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Communication from City Controller Michael Lamb submitting a Performance Audit of the Department of Finance Real Estate Division, Property Acquisition and Disposition, dated March 2011.

**SEE ATTACHMENT**

Performance Audit

**DEPARTMENT OF FINANCE  
REAL ESTATE DIVISION  
PROPERTY ACQUISITION and DISPOSITION**

Report by the  
Office of City Controller

**MICHAEL E. LAMB  
CITY CONTROLLER**

Douglas W. Anderson, Deputy Controller

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March, 2011

March 22, 2011

To the Honorables: Mayor Luke Ravenstahl and  
Members of Pittsburgh City Council:

The Office of City Controller is pleased to present this Performance Audit of the *Department of Finance Real Estate Division Property Acquisition and Disposition* conducted pursuant to the Controller's powers under Section 404(c) of the Pittsburgh Home Rule Charter.

### EXECUTIVE SUMMARY

The Department of Finance Real Estate Division is split into two sections, Taxation/Collection and Property Sales. The Property Sales section manages, maintains, and markets tax delinquent City owned properties on behalf of the Three Taxing Bodies: the City, School District, and Allegheny County. This audit assesses the Property Sales section property acquisition and disposal criteria, policies and procedures. Audit scope is budget years 2008-2009 and the first half of budget year 2010, ending June 30th

## Findings and Recommendations

### Three Taxing Bodies Shared Accounts

The Trust Fund is funded by the sale of properties. Sales revenues are divided among the City Treasurer's Sale costs Three Taxing Bodies, the City's share, the School District's share and the County's share. Excess revenues are not distributed to the Three Taxing Bodies, but are invested. All expenditures are approved by the City Real Estate Supervisor and the checks are signed by School District and Allegheny County representatives.

**Finding:** The Three Taxing Bodies section recovered its salary and expense costs and generated a profit during the audit period.

### Criteria for Tax-Delinquent Property Acquisition

The current criteria used to determine what properties are taken by the City for tax delinquency are:

1. A year or more of tax delinquency,
2. An interested purchaser, whether an individual, community-based organization, or another government agency such as the Urban Redevelopment Authority,
3. A public use,
4. A property that should be marketable.

**Finding:** Removing the threat of taking a tax-delinquent property also removes much of the leverage of the tax collection agent. While the City is not taking on the additional liability of amassing tax-delinquent properties, the properties are still not contributing to City tax revenues and often are blighted and a detriment to the community. As of June 30, 2010, the City listed 20,732 properties as tax delinquent.

**Finding:** The inventory of tax delinquent properties available for sale at the end of the audit period was 3,108. During the audit period, the City acquired 769 tax delinquent properties and conveyed ownership of 1,174 properties (not including voids and legal challenges), reducing the overall City surplus tax-delinquent property inventory by 11.7%.

**Finding:** The taking of property for pre-identified sales rather than taking all tax delinquent properties appears to be meeting its goal of reducing the City's non-performing real estate holdings.

**Finding:** The City claimed 211 tax delinquent properties that were not sold or conveyed during the audit period. Only thirteen of those unsold parcels (6%) have been City property for two or more years.

### Methods of Property Acquisition Used by the City

Most property taken by the City is due to tax-delinquency, and obtained through the Treasurer's Sale process. Some properties for civic purposes have been taken either by purchase or condemnation, and others have been donated to the City.

**Finding:** During the audit period, 21 properties were purchased by the City and the remainder taken through the Treasurer's Sale process. Historically, the City has acquired 90% of its properties through the Treasurer's Sale process.

### Lots and Structures

The sale of properties to individual purchasers initiated through the Treasurer's Sale process is the most common method of returning tax-delinquent properties to the City tax rolls.

**Finding:** The City sold 258 structures and 188 vacant lots that were tax delinquent during the audit period to private developers/buyers.

### Side Yard Sales Program

The Side Yard program began in 1994 and sells lots that are unsuitable for building purposes because of size, grade, or other irregularities to neighbors for approximately \$400.

**Finding:** The Side Yard Sales program returns land to the tax rolls and places it under the responsibility and care of a homeowner rather than the City for upkeep.

**Finding:** The City identified approximately 1,200 lots it had taken that were eligible for the Side Yard program, and sold 715 since the program began in 1994. During the audit period, 196 Side Yard sales were made.

**Finding: Sixty percent (60%)** of the Side Yard lots have been sold since the program's inception. The Side Yard program appears to be an effective tool in returning small, wooded and/or steeply graded tax-delinquent parcels to private ownership.

### Sales Fees and Tax Revenues Recovered

One of the goals of the Real Estate Sales section is to sell properties that are not generating tax revenues to owners who will return the lots to the City tax rolls.

**Finding:** During the audit period the City sold 446 properties with an assessed value of \$10,918,101 (average assessment per lot of \$24,480). The sales amount was \$3,670,310 or 34% of the assessed value. The properties generate \$117,915 annually for the City at the tax rate of 10.8 mills.

**Finding:** The City sold 196 side yard properties with an assessed County value of \$620,900, an average assessment per lot of \$3,168. The City received \$44,820 in sales fees, which is 7% of the assessed value. The sales returned \$6,706 to the City's tax rolls.

**Finding:** The tax-delinquent sales returns \$124,620 annually to the City in tax revenue that was previously uncollectable, and generated \$339,360 in annual real estate tax income for the Three Taxing Bodies as a whole.

### Properties Taken For Development

The Real Estate Property Division acquires properties to convey to the Urban Redevelopment Authority (URA) & local Community Development Corporations (CDC). After conveyance, the agencies market the property to third-party builders for further development and restoration of the property to tax-paying status.

**Finding:** During the audit period, the City conveyed 141 properties to the URA and 158 properties to CDCs, mostly under the Property Reserve Program. The URA properties were primarily located in Crawford-Roberts (73) and Larimer (32) while the CDC properties were primarily located in Garfield (55) and East Liberty (30).

**Finding:** Historically, the City has acquired 634 properties for URA use and 541 for CDC development. The 2006 audit "Urban Redevelopment Authority Property Acquisition and Maintenance" found that the URA sold only 42% of the properties it acquired from 1995-2005 and land-banked the remainder, which effectively kept the property off the City tax rolls. Some of the unsold land was found to be blighted. The URA also exhibited weak property inventory controls during the audit period.

