The URA is here for Pittsburgh.

Fostering sustainable prosperity for all

Pittsburgh Public Schools (PPS)
Business & Finance Committee
September 11, 2023




ura | Urban Redevelopment Authority of Pittsburgh

Agenda

1. URA Intro
2. PPS: Investment Partner
3. Downtown: Need for Stimulus
4. Downtown Abatement Program
5. Closing / Questions

Mission

To foster sustainable prosperity across all of Pittsburgh.

Vision

Pittsburgh's economic well-being is grown and shared equitably, and all communities are empowered with effective social and financial resources to thrive.

Board of Directors

- **Meet the diverse and talented individuals helping guide the URA forward.**

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PPS LERTA Scorecard Criteria

<u>**Pittsburgh Public Schools requires applicants to satisfy the following eleven criteria for the District to consider participation in LERTA programs:**</u>

1. The project would not proceed without the additional revenue source generated by the tax increment financing or preferential assessment program. Applicant must provide evidence of a funding "gap" that will be resolved only by approval of the preferential land assessment program.

2. The site is considered a blighted area, which blight would be reversed by the project development.

3. The project could generate peripheral improvements not covered under the preferential land assessment program that will generate additional revenue to the District.

4. The project will generate economic development that produces increased economic improvements generating other revenues to the District (i.e. bringing a new major corporate industry into town or the corollary, preventing a major corporate industrial entity from leaving town).

5. There will be no reduction in the amount of revenue, if any, the District currently receives from the site as a result of approval of the program.

6. Any increase in tax millage by the District will be applied to the current tax base and any increment, to immediately increase revenue.

7. The project will attract or retain jobs in the District, which encompasses both the City of Pittsburgh and the Borough of Mt. Oliver.

8. The District will provide no more than:

    1. Sixty percent (60%) of its tax increment for twenty (20) years, not to exceed ten percent (10%) of the development costs for TIF and TRID projects.
    2. Seventy-five percent (75%) of tax increment for ten (10) years, not to exceed ten percent (10%) of the development costs for TIF and TRID projects.
    3. Seventy-five percent (75%) of the tax increment for twenty (20) years for projects with significant value added or multiplier effects for TIF and TRID projects.
    4. LERTA projects are subject to the limitations of Act 76.[1]

9. That the City of Pittsburgh pledge, as part of its financing for a project, increments it receives for certain other business taxes that the City of Pittsburgh levies, but which the District has lost the right to levy, such as parking, amusement, business privilege, occupational privilege, etc. for TIF and TRID projects.

10. For TIF and TRID projects, a one percent (1%) fee of the total bond(s) issued will be assessed as an application fee to cover the District's costs for review of the project.

11. For LERTA projects, a one percent (1%) fee of the total abated taxes each year over the life of the LERTA will be assessed as an application fee to cover the District's costs for review of the project.

PPS: Investment Partner

PPS: Investment Partner Request

The URA is seeking authorization for PPS to adopt a tax abatement program for Downtown:

- PPS and the County could take one-time legislative action to join the City in offering a limited, by-right program for Downtown Pittsburgh.
- The benefit would include up-to a $250K exemption per year, for 10 years, for each of the 3TB.
- If maximized, this could provide a value of $7.5M over 10 years.

This abatement **application window would only be open for 3 years.** This limited availability incentivizes developers to act now, while limiting overall financial impacts to the 3TB.

It would offer the following benefits to developers:

- Exponentially increase the value of the abatement;
- Ease the process for applying;
- Make approvals more uniform and predictable.

Justification for Downtown LERTA:

- Increases the taxes generated through:
  - Realty Transfer Taxes
  - Real Estate Taxes
  - Earned Income Taxes
- Incentivizes investment in Downtown by providing abatements to projects that create new economic value and deliver on necessary public benefits
  - Creation of new affordable housing
  - Creation of new permanent jobs
- Decrease Downtown vacancy rates via increased occupancy and reduction in office product through conversion to new housing units
- Stabilize and increase property assessments

Downtown LERTA Adoption Schedule*

School Board Schedule:
April 25 – First Pre-Briefing to Business / Finance Committee
June 4 – Second Pre-Briefing to Business / Finance Committee
September 11 – Public Presentation to Business / Finance Committee
September 20 – Agenda Review
September 27 – Legislative Meeting & Vote

County Council Schedule:
October 10 – Introduction and referral to Economic Development Committee
October 17 – Economic Development Committee
October 24 – Council Meeting & Vote

City of Pittsburgh Schedule:
Approved

*Tentative, subject to change

Downtown: Need for Stimulus

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Downtown Post-Pandemic Stats

- As of Quarter One 2023, office vacancy rates have remained stubbornly high at **22.8%.**
- Daily foot traffic is down approximately **27%** compared to 2019 levels.
- Downtown employment is approximately **50%** of pre pandemic levels, with **46,000** less average daily workers.
- **Rising** office vacancy rates and **negative** absorption rates indicate continued struggles in office demand.
- Demand for mixed income Housing shows strength- Downtown Conversion Program pilot has **$100M + project** pipeline.

