expire, allowing proper validation of the data provided.
- (4) A verification step should be included in the department's standard processing activities. Among others, this verification should check for general compliance but, more specifically in this case, for tax compliance of the property and applicant. This verification step is a good opportunity to implement a segregation of duties in which a separate employee and/or supervisor can review and sign off.
- (5) The department needs to ensure that applications received go through proper approval steps and that internal portions of forms are thoroughly and accurately completed.

We must note that internal controls are absolutely necessary to ensure operations are unified and standardized. For example, preventative controls, such as policies and procedures, segregation of duties, and so forth should outline daily operations and account for various factors specific to business needs; detective controls, such as tiers of periodic reviews, monthly reconciliations, inventory checks, and so forth will ensure that the risk of error is minimized. Therefore, we recommend that the department implement **written policies and procedures** that delineate all steps of the TAP process. Our Recommendation for the department to create policies to support TAP operations goes all the way back to Finding #4 of our [2017 report](#). With still no written policies in place, outside of the requirements set forth by City Ordinance, the department has no roadmap to guide daily operations, particularly in eventualities that are not covered by legislation, and the Recommendation made by the Office of Controller over the years continues to go unaddressed.

AUDITEE RESPONSE (FINANCE)

While the Finance Department has already implemented written rules and procedures for administering the Abatement programs, and some level of notification of applicants already exists, we agree to increase communication either manually or electronically.

FINDING #4: APPLICATION OF TAX ABATEMENT CALCULATIONS (FINANCE)

ORIGIN OF FINDING: FINDINGS #2 OF 2018 (2018-02-DOF), #2 OF 2019 (2019-02-DOF), AND #1 OF 2021 (2021-01-DOF)¹⁴

When abatement calculations were reproduced during audit testing, variances were noted for 17 of the samples. Eight of the samples were under-abated for a total of \$198,967.17; nine samples were over-abated for a total of \$57,977.05. Please note that we are unable to state concretely the extent to which tax calculations vary among all parcels. The department does not retain documentation of how calculations are derived or the reasoning supporting post-construction base-value selections.

Year	Assess Type	Assess Ratio	Date Applied	Change Code	City Land	City Building	City Total
2022	F.M.V.	1000	01/03/2022	\$		\$ 404,200	\$ 404,200
2022	ACT50	1000	01/11/2022	\$		\$ 15,000	\$ 15,000
2021	F.M.V.	1000	05/11/2022	\$	\$ 35,000	\$ 404,200	\$ 439,200
2021	History	1000	12/21/2020	\$	\$ 35,000	\$	\$ 35,000
2020	F.M.V.	1000	05/11/2022	\$		\$ 404,200	\$ 404,200
2020	History	1000	05/11/2022	\$	\$ 35,000	\$ 404,200	\$ 439,200
2020	History	1000	12/17/2019	\$	\$ 35,000	\$	\$ 35,000
2019	F.M.V.	1000	05/11/2022	\$		\$ 404,200	\$ 404,200
2019	History	1000	05/11/2022	\$	\$ 35,000	\$ 404,200	\$ 439,200
2019	History	1000	12/20/2018	\$	\$ 35,000	\$	\$ 35,000
2018	F.M.V.	1000	12/28/2017	\$	\$ 35,000	\$	\$ 35,000
2017	F.M.V.	1000	12/27/2016	\$	\$ 35,000	\$	\$ 35,000
2016	F.M.V.	1000	01/05/2016	\$	\$ 35,000	\$	\$ 35,000
2015	F.M.V.	1000	01/06/2015	\$	\$ 35,000	\$	\$ 35,000
2014	F.M.V.	1000	01/17/2014	\$	\$ 35,000	\$	\$ 35,000
2013	F.M.V.	1000	02/26/2013	\$	\$ 35,000	\$	\$ 35,000
2013	History	1000	02/26/2013	\$	\$	\$	\$
2013	History	1000	01/06/2013	\$		\$ 283,000	\$ 283,000
2012	F.M.V.	1000	01/25/2012	\$	\$ 3,500	\$	\$ 3,500
2011	F.M.V.	1000	12/22/2010	\$	\$ 3,500	\$	\$ 3,500
2010	F.M.V.	1000	01/05/2010	\$	\$ 3,500	\$	\$ 3,500

Figure 17: Excerpt from an assessment worksheet for a specific parcel categorized under Residential Enhanced LERTA.

