City of Pittsburgh

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Legislation Details (With Text)

File #:	2024-0040 **Version:** 1		
Type:	Will of Council	**Status:**	Adopted
File created:	1/17/2024	**In control:**	City Council
On agenda:	1/17/2024	**Final action:**	1/17/2024
Enactment date:	1/17/2024	**Enactment #:**	4
Effective date:	1/17/2024		

Title: AND BE IT FURTHER RESOVLED, that the Council of the City of Pittsburgh echoes the Stakeholders in calling on the Department of Transportation, its Build America Bureau, and the Federal Government to promptly make these changes to the RRIF Program so that RRIF funds can be deployed towards critical investments in office conversion projects here in the City of Pittsburgh.

Sponsors: Bobby Wilson

Indexes: PROCLAMATION - MR. WILSON

Code sections:

Attachments:

Date	Ver.	Action By	Action	Result
1/17/2024	1	City Council	Adopted	Pass

WHEREAS, like many great American Cities, the City of Pittsburgh's commercial office market is experiencing great uncertainty resulting from the COVID-19 Global Pandemic and massive economic changes in office needs and work habits; and,

WHEREAS, due to these unprecedented changes, the City of Pittsburgh's Downtown Office market has seen significantly higher vacancy rates, large amounts of office spaces available for sub-lease, and an overall decline in utilization; and,

WHEREAS, the impacts of these trends have led to many Downtown Office buildings facing the prospects of foreclosure, significant potential declines in property tax revenue, and an overall lack of market vitality; and,

WHEREAS, the City of Pittsburgh has taken a number of steps to study the problem, and has been collaboratively working with various downtown stakeholders including civic groups, employers, employees, labor and trades, and the Pittsburgh Downtown Partnership (collectively the "Stakeholders") to develop solutions to immediately address the City of Pittsburgh's looming office market crisis; and,

WHEREAS, one of the strategies identified by the City of Pittsburgh and the Stakeholders is encouraging the conversion of existing office buildings into mixed use residential structures; and,

WHEREAS, the conversion of existing office buildings into residential structures is very difficult in an economic climate characterized by high construction costs and high interest rates; and,

WHEREAS, there are currently more than $300 million worth of conversion projects that are shovel-ready in Downtown Pittsburgh and potentially more than a $1 billion in conversion projects that could occur if there were appropriate economic structures in place to facilitate the same; and,

WHEREAS, the Stakeholders have identified a significant potential source of funding for these office conversion projects as announced by the White House on October 27, 2023 in its Fact Sheet: "Biden-Harris Administration Takes Action to Create More Affordable Housing by Converting Commercial Properties to Residential Use," which describes how over $35 billion is available for lending through its "Railroad Rehabilitation & Improvement Financing Program" ("RRIF") to finance office-to-residential conversions near public transportation; and,

WHEREAS, the Biden-Harris Administration intended that the RRIF would serve to create "much-needed housing that is affordable, energy efficient, near transit and good jobs, and reduce greenhouse gas emissions, nearly 30 percent of which comes from the building sector;" and,

WHEREAS, unfortunately, many of the regulations in the existing RRIF Program are not conducive to funding these office-to-residential conversion projects; and,

WHEREAS, recognizing the critical role that the RRIF Program could play in revitalizing Downtown Pittsburgh while creating many new union construction jobs, Pittsburgh City Council wishes to formally offer its support to the Stakeholders as they request changes to the regulations in the RRIF Program that would actually allow for the RRIF's funds to be utilized in a manner that is consistent with the intended purpose of the RRIF Program.

NOW THEREFORE, BE IT RESOLVED, that the Council of the City of Pittsburgh fully supports the Stakeholders as they seek changes from the United States Department of Transportation, its Build America Bureau, and the Federal Government in the regulations that comprise the RRIF Program, and specifically supports the following changes to this program:

1. Timing. The Stakeholders request that the specific regulations that cause the time period to close a loan under the RRIF's regulations at eighteen (18) months be amended for RRIF eligible office conversions such that a loan closing takes place in six (6) months from beginning of the LOI process. Eighteen months to close a loan makes utilizing the program almost impossible.

2. Streamline the Environmental Reviews. The current RRIF guidelines require all projects to undergo a NEPA review. This review is incredibly expensive, time-consuming, and unnecessary. NEPA is intended for large scale, new construction projects and is not appropriate for the conversion of an office building in a fully built-out environment. A traditional Phase 1 and Phase 2 (if necessary) environmental report is all that should be necessary. These items can be accomplished in a series of weeks as opposed to a number of years. The Stakeholders seek a categorical exclusion under NEPA similar to comparable exclusions in DOT and HUD regulations for existing building conversions.

3. Reduce The Burden of Unnecessary Oversight Costs. Current RRIF guidelines suggest a minimum of $1,000,000.00 for each loan to be set aside for "oversight costs." For many of the proposed conversion projects, this arbitrary number makes the entire project unaffordable. In many cases, the amount set aside for "oversight" is significantly more than the total costs associated with preparing the drawings and overseeing the entire project. The Stakeholders believe that oversight costs should be brought in-line with typical commercial lending practices.

4. Reduce the Burden of Obtaining National Credit Ratings. Current RRIF guidelines recommend or in some cases require obtaining credit ratings from national agencies such as Moody's to avoid credit risk premiums or be rejected. This requirement is atypical for conversion projects. Commercial lenders would only require certified property appraisals to satisfy their credit underwriting requirements.

5. Clarify That Design and Engineering Costs Can Be Financed. Traditionally, these costs can be reimbursed and/or paid for with loan proceeds. If this is not possible under the existing guidelines, utilizing the RRIF program is not feasible.

6. Waive Mandatory Credit Risk Premiums. Whether with investment grade ratings, or otherwise, the requirement of credit risk premiums dilutes the value and intent of RRIF financing. Adding credit risk premiums to the RRIF Financing would approximate what would be available through private sector credit sources. The private sector will thus offer similar interest rates to a credit risk premium adjusted RRIF and therefore the number of office conversion projects would drastically diminish.

AND BE IT FURTHER RESOVLED, that the Council of the City of Pittsburgh echoes the Stakeholders in calling on the Department of Transportation, its Build America Bureau, and the Federal Government to promptly make these changes to the RRIF Program so that RRIF funds can be deployed towards critical investments in office conversion projects here in the City of Pittsburgh.