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RAD and TIF: Not a Happy Combination

The Regional Asset District (RAD) Board recently completed its annual ritual of distributing RAD tax revenue to cultural and recreational assets. The board granted over \$75.7 million dollars in operational and capital funds to support museums, parks, libraries, sports stadiums, and performing groups, among other allocations. The 2004 amount represents an increase of nearly \$500,000 over last year's funding total. Like 2003, the board once again dipped into reserves to achieve the budgeted contribution level.

While more than \$75 million would seem like a princely sum to support culture and recreation in a County with a shrinking population and plenty of private for-profit entertainment options, many grant seekers are unhappy with the fact that the RAD could not fund all the groups or grant "enough" to those receiving contributions. Several recipients that were funded in 2003 did not receive money for 2004. Some board members wanted to give more money to certain organizations that are experiencing hard times, such as the Pittsburgh Symphony.

They should not be surprised that all wishes could not be fulfilled. For one thing, RAD has led to the creation of a large number of groups who depend on tax dollars to keep them going. Then too, the proceeds from the sales tax alone (not counting interest or reserves) has, of late, rarely produced enough money to cover the grant distributions. Is anyone shocked to learn that when money is being given away there will always be more demand than supply?

Why has RAD tax revenue grown slowly over the past several years? After all, construction of retail space has boomed in Allegheny County--much of it assisted by public subsidy. The flurry of mega retail developments in the County in the past few years arguably should have provided the RAD with a substantial boost in revenues.

A huge amount of new retail space has come on line in the past six years. For example, The Waterfront project alone brought over 1 million square feet of retail, entertainment, and dining establishments. That development was the beneficiary of a tax increment finance package that helped develop some of the infrastructure at the site. Soon, the massive Pittsburgh/Frazer Mills (1.8 million square feet), Mount Nebo Pointe in the North Hills (380,000 square feet), and possibly Deer Creek Crossing (1 million square feet) developments will be completed. All three of these projects are being subsidized by tax increment financing.

In reaction to these developments, traditional enclosed malls are expanding their space. Taken together, an additional 8.4 million square feet of space devoted to stores and restaurants was built in Allegheny County from 1998 to October of 2003, according to McGraw Hill Dodge Construction data.

However, all this new development has had no significant impact on RAD revenues. In fact, the largest rise came between 1995 and 1996, when revenue jumped by nearly 14 percent. More recently, tax revenue has languished with no appreciable growth.

Obviously, there is a huge substitution of spending among retail venues in the region. In a slowly growing economy, there is limited discretionary income and the additional retailers must grab market share largely at the expense of established businesses. Thus, as it turns out, the enormous increases in retail space have produced little improvement in sales or sales tax revenues. Confirming the tepid growth in retail sales, jobs data from the state's Labor and Industry Department show that metro-area retail trade employment is actually down by 1,000 from the October 2002 level.

RAD and TIF have each had a decade to play out and have their effects on economic growth and development tested. On balance, it does not appear they have been the stimulus to growth their proponents have proclaimed them to be.

In the case of TIF much of the problem has been misuse. One change that could help TIF perform better would be to drastically tighten up the current overly broad criteria under which an area can be declared blighted. This step would go a long way toward guaranteeing that TIFs can be used only in truly blighted areas and not in green field sites or in upscale malls such as have been proposed. Similarly, the General Assembly could write legislation requiring that only those communities that qualify for Community Development Block Grant funds would be eligible for tax increment financing programs.

Meanwhile, the misuse of RAD funds to build two new stadiums is well demonstrated by the fact that 5 years after their construction began the City of Pittsburgh has filed for distressed status. The extravagant promises that were made about all the new businesses and economic growth that would come to the City as a result of the new stadiums have proven to be as empty as the rationale that a new ballpark for the Pirates would solve the team's financial problems.

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