**Recommendation:** The City should periodically check on the status of land sold or transferred to the URA and CDCs to ensure that undeveloped properties are in the process of being developed. If not, the City should make certain that the properties are being properly maintained so as not to contribute to community blight.

### Government Transfers

Some property taken by the City is used for civic purposes such as parkland, greenway corridors, right-of-way, infrastructure, etc. The City also conveys property to other government agencies as required, such as the Housing Authority of the City of Pittsburgh, the Port Authority Transit, and the Pennsylvania Department of Transportation, for their projects in the City.

**Finding:** The Real Estate section has a strong working relationship with the Department of Public Work's Engineering section and with the Department of Planning, allowing it to identify tax-delinquent parcels useful for municipal purposes. It also periodically reviews properties on its own for potential municipal use.

**Finding:** During the audit period, the City took 75 properties for its use and 18 more for other governmental agencies, a total of 12% of the properties taken since 2008.

### Properties Awaiting Transfer

The Real Estate Division holds properties for government use, such as land banking for future developments or potential greenway corridors awaiting formal City Council approval.

**Finding:** During the audit period, 51 properties were taken that are being held in reserve for civic purposes. The City is currently holding 3,248 properties taken since 1948 that are awaiting formal conveyance.

### Time Span Of Treasurer's Sale/Court Auction Properties Sold To Private Buyers

Properties sold by Treasurer's Sale require a twelve-to-fifteen month sales window; properties sold by the City after going unsold through a Treasure's Sale generally require an eighteen month procedure.

**Finding:** 66% of the full lots/buildings sold by the Real Estate Sales section during the audit period were sold in fewer than three years from City acquisition.

**Finding:** 70% of the Side Yard sales made by the Real Estate Sales section during the audit period were sold in fewer than three years from City acquisition.

**Recommendation:** While there are unavoidable time lags caused by the legal procedures involved in the sell of tax-delinquent property, the Real Estate section should endeavor to sell 67% of its properties within a two year period.

### Neighborhood Distribution of Properties

**Finding:** Seven of the eight neighborhoods with the highest number of tax-delinquent properties taken by the City between 1/1/2008-6/30/2010 had their overall City inventory reduced. Only Hazelwood had its inventory of City properties for sale increase among the most active tax-delinquent communities.

**Recommendation:** The City should adhere as strictly as possible to its criteria of taking properties that are likely to be turned over quickly. This is especially true of neighborhoods such as Hazelwood, which already has a high concentration of unsold parcels held by the City (See Chart #1 on Page Eighteen).

### City Inventory of Unsold Properties

**Finding:** The City is a major owner of vacant, tax-delinquent properties in several neighborhoods, holding 100+ properties in seven of its communities.

**Recommendation:** The City should strive to return tax-delinquent properties to use through sale or community/non-profit partnership

### Best Practices

An examination of other like-sized cities and their procedures regarding tax-delinquent/deserted property identified the following best practices:

***Use of a Geographic Information System (GIS):*** GIS is the combined use of computer software and hardware to store and present data that display the geographic clustering of tax-delinquent properties for analytical and management purposes.

**Finding:** The City utilizes the City web site to list both properties owned by the City for sale and privately owned properties that are currently tax-delinquent, making a public search by computer a user-friendly process for single properties.

**Finding:** The search process for buyers looking for larger property parcels is more complicated because there is no graphic depiction of tax-delinquent property on-line, only text lists.

**Recommendation:** The City presents its neighborhood data through PGH SNAP (community statistical snapshots, which include the number of tax-delinquent properties by community) and PGH GIS, showing various graphic overlays of neighborhoods down to the street level. This system is maintained by the City Planning Department. The City-owned tax-delinquent properties should be added to the PGH GIS graphic overlays, and possibly the complete list of tax-delinquent properties if the time frames are workable.

**Land Banking:** Tax-delinquent properties are assembled by geographic proximity to create a more attractive collection of parcels for development purposes.

**Finding:** The Real Estate Property Sales section assembles properties for the Urban Redevelopment Authority's use and for Community Development Corporations' initiatives. The section has conveyed or reserved 299 properties for local development during the audit period and 1,175 historically. They also accumulate properties for park and greenway use.

**Property Maintenance:** Properties under municipal control should be inspected and scheduled for regular maintenance so that the vacant City-owned areas do not contribute to neighborhood blight.

**Finding:** City tax-delinquent properties are maintained by the Department of Public Works' "Redd Up" crew and City Source Associates sporadically or as the result of a complaint. There is no regularly scheduled maintenance of tax-delinquent properties.

**Recommendation:** The City should establish a regular maintenance system for its properties.

**Finding:** Buildings taken by the City that are in hazardous physical condition, as identified by the Bureau of Building Inspection (BBI), are demolished. Six hundred and seventy five (675) of 1,713 (38.5%) structures on properties claimed for tax-delinquency have been razed since 1948, including 40 structures during the audit period. The cost is paid from BBI's demolition budget.

**Finding:** According to Controller Office records, an average asbestos-free demolition contract costs the City \$2,000 - \$8,000, depending on structural variables.

**Recommendation:** The City should examine the feasibility of having its demolition costs for tax-delinquent structures reimbursed from the shared Sales Trustee account.

**Development and Sales Assistance:** Municipalities that are successful in turning over their tax-delinquent properties offer professional assistance to all potential buyers, whether individual, governmental, neighborhood, or commercial through the process of identifying desirable lots, guidance through the sales process, and financial assistance if possible.

**Finding:** The Real Estate staff members were observed by the audit crew. They appear to be knowledgeable agents of the City in guiding the public through the sales process, and in working with other City,

governmental, and community representatives to identify and convey desired properties. Larger and/or commercial buildings and parcels are sold through the URA, which has the staffing and expertise to better facilitate larger deals.

**Finding:** The City offers no direct financial aid to developers except through the URA.

*Disposal of Side Lots:* Many municipalities have an overload of irregularly shaped or graded lots that are generally not attractive to potential buyers, and have developed special programs to sell their odd lots.

**Finding:** Many parcels in Pittsburgh are not suitable for building because of size, terrain, grade, and other factors and often become tax-delinquent because of these characteristics.