Property Tax Worksheet			
2020 Property Assessment			
For Assessed Value:	Enter Different Value (use numbers only, e.g. "100000")		
\$121,200.00	<input type="text"/>	<input type="button" value="Recalculate"/>	
Millage and Exemptions			
	City of Pittsburgh	School District of Pittsburgh	Allegheny County Carnegie Library
2020 Millage	8.06	9.95	4.73 0.25
Homestead	\$15,000.00	\$29,944.00	\$18,000.00 \$15,000.00
Senior Tax Relief	40%	n/a	30% 40%
Anticipated Tax			
	No Exemptions	With Homestead	With Senior Tax Relief and Homestead
City of Pittsburgh	\$976.87	\$855.97	\$465.22
School District of Pittsburgh	\$1,205.94	\$908.00	(Homestead Only) \$908.00
Allegheny County	\$573.28	\$488.14	\$316.15
Carnegie Library	\$30.30	\$26.55	\$14.43
City, School, & Library Tax Bill	\$2,213.11	\$1,790.52	\$1,387.65
(with 2% discount)	\$2,168.85	\$1,754.71	\$1,359.90
Total Tax Bill (w/ County)	\$2,786.39	\$2,278.66	\$1,703.80
(with 2% discount)	\$2,730.66	\$2,233.08	\$1,669.73

Figure 18: Screenshot of Property Tax Worksheet from the Department of Finance's portion of the City website.

For example, the figure provided shows a property assessment sheet for a specific property sample. Based on the assessment history, the base valuation is \$283,000. This valuation appears in the last two columns shown.

The post-construction valuation of this property, as listed on the department's data sheet, was \$404,200. Based on that data sheet, the calculated property tax indicated for this parcel was listed as **\$1,045.65**.

However, in accordance with the [UNDERSTANDING TAP CALCULATIONS](#) portion of this report, it appears as though the calculation should be:

Base valuation of property = \$283,000
 Post-construction valuation = \$404,200
 Calculation of amount eligible for tax reduction = \$404,200 - \$283,000 = \$121,200
 Amount eligible for tax reduction = \$121,200
 City millage rate = 0.00806
 Calculation of property tax = \$121,200 x 0.00806 = **\$976.872**

Our calculation, as provided above, can be duplicated on the department's online [calculator](#), but the amount manually entered into the department's data sheet varies from our calculation by \$68.78 [**\$1,045.65** -

¹⁴ See 2023 Follow-Up: Tax Abatement & Tax Increment Financing Programs for more information.

\$976.872]. It appears as though the department may have used \$274,466.75 as a basis, although it is also possible that the department used \$395,666.75 as a post-construction valuation. Neither of these appear on the assessment sheet shown in the figure above. Please note that this is only one example, among 17 calculation variances that populated during our sample testing.

Being that adequate controls, like policies and procedures, are not in place to outline this process, the methods for selecting base values post-construction and calculating abatements are inconsistent. Calculations should be able to be reproduced consistently and without variance in all scenarios. If legitimate reasons exist to account for variances, documentation of those reasons should be kept in records and readily available with the parcel documentation.

RECOMMENDATION

We strongly recommend that the department implement detailed policies and procedures, and those policies and procedures should document a standardized process to selecting post-construction base values and performing calculations. A supervisory review step should be included to ensure calculations are performed correctly. While a new Real Estate system may eventually allow for an automated calculation process, which is ideal, we are concerned that continued delays in the implementation of this system will further extend the manual calculation process the department currently uses. Without internal controls to monitor or prevent errors or variances, calculations may continue to be incorrect and supporting documentation of steps taken throughout the abatement process may continue to go missing.

