

Report Highlights

Study of the Pittsburgh Development Fund (PDF)

House Resolution 471 directs the LB&FC to undertake a study of the Pittsburgh Development Fund (PDF) as administered by the Urban Redevelopment Authority of Pittsburgh (URA). In 1995, the City of Pittsburgh entered into an agreement with the URA to create the PDF. The URA, a Commonwealth agency authorized to issue bonds to eliminate blight through redevelopment, subsequently issued a \$60 million bond. The PDF Trust Indenture provides that the bondholders are to be repaid from Regional Asset District (RAD) tax proceeds. The City assigned \$6.2 million from its approximately \$20 million in annual RAD proceeds over 10 years and \$7.5 million annually (beginning in 2005) for an additional 10 years to secure the bond. The funds are provided directly to the bond trustee by the State Treasurer.

The PDF has provided over \$100 million in financing for 49 projects. This includes:

- \$16.5 million for 11 loan projects that had been repaid by the end of 2003.
- \$78.3 million for 31 loan projects with loan balances (principal and interest) totaling \$54.2 million. The outstanding loans are typically for 3% to 4% interest over 20 to 25 years, secured by second and third lien mortgages. Such loans repay about \$3.4 million annually.
- \$2.8 million for 4 equity investments to promote minority and female-owned businesses and emerging industries. Thus far, only one has yielded a return, another ceased operation, and another filed for bankruptcy.
- \$3 million for District Improvement Funds capitalized as part of the 1999 and 2001 City Capital Budget. Since most DIF projects were grants, repayment is not anticipated.
- \$1.5 million for the City's 2000 operating budget, though state law does not authorize URAs to fund general city operations.

PDF funds have been used to convert brownfields and other publicly held land to productive use. The PDF has been used to fund 20 projects on former publicly held land which, when fully completed, will increase the taxable value of property in the City from \$0 to more than \$285 million, provide about 1,300 new housing units, and over 1,200 new or retained jobs, including jobs in the chemical, biomedical, technology, steel, and distribution industries. Thirteen of the 20 projects are on brownfield sites and include projects providing "bridge" financing to temporarily cover local governments' and other public authorities' project obligations.

The PDF has been used in the redevelopment of South Side Works. In addition to the 20 projects cited above, the PDF has been an important source of funding for five projects located on the former LTV South Side Works Steel Plant that closed in 1988. The PDF has loaned over \$14 million toward aspects of this development. When fully complete, this effort will increase taxable value of property in the City by more than \$270 million, provide employment for over 5,400 persons, and add 400 new housing units.

The PDF has helped provide funding for 6 Business District projects. PDF loans have been used to help renovate vacant structures to create a 182-room hotel near the new convention center and space for two major corporations to consolidate operations and provide over 4,000 jobs, including at least 1,225 new City jobs. PDF also helped construct the new Lazarus Department Store and Oliver Street Parking Authority Garage and provided bridge financing for downtown business corridor improvements. However, \$13 million of the \$18 million Lazarus and Oliver Street Garage loan remains outstanding, and in 2004 the store will close.

Alternative Uses for RAD tax proceeds. In theory, the RAD proceeds now directed to paying off the PDF bonds could be recovered for the City if an alternative funding source could be found to pay the bond debt. However, such changes would need to be consistent with state URA and local debt statutes, and changes would need to be made to the Trust Indenture, Cooperation Agreement, Intercept Agreement, and Forward Bond Purchase Agreement. The URA, City of Pittsburgh, the 1995 bond trustee and its insurer, and the forward bond purchaser and its insurer would need to agree to these changes.