**Finding:** The City, through its Side Yard program, does a proficient job of selling and marketing these parcels, having conveyed 715 lots since 1994, nearly 60% of the program's 1,200 lot inventory.

*Return of Lots to Community Use:* Rather than allowing parcels to sit unused and becoming a potential site for blight, tax-delinquent properties can be creatively utilized for a variety of neighborhood purposes other than residential use.

**Finding:** The City has formed the Land Recycling Task Force to help deal with the issues of property conveyance to non-profits, along with lot maintenance and marketing.

**Finding:** The City's Neighborhood Initiatives Community Outreach program has partnered with various neighborhood, educational, and social groups to use tax-delinquent properties as urban farms, apiaries, and parklets/green space. The collaboration has resulted in farm plots in Lincoln-Lemington, Perry South, Homewood, Hazelwood, East Liberty, and Lawrenceville, an apiary in Homewood, and a parklet in Polish Hill, among other City projects.

**Recommendation:** The City should continue and increase its efforts to work with neighborhood, school, and other groups to utilize vacant lots for community purposes.

We are pleased that the Department of Finance Real Estate Division agrees with many of our recommendations for improvement.

Sincerely,

Michael E. Lamb  
City Controller

## INTRODUCTION

This performance audit of the Department of Finance Real Estate Division Property Sales section was conducted pursuant to Section 404(c) of the Pittsburgh Home Rule Charter. The audit examines the activities, criteria, and performance of the City's property acquisition and disposition procedures and policies.

## OVERVIEW

The Real Estate Division of the City Finance Department is split into two sections, Taxation/Collection and Property Sales. Property Sales is the section to be examined. According to the City budget narrative:

"This unit manages, maintains, and markets properties on behalf of the City, School District, and Allegheny County. It coordinates efforts with local Community Development Corporations (CDC) and the Vacant Property Work Group to pursue development in various neighborhoods throughout the City, the Urban Redevelopment Authority (URA) to identify property for redevelopment, and individual citizens to answer inquiries, show properties, and accept offers for sale. The unit also works in conjunction with many other City departments to keep the City's real property assets properly identified, documented, secured, and clean."

The Property Sales section functions as the Three Taxing Bodies (the City, School District, and Allegheny County) and handles tax-delinquent properties within City borders. Its powers come from the Pennsylvania Real Estate Tax Sale Law of 1947, Pennsylvania Act 71 of 1984 "Second Class City Treasurers Sale and Collection Act" and from City Code Chapters 205 and 207 of Title Two "Fiscal" and Chapters 451 & 453 of Title Seven, "Business Licensing".

## PROPERTY SALES STAFFING

The budgeted staff consists of a Real Estate/Three Taxing Bodies manager, a Real Estate Sales Coordinator, an Assistant Real Estate Sales Coordinator, two Clerical Specialists, a Clerk 2 (added in 2009), and a part-time Clerical Assistant.

## SALES PROGRAMS

The turnover and reuse of tax delinquent property is crucial to the City for a variety of reasons. A proliferation of vacant and blighted property reflects poorly on the neighborhood, and is often a sign of a downward spiral. Vacant and deserted properties require a disproportionate amount of Public Safety and Public

Works attention. Because real estate taxes are the most dependable source of City tax revenue, every tax delinquent property is a resource not being utilized.

In an effort to move tax-delinquent properties back to the tax rolls, the Property Sales section uses several programs to sell City properties that are available to private purchasers. These programs are the Treasurer's sale, Court Auction sales (regularly listed sales); Residential Lot sales, "Make Us An Offer" sales, and Side Yard sales.

Court Auction, Treasurer, Side Yard, and some Residential Lot sales are awarded to the highest public bidder. "Make Us an Offer" and some Residential Lot sales are done by sealed bid.

### Treasurer's Sale

This is the sale of tax-delinquent properties for the amount of taxes due; the buyer must also satisfy all other outstanding liens, other back taxes, claims, etc.

1. The sale conveys only the interest of the City, School District and County in the property for taxes owed. The title to the property has not been cleared through the Court of Common Pleas of Allegheny County. The sale does not forgive the property of:
  - a) Current year's City, School and County taxes
  - b) Mortgages
  - c) Judgments
  - d) Federal taxes and/or liens
  - e) State taxes or liens
  - f) Water and sewer claims or liens
  - g) County taxes and/or liens assigned to a third party pursuant to a lien sale
  - h) Any and all other secured claims.
2. Registered owners, mortgagors, lien holders, etc. (ie. any parties having any interest in a property) are not permitted to bid on their property at this sale.
3. Successful bidders must immediately pay the advertised amount opposite the particular property by cash or certified check.
4. Successful bidders must pay upon demand following the sale, all City, School District and County tax claims, as well as all other municipal claims pertaining to the property purchased or any property they own located within the City, including claims for water, sewage, house razing, lot cleaning, etc., and all costs associated with the Treasurer's Sale process, including those for advertising, posting, filing, Department of Court Records and any other costs., or deposit will be forfeited.
5. The "upset price" is the amount due in taxes, liens, and other back debts owed by a property. If the amount the City receives for a property exceeds the upset price, the overage must be given to prior owner.
6. There is a ninety (90) day redemption period for the previous owner, mortgage holder, etc., to make good the property's debt and reclaim ownership. The bidder cannot enter a property or conduct repairs until after this period, when the property has been officially deeded to him or her.

This should not be confused with the Sheriff's Sale, which is operated by Allegheny County and primarily involved with foreclosure actions. Because the title is not delivered free and clear of mortgage, liens, and other claims, the Treasurer's Sale sometimes does not result in a transaction. The City can petition the court for a clear title when it resells the property after it has gone through the Treasurer's sale process without being sold.