AUDITEE RESPONSE (FINANCE)

It is the Finance Department's contention after review of the findings that the calculations performed on the sample abatement accounts were indeed correct. Discrepancies appeared due to the application of additional eligible abatements applied to a parcel, while only one abatement was represented in the system generated report submitted for sampling. Also, calculations could differ if a tax payment was applied to a parcel before the abatement was applied, but only the gross amount was used as part of the abatement calculation of the test sample. Finance agrees, however, to hard-code formulas where possible, and provide sufficient documentation as to how a calculation was performed manually. Finance will implement a process to review manually calculated abatements in the absence of the new tax system.

FINDING #5: LACK OF SUFFICIENT DOCUMENTATION (URA)
ORIGIN OF FINDING: N/A, NEW FINDING

The URA was unable to provide all documentation connected to TIF projects that we requested. We do acknowledge that the URA has experienced significant changes in staffing capacity and its base of operations has also moved, creating notable barriers. Having said that, the required documentation we requested was not readily available and some specific items were not provided, even after allowing for two target-date extensions. This may indicate a lack of orderliness or consistency in retention procedures. Please note the following:

- For the samples selected, we were not provided employment plans, developer agreements acknowledging the 5-year consideration of City referrals from the City's Employment and Training Division, and developer certifications of compliance to the City's MBE/WBE Executive Order, all of which required per §201.11(c)(8).
- For the samples tested, URA documentation did indicate that a 2% origination fee was charged, as is compliant with §201.11 of City Ordinance; however, the URA was unable to provide documentation supporting how this fee is used. Per Ordinance, half of this fee should be used toward neighborhood development. The URA indicated that origination fee is deposited into a specific account with which only neighborhood-development projects are funded. Without supporting evidence of deposits into this account, we cannot say with any reasonable assurance that this accurate.

RECOMMENDATION

We recommend that the URA implement a retention policy that aligns with any TIF project requirements and ensure that documentation connected to specific TIF projects is kept together and made readily available for validation, as needed.

AUDITEE RESPONSE (URA)

The URA acknowledges this finding and will implement a document retention policy that aligns with TIF project requirements. This retention policy will ensure that documentation connected to specific TIF projects is kept together and can be made readily available for validation, as needed.

FINDING #6: LACK OF COMPLIANCE WITH CITY ORDINANCE (FINANCE)

ORIGIN OF FINDING: N/A, NEW FINDING

City Ordinance is not directly followed by the Department of Finance in the implementation of abatement maximums for Act 42 programs and the classification of certain TAP types. Please note the following:

- We noticed that abatement maximums, as set by City Ordinance, did not change in years following the base year. In accordance with **§265.03(b)** and **§265.04(b)**, abatement maximums should be updated based on specific criteria.

(b)The maximum cost per dwelling unit shall be nineteen thousand eighty-six dollars (\$19,086.00) for improvements made during 1979. Maximum costs for improvements made during each subsequent year shall be determined by the Treasurer. It shall be the maximum cost for the preceding year multiplied by the ratio of the United States Bureau of the Census New One-Family Houses Price Index for the current year to the Index for the preceding year. The date of making the improvement shall be the date of the issuance of the building permit improvement record or other required notification of construction. No tax exemption shall be granted under the provisions of this Chapter for any improvements to any dwelling unit in excess of the maximum cost specified herein.

Figure 20: Excerpt from §265.03(b).

(b)The uniform maximum cost per dwelling unit shall be fifty-one thousand three hundred dollars (\$51,300.00) for 1979. For subsequent years, the uniform maximum cost per dwelling unit shall be determined by the Treasurer. It shall be the amount produced when the maximum cost for the preceding year is multiplied by the ratio of the U.S. Bureau of the Census New One-Family Houses Price Index for the current year to the Index for the preceding year. The date of the construction shall be the date of receipt by the Board of the notification of completion of construction from the applicant in writing on a form prescribed by the Board.

Figure 19: Excerpt from §265.04(b).