Cause:

- Various anchor corporate tenants Downtown are looking to downsize or relocate.
- 7M square feet of Downtown office space is currently vacant with another 7M square feet that could become vacant from downsizing and relocation of corporate tenants Downtown.
- 59 Downtown office buildings with 21.8M square feet of Downtown office with Commercial Mortgage-Backed Security (CMBS) debt totaling $1.3 billion matures in the years 2023-2032; $433M of this debt matures before 2026.

Effect:

- Increased vacancy will bring significant value loss, reassessment, and therefore real estate tax loss.
- The Downtown office vacancy rate could double to ~40-50% vs. current ~20%.
- Downtown office buildings with maturing CMBS debt will have great difficulty refinancing in a weakening office environment and with existing interest rate pressure at market friendly terms.
- Several Downtown office buildings will be at significant risk of foreclosure over the next 10 years.

Downtown: Need for Stimulus

Current Vacant Building

Leases not renewed for Downtown buildings

↓

Vacancies increase, occupancy decreases

↓

Building owners have decreased cashflow

↓

No taxes generated during this time

Eventual default and/or foreclosure

↓

Long-term vacancy and/or sheriff sale

↓

Building reassessed at a lower value

↓

Decrease in taxes generated

New/Activated Building with 3TB Abatement

Increase in taxes generated

(Realty transfer/Real estate/Earned income)

↑

Building assessed with higher value

↑

Vacancies decrease, occupancy increases

↑

New affordable housing units created (80% AMI or below) and/or new jobs created

↑

Existing building or new project activated through Downtown Abatement program

Downtown Abatement Program

Downtown Abatement Program

One-time, limited, by-right program by all 3TB for Downtown Pittsburgh

Program Summary

- <u>Mirror the City's existing public benefits for an enhanced abatement:</u>
  - Owner-Occupied Residential: 10% of units affordable @ or below 80% AMI.
  - Rental Residential: 10% of units affordable @ 50% AMI or 60% of units affordable @ 80% AMI.
  - Commercial Developments: Net increase of 50 or more full-time equivalent positions.
- <u>The benefit would include up-to a $250K exemption per year, for 10 years, for each of the 3TB.</u>
- <u>Abatement application window would only be open for **3 years.**</u>

Benefit

Powerful tool to help stabilize and strengthen Downtown.

Can be paired with other economic stimulus programs such as Conversion Program and other incentive programs.

Cooperation across 3TB sends strong message and commitment to economic engine of our region.

Exponentially increase the value of the abatement.

Ease the process of applying for the abatement.

Make approvals more uniform and predictable.

Incentivize developers to act NOW, while limiting financial impacts to the 3TB through use of sunset provision.

Downtown Abatement Program

Existing City of Pittsburgh Real Estate Tax Abatement Overview

Exhibit A: City of Pittsburgh Real Estate Tax Abatement Program Overview

Project Type	Abatement Type	Standard Abatement	Enhanced Abatement	Legislation
Owner-occupied residential/for-sale development	Assessment reduction	· 3-year assessment reduction · Up to $175,000 per year	· 10-year assessment reduction · Up to $250,000 per year if: · A residential for-sale or owner-occupied property is in a CDBG-eligible location **OR** · A multi-unit for-sale or owner-occupied development includes at least 10% of units affordable to and occupied by households at or below 80% AMI	Chapter 265
Commercial residential (rental or otherwise not occupied by the owner)	Tax credit	· 3-year tax credit · Up to $125,000 per year	· 10-year tax credit · Up to $250,000 per year if: · 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	Chapter 267
Industrial, commercial, or other business structures	Tax credit	· 3-year tax credit · Up to $125,000 per year	· 10-year tax credit · Up to $250,000 per year if the project creates at least 50 full-time jobs	Chapter 267

- The URA has identified through data at least 18 Downtown office buildings that are actively studying conversion to housing and / or are identified as good or possible success for conversion to housing.
- These buildings represent potential for over 3,000 new housing units Downtown and over 3.6M square feet of converted area from office to housing.
- The Downtown housing market is experiencing strong demand, with 90.6% occupancy rates and an active pipeline of 1,600 new housing units in development.

Questions?

Thank you!