### Court Auction (Highest Bid) Sales Program

1. The Real Estate Division of the Department of Finance accepts inquiries from the general public for purchase of City properties. If the City determines that the requested property is not needed for public use, it will establish a sale price. The prospective purchaser completes a Request to Purchase Form to become a qualified buyer (one who has paid taxes, water, sewage, etc.).
2. After the buyer has been approved, a proposal to buy the property must be signed. The buyer must place a 10 % deposit (minimum of \$200.00) in the form of a cashier's check or money order. Others wishing to bid for the property may file an objection to the sale with the Real Estate Division by completing a Request to Purchase Form. If approved, the objector has the right to bid for the property. The objection can be filed up until the end of the sales process.
3. A resolution passed by City Council is required for sales approval. When approved, the Real Estate Division notifies the purchaser by letter to order an insurable title report. The purchaser pays for a title report, which must be received by the Law Department within thirty (30) days of notice.
4. The Law Department submits a petition for a Rule to Show Cause to the Court of Common Pleas authorizing the sale and validating the title.
5. The sale is advertised in a newspaper of general circulation. For a thirty-day period after the advertisement, anyone who has been approved to bid will be required, as part of their objection bid, to deposit hand money in the amount of 10% of their bid or \$200.00, which ever is greater. (If no objectors are filed, step # 6 is omitted.)
6. If there are objectors to the sale, all bidders will be notified and will be given the opportunity to bid in court for the property. At the completion of the auction, the successful bidder will be required to deposit with the Real Estate Division of the Finance Department additional earnest money in an amount to 10% of their bid price, less the original hand money deposited.
7. A final Order of Court will confirm the sale to the successful bidder. A deed will be prepared and executed. The buyer is required to pay the balance within thirty (30) days of the date of notification by cashier's check or money order. The purchaser must pay all related costs including title search fees, and the deed must be recorded immediately upon closing.

The procedure generally takes 12-15 months to complete.

### Residential Lot Sales

Lots that are identified by size, condition, and location to be suitable for residential development are offered by this program. These sites are offered to the public, and if a minimum price has been set, are sold under "Make Us An Offer" procedures. If no minimum price has been determined, the lots are sold under Court Auction procedures.

### "Make Us An Offer" (Sealed Bid) Sales

City lots that have a clear title are listed and sold by sealed bid in accordance with this procedure:

1. Offers for properties in the "Make Us An Offer" program must include a hand money deposit equal to 10% of the offer (minimum of \$200.00).
2. The City of Pittsburgh will keep all offers secret until the offer period is closed. On the first business day of each week the Real Estate department will open and tabulate all offers received by 4:00 P.M. on

- the last business day of the preceding week. Ties will be broken by 1) earliest receipt date and, if the tie persists 2) by choosing of lots.
3. All buyers of City property must be approved. If your offer is accepted and you are not approved to purchase, you will have five business days to become an approved buyer (No outstanding City taxes, liens, etc.).
  4. If your offer is accepted, and you are approved to purchase, you will have five business days to examine the property (if necessary) and sign the proposal to purchase. Buyers will have ten (10) business days from signing the proposal to either apply for financing or notify the Finance Department that they are not applying for financing.
  5. Buyers must agree to accept and not appeal the assessed valuation of the property set at the time of sale. The sale price will not set or determine the assessed valuation of the property.
  6. Property is sold in "as-is" condition. Houses generally require remodeling and rehabilitation, and may sometimes be occupied by tenants.
  7. The property is sold with a clear title.
  8. The buyer has thirty (30) days to close on the property after being notified that the deed is executed, and is responsible for paying all closing costs, including deed transfer taxes and deed recording fees.
  9. All sales are subject to the approval of the Mayor and City Council.

The approval process and execution of the deed takes approximately 120 days.

### Side Yard Sales

The Side Yard program was started in 1994. Its purpose is to give property owners the opportunity to purchase lots abutting their property at a minimal cost. About 1,200 lots have been identified that are eligible. The lots, upon sale, are both restored to the tax rolls and regularly cared for and often improved, helping to stabilize the community. The Side Yard procedure is:

1. The prospective buyer must own the property (no more than 2 units) that directly borders (either on the side, front or rear) the vacant lot requested for purchase. The City will determine whether or not the requested lot is available and eligible under this program.
2. All taxes and water and sewage bills on the properties the buyer already owns must be current and not have any outstanding Bureau of Building Inspection violations.
3. The buyer must provide evidence of liability insurance coverage for the lot.
4. Based on its square footage and/or terrain, the lot must be deemed unsuitable for erecting a freestanding building, as determined by the City. Once the buyer owns the property, he or she cannot build any structure on it.
5. The lot must be publicly owned. If, however, it is not publicly owned but is tax delinquent, a buyer may request that the City seize the property in a Treasurer's Sale. If successful, the lot may then become eligible for the Side Yard Sales Program.
6. The buyer will then enter into a lease/purchase agreement with the City. The required down payment and lease costs total \$201.00. While the buyer is leasing the lot, the City will begin the process to clear the title. This usually takes up to 18 months.
7. When the title has been cleared the City of Pittsburgh will arrange a closing date. At that time, the buyer

will need approximately \$200.00 to cover closing costs, deed recording fees and transfer taxes.

8. The buyer may begin using and maintaining the lot immediately (although you may not make any permanent improvements until ownership is conveyed).
9. If more than one buyer is interested in purchasing the same lot, they'll be required to bid for the property. The minimum bid offer is \$250.00.

## **PUBLIC USES**

Some properties are transferred to the City for civic uses such as parks, infrastructure, greenways, right of way, etc.; other properties are sold by the City to community groups for local redevelopment under the Property Reserve program and to other agencies such as the URA, PennDOT, Port Authority, etc. as needed for public projects.

### Property Reserve (Local Community Development Sites) Sales

The Property Reserve Program came into being as a response to the City's sale of tax liens to Capital Assets in 1997. Community groups feared private, for profit, control of City liens could delay, if not destroy, the redevelopment pace of vacant neighborhood property because of Capital Assets efforts to sell the properties for a gain rather than for return to use.

In response to these concerns, the City established a land reserve to hold properties for future development. After the City acquires a tax-delinquent property and puts it in the reserve, a Community Development Corporation (CDC) can buy the property at the City's price (\$100 for a lot, \$1,000 for a structure) plus legal and administrative costs, which are generally about \$1,000.

Through the Property Reserve program, CDCs can acquire vacant property affordably and pass the lot on to a third-party developer or develop it on their own so that the site can again become a community asset.

## **OBJECTIVES**

1. To assess the acquisition and disposal criteria, policies and procedures of City-owned tax-delinquent property.
2. To determine the number of properties sold and transferred by the City, the value of the sales, and the amount of tax revenue regained by the City.
3. To assess the average time that the City holds a tax delinquent property until it is disposed of to a private buyer or outside agency.
4. To assess the effectiveness of various City programs in disposing of City owned and tax delinquent property.
5. To assess the effectiveness of Court Auctions in recouping delinquent taxes through Treasurer's

Sales and Three Taxing Bodies sales efforts.