In regard to improvements made on properties in deteriorated areas, §265.03(b) seems to indicate, first, that the maximum in subsequent years is determined by the City Treasurer and that it shall be [the maximum cost for the preceding year] multiplied by [the ratio of the U.S. Bureau of the Census New One-Family Houses Price Index for the current year to the Index for the preceding year]. The same language is used in §265.04(b) in regard to

constructions on residential units within deteriorated areas. We have provided excerpts for both sections of City Ordinance in **Figures 19** and **20** for ease of reference.

When we asked the department about this language, we were advised that the action steps described, in these cases, are optional. In our opinion, however, the language used in these ordinances is definitive, stating that this calculation “shall” be done in subsequent years. We were unable to locate any documentation indicating that City leadership had provided any specific guidance to the department or otherwise that the calculation adjustments are optional.

If maximums are not updated as ordinance requires, taxpayers will not benefit from the full abatement that they are entitled to, and, therefore, the City has, essentially, over-collected the related taxes.

- In accordance with §265.03(a) and §265.04(a), decreases in additional assessment valuations are required if construction costs exceed the maximum cost per dwelling.

In regard to improvements made on properties in deteriorated areas, §265.03(a) seems to indicate that exemptions are limited to the portion of the increased assessment of the

(a) The exemption from taxes shall be limited to the additional assessed valuation attributable specifically to the actual cost of improvements to deteriorated property not to exceed the maximum cost per dwelling unit specified in subsection (b) hereof or up to any lesser multiple of one thousand dollars (\$1,000.00). The exemption from taxes shall be limited to that portion of the increased assessment attributable to the improvement or improvements and for which a separate assessment has been made by the Board of Property Assessment Appeals and Review and for which an exemption has been specifically requested. If the actual cost of improvements, as determined by the Board, exceeds the maximum cost per dwelling unit, the Board shall decrease the additional assessment valuation eligible for exemption from taxation in the same proportion as the actual cost of improvements exceeds the maximum cost.

Figure 21: Excerpt from §265.03(a).

(a) Any exemption from taxes shall be limited to the assessed valuation attributable to the cost of construction of the new residential unit, not in excess of the uniform maximum cost per dwelling unit specified in subsection (b) hereof. If the actual cost of construction, as determined by the Board, exceeds the maximum cost per dwelling unit, the Board shall decrease the assessment valuation eligible for exemption in the same proportion as the actual cost of the construction exceeds the maximum cost.

Figure 22: Excerpt from §265.04(a).

improvements, and if the actual cost of improvements exceeds the maximum cost per dwelling, the additional assessment valuation eligible for exemption will be decreased. The same language is used in §265.04(a) in regard to constructions.

We have provided excerpts for both sections of City Ordinance in **Figures 21** and **22** for ease of reference.

If abatement reductions are not implemented when costs exceed a given threshold, the City will receive less tax than it is entitled to by ordinance.

- Nine of the property samples we reviewed appeared to be treated as Local Economic Stimulus but identified as Residential LERTA. We asked the department about these samples on December 14, 2022, and were advised that these parcels are, in fact, Residential LERTA; that they were not mislabeled; and that both programs, Local Economic Stimulus and Residential LERTA, could apply at once. However, §267.04(f) indicates that only one exemption can be granted for each project.
- In regard to the bullet above, seven of the samples were not located in deteriorated underutilized transition areas, as is a requirement of City Ordinance for Residential LERTA.

Please note that Act 42, Residential LERTA, and Local Economic Stimulus programs are all discussed in each program’s portion of this report above.

RECOMMENDATION

In implementing policies and procedures, the department should closely review ordinances to be certain that it creates internal guidance that aligns accordingly. To ensure compliance is maintained over time, the department should also monitor ordinances for changes that may affect TAPs. Internal editions of procedures can be updated, as needed. As indicated above, we do not believe that the direction provided by City Ordinance is optional; however, if the department administrators are aware of additional context or documentation that supports City leadership’s position on these ordinances, we recommend that the department, incidentally, store record of those and cite them accordingly in its policies and procedures.