6. To make recommendations for improvement.

### **SCOPE**

The audit scope time period is budget years 2008-2009 in their entirety and the first half of budget year 2010, ending June 30th. The scope will be limited to the activities of the Department of Finance's Real Estate Property Sales unit.

## METHODOLOGY

Interviews were conducted with the City Treasurer and Real Estate Manager. The auditors observed the daily work routine of the Real Estate staff.

The auditors examined the budget documents for the years 2008-09 and the Controller's General Ledger accounts. They also examined the Delinquent Property list, Vacant Property list, and Residential listings shown on the Department of Finance's web site, along with other available documentation.

The Department of Finance provided the auditors with a comprehensive listing of properties dating back to 1948, which included the dates and methods of acquisition and sales along with other pertinent information.

The data base was examined for sales categories, sales transactions, various timelines, government agency/Community Development property usage, taxes recaptured through sales, and geographic distribution of the properties.

The data base is not static, but dynamic, so the figures taken from it serve only as a snapshot of the activity in time.

The data was tested for the time period that property was held by the City before sale or conveyance and the amount of taxes reclaimed by the City because of the sales.

The auditors also researched pertinent newspaper articles, the programs and policies of the real estate sale departments of other similarly sized municipalities, and the reports "Land Philadelphia Initiative" sponsored by the Fels Public Policy Challenge (released March 17<sup>th</sup>, 2010) and "Southwestern Pennsylvania Blighted and Abandoned Properties Solutions Project" prepared by Sustainable Pittsburgh (released December 10<sup>th</sup>, 2009).

## FINDINGS AND RECOMMENDATIONS

### Three Taxing Bodies Trust Fund Account

The budgeted salary account is drawn from the Three Taxing Bodies (TTB) Trust Fund. The Trust is funded by a transfer from the Salary Trust Fund Account, which in turn is funded by TTB sales and other revenues. The TTB Trust Fund is shown in the City financial statements while the Salary Trust Fund is not (see "Three Taxing Bodies Shared Accounts" below).

**Finding:** In 2009, the budgeted salary total was \$230,419 for six full-time positions, and the actual amount paid was \$223,192.20. In 2008, the budgeted salary total was \$196,046 for five full-time positions, and the actual amount paid was \$213,199.84.

### Three Taxing Bodies Shared Accounts

The Trust Fund is funded by the sales of properties. Because School District and County properties are sold by the City, sales revenues are divided among the Treasurer's costs, the City's share, the School's share and the County's share.

These funds are accounted through the Sales Trustee account, the PLIGIT Investment Account, and the Salary Trust Fund account, along with an escrow account. The excess revenues are not distributed to the Three Taxing Bodies, but are invested. All expenditures are approved by the City Real Estate Supervisor and the checks are signed by School District and Allegheny County representatives.

The Table below shows the Three Taxing Bodies financial activity from January 2008 through June 2010:

**Table #1 - Property Sales Account Activity 1/1/2008 - 6/30/2010**

Category	Sales Revenue	Cost of Sale	Other Revenues	Expenses	Profit/Loss
12/31/2008	\$1,145,566	(\$96,633)	\$69,444	(\$431,820)	\$686,557
12/31/2009	\$1,156,968	(\$103,311)	\$32,873	(\$489,387)	\$597,143
6/30/2010	\$558,138	(\$53,288)	\$14,051	(\$123,119)	\$395,782
<b>Total</b>	<b>\$2,860,672</b>	<b>(\$253,232)</b>	<b>\$116,368</b>	<b>(\$1,044,326)</b>	<b>\$1,679,482</b>

**Finding:** The table above shows that the Three Taxing Bodies section recovered its salary and expense costs and generated a profit during the audit period.

Criteria for Tax-Delinquent Property Acquisition

The current criteria used to determine what properties are taken by the City for tax delinquency are:

1. A year or more of tax delinquency, and;
2. An interested purchaser, whether an individual, community-based organization, or another government agency such as the Urban Redevelopment Authority, or;
3. A public use, or;
4. A property that should be marketable.

The above criteria have been formally in use since 2010, when delinquent tax collections were outsourced. However, the policy of taking tax delinquent property because of buyer interest or for public use rather than solely for tax arrears has been practiced unofficially during past years. The purpose of the policy is to reduce the inventory of City-held tax-delinquent properties.

**Finding:** Removing the threat of taking a tax-delinquent property also removes much of the leverage of the tax collection agent. So while the City is not taking on the additional liability of amassing tax-delinquent properties because of its policy, the properties are still not contributing to City tax revenues and often are blighted and a detriment to the community.

As of June 30, 2010, the City listed 20,732 properties as tax delinquent.

**Finding:** The inventory of tax delinquent properties available for sale at the end of the audit period was 3,108 according to the Finance Department data base. During the audit period, the City acquired 769 tax delinquent properties and conveyed ownership of 1,174 properties (not including voids and legal challenges), reducing the overall City surplus tax-delinquent property inventory by 11.7%.

**Finding:** The taking of property for pre-identified sales rather than taking all tax delinquent properties appears to be meeting its goal of reducing the City's non-performing real estate holdings.

**Finding:** The City claimed 211 tax delinquent properties that were not sold or conveyed during the audit period. Only thirteen of those unsold parcels (6%) have been City property for two or more years.

Methods of Property Acquisition Used by the City

Most property taken by the City is due to tax-delinquency, and obtained through the Treasurer's Sale process. Some properties for civic purposes have been taken either by purchase or condemnation, and others have been donated to the City.

**Table #2 - City Property Acquisition Methods**

Acquisition Method	Audit Period	Overall
Annexed		8
Condemned		389
Dedication		2
Gift		36
Unknown		127
Ordinance		5
Purchased	21	432
Sheriff Sale		502
Treasurer Sale	748	13,714
<b>Total</b>	<b>769</b>	<b>15,215</b>
<i>Audit Period - 1/1/2008 - 6/30/2010</i>		
<i>Overall - 1/1/1948 - 6/30/2008</i>		

**Finding:** During the audit period, 21 properties were purchased by the City and the remainder taken through the Treasurer's Sale process. Historically, the City has acquired 90% of its properties through the Treasurer's Sale process.

**Table #3 - City Property Transactions**

**Real Estate Status 1/1/2008 - 1/1/1948 - 6/30/2010 6/30/2010** Properties Acquired 769 15,215  
 Properties Sold By Treasurers Sale/Bid 639 4,265 Taken For City Use 75 2,270 Taken For Community Use 158 541  
 Taken For URA Use 141 634 Taken For Other Public Use 18 874 Held For Future Use 51 3,248 Voided Sales 82 230  
 Sales In Litigation 10 45 Property Kept/Conveyed 1174 12,107 Inventory Remaining 3,108

**Table #1 Legend:**

*Properties Acquired* are tax-delinquent and other lots taken by the City *Properties Sold* are properties conveyed to private developers including side yard sales. *City Use* are properties taken for parks, right-of-way, infrastructure, greenway, etc. *Community Use* are properties conveyed to a community development group. *URA Use* are properties conveyed to the URA for development. *Other Public Use* are properties conveyed to HACP, PennDOT, PAT, etc. *Held For Future Use* are properties being held pending conveyance for civic use or development. *In Court/Voided Sales* are property sales being legally challenged or voided before completion. *Properties Kept/Conveyed* are total properties kept for City use or conveyed to other parties. *Inventory Remaining* are properties taken by the City that still remain available for sale. (These figures include both completed sales and sales that were started and still in progress during the audit period.)

Lots and Structures

The sale of properties to individual purchasers initiated through the Treasurer's Sale process (see Pages Two & Three) is the most common method of returning tax-delinquent properties to the City tax rolls (see Table #2 on Page Twelve).

**Table #4 - Sales Initiated By Treasure Sale Process**

<b>Properties Sold To General Public</b>	<b>Jan. 1, 2008 - June 30, 2010</b>	<b>Jan. 1, 1948 - June 30, 2010</b>
Buildings Sold	258	936
Full Lots Sold	188	2614
<b>Properties Sold</b>	<b>446</b>	<b>3550</b>

**Finding:** The City sold 258 structures and 188 vacant lots that were tax delinquent during the audit period to private developers/buyers. Since 1948, the City has sold 936 structures and 2,614 lots. 287 properties were sold within three years of acquisition during the audit period, or 66 % of property sold from 2008 to mid-2010.

Side Yard Sales Program

The Side Yard program (see Page Four) began in 1994 and sells lots that are unsuitable for building purposes because of size, grade, or other irregularities to neighbors for approximately \$400. This program returns the land to the tax rolls and places it under the responsibility and care of a homeowner rather than the City for upkeep.

**Table #5 - Side Yard Sales**

Side Yard Properties	Sold 1/1/08 - 6/30/10	Sold 1/1/94 - 6/30/10	% Sold
1,200	193	715	59.6

**Finding:** The City identified approximately 1,200 lots it had taken that were eligible for the Side Yard program, and sold 715 since the program began in 1994 (see Page Four). During the audit period, 196 Side Yard sales were made.

**Finding:** 60% of the Side Yard lots have been sold since the program's inception. The Side Yard program appears to be an effective tool in returning small, wooded and/or steeply graded tax-delinquent parcels to private ownership.

Sales Fees and Tax Revenues Recovered:

One of the goals of the Real Estate Sales section is to sell properties that are not generating tax revenues to owners who will return the lots to the City tax rolls.

**Table #6 - Taxes Generated By Tax-Delinquent Sales**

Type of Sale	Parcels Sold	Assessed Value	City 10.8 mills	School 13.92 mills	County 4.69 mills	Taxes Generated
Full Lot	446	\$10,918	\$118	\$152	\$51	\$321
Side Yard	193	\$620	\$7	\$9	\$3	\$19
<b>Total</b>	<b>639</b>	<b>\$11,538</b>	<b>\$125</b>	<b>\$161</b>	<b>\$54</b>	<b>\$340</b>

*(Value, millage, and taxes are shown in thousands and rounded)*

**Finding:** During the audit period the City sold 446 properties with an assessed value of \$10,918,101 (average assessment per lot of \$24,480) according to the Allegheny County assessment records. The sales amount was \$3,670,310, or 34% of the assessed value. The properties generate \$117,915 annually for the City at the tax rate of 10.8 mills.

**Finding:** The City sold 196 side yard properties with an assessed County value of \$620,900, an average assessment per lot of \$3,168. The City received \$44,820 in sales fees, which is 7% of the assessed value. The sales returned \$6,706 to the City's tax rolls.

**Finding:** The tax-delinquent sales returns \$124,620 annually to the City in tax revenue that was previously

uncollectable, and generated \$339,360 in annual real estate tax income for the Three Taxing Bodies as a whole.

Properties Taken For Development:

The Real Estate Property Division acquires properties to convey to the Urban Redevelopment Authority (URA) & Community Development Corporations (CDC). After conveyance, the agencies market the property to third-party builders for further development and restoration of the property to tax-paying status.

**Table #7 - Properties Conveyed to the URA & CDC's For Development Purposes**

<b>Properties Sold For Development</b>	<b>Jan.1, 2008 - June 30, 2010</b>	<b>Jan. 1, 1948 - June 30, 2010</b>
URA	141	634
Community Groups	158	541
<b>Properties Sold</b>	<b>299</b>	<b>1175</b>

**Finding:** During the audit period, the City conveyed 141 properties to the URA and 158 properties to CDCs, mostly under the Property Reserve Program (see Page Five). The URA properties were primarily located in Crawford-Roberts (73) and Larimer (32) while the CDC properties were primarily located in Garfield (55) and East Liberty (30).

**Finding:** Historically, the City has acquired 634 properties for URA use and 541 for CDC development. The 2006 audit "Urban Redevelopment Authority Property Acquisition and Maintenance" found that the URA sold only 42% of the properties it acquired from 1995-2005 and land-banked the remainder, which effectively kept the property off the City tax rolls. Some of the unsold land was found to be blighted. The URA also exhibited weak property inventory controls during the audit period.

**RECOMMENDATION No. 1:**

The City should periodically check on the status of land sold or transferred to the URA and CDCs to ensure that undeveloped properties are in the process of being developed. If not, the City should make certain that the properties are being properly maintained so as not to contribute to community blight.