Incidentally, both §265.11 and §267.08 of City Ordinance indicate that, "Reports containing information relative to the amount of each exemption and the property owner

received each exemption shall be presented by the Finance Director to Council on annual basis each calendar year in which this Chapter is in effect." Although we acknowledge that the department has faced significant changes in staffing, even at the executive level, we must note that City leadership cannot assess the effectiveness of the programs without reports of the financial status and impact of the programs.

AUDITEE RESPONSE (FINANCE)

Finance agrees to develop procedures to ensure compliance with City Ordinance.

FINDING #7: LACK OF COMPLIANCE WITH CITY ORDINANCE (URA)

ORIGIN OF FINDING: N/A, NEW FINDING

There were instances where the documentation provided by the URA did not align with City Ordinance.

- One of the TIF samples selected was awarded more than the 10% limit of total financing, a limit set by §201.11(d)(1 – 3). This was confirmed by an inquiry document that outlined questions and answers about the project details. On Page 6 of this document, it notes that the project "will receive \$30 million in State funding which equates to **17.70% of the total \$169.5 million project costs**. If the \$18 million in TIF funding is added, the total subsidy percentage increases by **10.6%**." It further states, "Historically, several other important TIF projects have had total project subsidies over 20% including: Broadhead Fording (22.31%); the original Pittsburgh Technology Center project (22.67%); Heinz Distribution Center (26.27%); and the East Liberty Home Depot (47.80%)."

It is important to note, however, that this was approved by both the URA and Three Taxing Bodies. Regardless of this misalignment with ordinance, the project did move forward.

- In regard to the same ordinance cited in the bullet above, 50% of the new jobs created via the TIF development should utilize City residents. However, we noted that both the 2018 and 2020 editions of the *URA Program Guidelines*—the 2020 being the most recent—state that only a 35% City workforce is required following the commencement of business operations. Incidentally, it appears as though these guidelines were utilizing Resolution 27 from 1999. We also were unable to find any evidence in prior drafts of City Ordinance that indicated a 35% quota, rather than 50%.

We asked the URA about these items and its administrators were unable to provide any additional context or reasoning for the misalignment with ordinance. They did, however, note that their guidelines are due for an update, which is scheduled to occur in 2023.

RECOMMENDATION

If reasoning was given or specific decisions made to allow exceptions to ordinances, whether from the URA or City Council, the reasoning and/or decisions should be documented. Furthermore, to avoid disagreement with City ordinance, we recommend that the department, first, update its guidelines and, then, administer a review procedure, ideally on an annual basis, to match its alignment with ordinances. If any additional agreements or terms are drawn up via TIFs, the department should administer a compliance-check prior to agreeing to the terms and bringing forth the TIF to City Council.

AUDITEE RESPONSE (URA)

The URA acknowledges this finding. The URA agrees to update its program guidelines to ensure requirements specified in relevant City Ordinances are captured. Furthermore, the URA acknowledges the need to update its implementation instructions in order to ensure compliance with the relevant City Ordinances or documentation of the reasoning behind exception to City ordinances, if they are approved by City, County, and School District taxing bodies.

ADDENDUM

Fiscal auditing is an essential process in constructively reviewing financial operations. The process allows for the discovery of opportunities to build up and strengthen the financial functions of the City's trust funds. Fiscal auditors provide an opinion of the financial accuracy of the management of trust funds. The procedures of each audit can include but are not limited to risk assessments; legislative research and review; and testing of departmental documentation of financial records and, as necessary, policies and procedures.

The results of the Controller Office audits are kept in record and reviewed regularly. If the auditee disagrees with the recommendations made by the Office of the Controller, the auditee is advised of the responsibility for accepting the potential risks of that decision. If the auditee agrees, follow-ups are performed on any recommendations made until evidence is given showing that the identified risks are resolved. Fiscal audit reports and follow-ups can be viewed on the Controller portion of the City of Pittsburgh's website under [Fiscal Audits](#).