Government Transfers

Some property taken by the City is used for civic purposes such as parkland, greenway corridors, right-of-way, infrastructure, etc. The City also conveys property to other government agencies as required, such as the Housing Authority of the City of Pittsburgh, the Port Authority Transit, and the Pennsylvania Department of Transportation, for their projects in the City.

**Finding:** The Real Estate section has a strong working relationship with the Department of Public Work's Engineering section and with the Department of Planning, allowing it to identify tax-delinquent parcels useful

for municipal purposes. It also periodically reviews properties on its own for potential municipal use.

**Table #8 - Properties Taken For Government Use**

Time Period	City Use	Gov't Use	Total	Props Taken	%
2008-2010	75	18	93	769	0.121
1948-2010	2270	874	3144	15215	0.207

**Finding:** During the audit period, the City took 75 properties for its use and 18 more for other governmental agencies, a total of 12% of the properties taken since 2008. Overall, the City has taken 2,270 properties for municipal purposes and another 874 lots were sold or transferred to other governmental agencies, or 21% of the total properties taken.

Properties Awaiting Transfer

The Real Estate Division holds properties for government use, such as land banking for future developments or potential greenway corridors awaiting formal City Council approval for conveyance.

**Finding:** During the audit period, 51 properties were taken that are being held in reserve for civic purposes. The City is currently holding 3,248 properties taken since 1948 that are awaiting formal conveyance.

Time Span Of Treasurer's Sale/Court Auction Properties Sold To Private Buyers

The Real Estate Sales section takes properties from private owners because of delinquent taxes with the goal of selling the property to a private owner who will maintain the site and return it to the real estate tax rolls.

Properties sold by Treasurer's Sale require a twelve-to-fifteen month sales procedure; properties sold by the City after first going unsold through a Treasure's Sale require an eighteen month sales window.

**Table #9 - Years Between Property Acquisition And Sale**

Years to sale	Properties Sold	Accumulative Percent	Side Yard Properties Sold	Accumulative Percent	Total Properties Sold
1.1 - 1.9	186	43%	93	48%	280
2.0 - 2.9	101	66%	42	70%	144
3.0 - 4.9	48	77%	8	74%	56
5.0 - 9.9	41	86%	1	74%	42
10 +	59	100%	49	100%	109
<b>Total</b>	<b>446</b>	<b>100%</b>	<b>193</b>	<b>100%</b>	<b>631</b>

**Finding:** 66% of the full lots/buildings sold by the Real Estate Sales section during the audit period were sold in fewer than three years from City acquisition.

**Finding:** 70% of the Side Yard sales made by the Real Estate Sales section during the audit period were sold in fewer than three years from City acquisition.

**RECOMMENDATION No. 2:**

While there are unavoidable time lags caused by the legal procedures involved in the sell of tax-delinquent property, the Real Estate section should endeavor to sell 67% of its properties within a two year period.

**Neighborhood Distribution of Properties**

An examination of the properties taken by the City for tax-delinquency during the audit period was made to determine where the properties were located by neighborhood and whether the properties were being conveyed to new owners or added to the City inventory of vacant properties.

**Table #10 - Properties Taken By Neighborhood**

Neighborhood	Taken	Conveyed
Garfield	60	89
Crawford Roberts	57	96
Hazelwood	54	48
Perry South	48	51
Larimer	30	38
Mt. Washington	27	30
Homewood South	26	41
Central Northside	25	38

**Finding:** Seven of the eight neighborhoods with the highest number of tax-delinquent properties taken by the City between 1/1/2008-6/30/2010 had their overall City inventory reduced. Only Hazelwood had its inventory of City properties for sale increase among the most active tax-delinquent communities.

**RECOMMENDATION No. 3:**

The City should adhere as strictly as possible to its criteria of taking properties that are likely to be turned over quickly. This is especially true of neighborhoods such as Hazelwood, which already has a high concentration of unsold parcels held by the City (See Chart #1 on Page Eighteen).

City Inventory of Unsold Properties

An examination of the properties taken by the City for tax-delinquency between 1/1/1948-6/30/2010 was made to determine the remaining inventory of parcels approved and available for sale identified by neighborhood

**Chart #1 - City Neighborhoods Ranked By Unsold Inventory (as of 6/30/2010)**

**Finding:** The City is a major owner of vacant, tax-delinquent properties in several neighborhoods, holding 100+ properties in seven of its communities.

**RECOMMENDATION No. 4:**

The City should strive to return tax-delinquent properties to use through sale or community/non-profit partnership.

Best Practices

An examination of other like-sized cities and their procedures regarding tax-delinquent/deserted property identified the following best practices:

***Use of a Geographic Information System (GIS):*** GIS is the combined use of computer software and hardware to store and present data that display the geographic clustering of tax-delinquent properties for analytical and management purposes.

**Finding:** The City utilizes the City web site to list both properties owned by the City for sale and properties that are currently tax-delinquent, making a public search by computer a user-friendly process for single properties. However, the search process for buyers looking for larger property parcels is more complicated because there is no graphic depiction of tax-delinquent property on-line, only text lists.

**RECOMMENDATION No. 5:**

The City presents its neighborhood data through PGH SNAP (community statistical snapshots, which include the number of tax-delinquent properties by community) and PGH GIS, showing various graphic overlays of neighborhoods down to the street level. This system is maintained by the City Planning Department. The City-owned tax-delinquent properties should be added to the PGH GIS graphic overlays, and possibly the complete list of tax-delinquent properties if the time frames are workable.

***Land Banking:*** Tax-delinquent properties are assembled by geographic proximity to create a more attractive collection of parcels for development purposes.

**Finding:** The Real Estate Property Sales section assembles properties for the Urban Redevelopment Authority's use and for Community Development Corporations' initiatives. The section has conveyed or reserved 299 properties for local development during the audit period and 1,175 historically. (See Table #7 on Page Fifteen). They also accumulate properties for park and greenway use.

***Property Maintenance:*** Properties under municipal control should be inspected and scheduled for regular maintenance so that the vacant City-owned areas do not contribute to neighborhood blight.

**Finding:** City tax-delinquent properties are maintained by the Department of Public Works' "Redd Up" crew and City Source Associates sporadically or as the result of a complaint. There is no regularly scheduled maintenance of tax-delinquent properties.

**RECOMMENDATION No. 6:**

The City should establish a regular maintenance schedule for its properties. This would ensure that City owned properties do not contribute to neighborhood blight.

**Finding:** Buildings taken by the City that are in hazardous physical condition, as identified by the Bureau of Building Inspection (BBI), are demolished. Six hundred and seventy five (675) of 1,713 (38.5%) structures on properties claimed for tax-delinquency have been razed since 1948, including 40 structures during the audit period. The cost is paid from BBI's demolition budget.

Determining the cost of demolition is outside the scope of the audit. But according to Controller Office records, an average asbestos-free demolition contract costs the City \$2,000 - \$8,000, depending on structural variables.

**RECOMMENDATION No. 7:**

The City should examine the feasibility of having its demolition costs for tax-delinquent structures reimbursed from the shared Sales Trustee account.

***Development and Sales Assistance:*** The Property Sales section of the Finance department is designed to facilitate individual property sales and to acquire and convey property for community and municipal purposes. Financial assistance is provided by the Urban Redevelopment Authority (URA), which has an array

of programs to aid homebuyers, landlords, and developers. Other assistance regarding the home-buying process is provided by the Real Estate Property Sales staff.

**Finding:** The Real Estate staff members were observed by the auditors. They appear to be knowledgeable agents of the City in guiding the public through the sales process, and in working with other City, governmental, and community representatives to identify and convey desired properties. Larger and/or commercial buildings and parcels are sold through the URA, which has the staffing and expertise to better facilitate larger deals.

**Finding:** The City offers no direct financial aid to developers except through the URA.

***Disposal of Side Lots:*** Many parcels in Pittsburgh and nationally are not suitable for building because of size, terrain, grade, and other factors, and often become tax-delinquent because of these characteristics. These lots add to the City's inventory of properties that do not contribute taxes, need regular maintenance and are often difficult to sell because of their topography.

**Finding:** The City, through its Side Yard program, does a proficient job of selling and marketing these parcels, having conveyed 715 lots since 1994, nearly 60% of the program's 1,200 lot inventory. (See "Side Yard Sales Program" on Page Fourteen)

***Return of Lots to Community Use:*** Rather than allowing parcels to sit unused and becoming a potential site for blight, tax-delinquent properties can be creatively utilized for a variety of neighborhood purposes other than residential use.

**Finding:** The City has formed the Land Recycling Task Force to help deal with the issues of property conveyance to non-profits, along with lot maintenance and marketing.

**Finding:** The City's Neighborhood Initiatives Community Outreach program has partnered with various neighborhood, educational, and social groups to use tax-delinquent properties as urban farms, apiaries, and parklets/green space. The collaboration has resulted in farm plots in Lincoln-Lemington, Perry South, Homewood, Hazelwood, East Liberty, and Lawrenceville, an apiary in Homewood, and a parklet in Polish Hill, among other City projects.

### **RECOMMENDATION No. 8:**

The City should continue and increase its efforts to work with neighborhood, school, and other groups to utilize vacant lots for community purposes.

### **Real Estate Division Response to Audit**

#### **RECOMMENDATION No. 1:**

The City should periodically check on the status of land sold or transferred to the URA and CDCs to ensure that undeveloped properties are in the process of being developed. If not, the City should make certain that the properties are being properly maintained so as not to contribute to community blight.

Response: Many of the parcels sold to the URA and CDC's are sold so that land can be assembled for future development. Code enforcement is a function of BBI and BBI will cite the owners if warranted.

#### **RECOMMENDATION No. 2:**

While there are unavoidable time lags caused by the legal procedures involved in the sell of tax-delinquent property, the Real Estate section should endeavor to sell 67% of its properties within a two year period.

Response: Agree. However, both the CDC's and URA request that property be acquired via Treasurer's Sale because of a future development. The property held in the City's inventory so that it is not sold to speculators because of the pending development. Under the Property Reserve the CDC's have up to 7 years to close on a property. Some sales are delayed in the quiet title action because of GLS liens.

#### **RECOMMENDATION No. 3:**

The City should adhere as strictly as possible to its criteria of taking properties that are likely to be

turned over quickly. This is especially true of neighborhoods such as Hazelwood, which already has a high concentration of unsold parcels held by the City (See Chart #1 on Page Eighteen).

Response: Agree, except in those cases where the City is assembling land for the URA or CDC's for future development or where the City has a use for the property, such as a greenway.

**RECOMMENDATION No. 4:**

The City should strive to return tax-delinquent properties to use through sale or community/non-profit partnership.

Response: 43% of the privately owned property in the 10 neighborhoods with the largest City inventory are tax delinquent. These 10 neighborhoods do not have active community groups and there is not a strong demand for property. Also, buyers of City property cannot be tax delinquent. These issues make it more difficult to sell the property in these neighborhoods.

**RECOMMENDATION No. 5:**

The City presents its neighborhood data through PGH SNAP (community statistical snapshots, which include the number of tax-delinquent properties by community) and PGH GIS, showing various graphic overlays of neighborhoods down to the street level. This system is maintained by the City Planning Department. The City-owned tax-delinquent properties should be added to the PGH GIS graphic overlays, and possibly the complete list of tax-delinquent properties if the time frames are workable.

Response: Agree. City owned property that is available for sale should be added to the PGH GIS overlay.

**RECOMMENDATION No. 6:**

The City should establish a regular maintenance schedule for its properties. This would ensure that City owned properties do not contribute to neighborhood blight.

Response: The maintenance of City owned property is handled by Public Works. Funds are not available for regular maintenance.

**RECOMMENDATION No. 7:**

The City should examine the feasibility of having its demolition costs for tax-delinquent structures reimbursed from the shared Sales Trustee account.

Response: The Sales Trustee account is a joint 3 taxing bodies account. With the transfer of tax delinquency to Jordan Tax Service the number of structures that will be acquired is diminishing and revenue will drop. The trust fund balance will be needed to continue the operations.

**RECOMMENDATION No. 8:**

The City should continue and increase its efforts to work with neighborhood, school, and other groups

to utilize vacant lots for community purposes.

Response: Agree. The City's cooperation with neighborhoods, school and other groups is an ongoing process that will continue.