

***POLICY BRIEF***  
An electronic publication of  
The Allegheny Institute for Public Policy

---

March 6, 2007

Volume 7, Number 10

---

**The Never Ending Saga of the Mt. Lebanon TIF**

How long will the tax increment finance process for a condominium development in Mt. Lebanon drag on? Some on the municipality's commission seem to be losing patience. Despite some reservations, the Commissioners have given the developer another extension to persuade taxing bodies to participate in the TIF plan. Bear in mind this is the second developer to take a shot at subsidized condos on the Washington Road site. The first developer abandoned the project when he was unable to secure private financing.

Presumably the second developer should have learned from the previous developer's mistakes. One would also think the Commissioners might not be as patient this time around. Neither has been the case. The "deadline" for securing tax increment financing has been extended three times since last September and is now set to be June 1<sup>st</sup>. One official noted that "I think it's a wonderful project, but I'm not willing to go on and on and on with it." However, based on previous Board actions, a final plug pulling seems unlikely.

What's the holdup if this is such a great project? Undoubtedly, the delays have been granted to give the developer an opportunity to find a version of the project that will work. The most recent proposal submitted to the Redevelopment Authority of Allegheny County (RAAC) shows that the development has changed since a preliminary plan was submitted in April of 2006. First, instead of 60 condos, 72 are now planned and, second, there will be an additional 5,000 square feet of retail, raising the total to 14,000. Then too, the development will be built in two phases rather than one so the market can be tested before committing to the full development.

The developer is requesting a total of \$6.1 million in TIF bonds for the two phases, of which only \$4.7 million (77%) will actually be available for project costs. The remaining \$1.4 million will be eaten up by fees for issuing the bonds, legal fees, interest, and underwriting. Wonder if this has raised any eyebrows? Moreover, since the \$6.1 million is to be raised in two separate bond issues for the two phases of the project, issuance costs are higher than they ordinarily would be.

Looking at Phase I details reveals that the \$2.7 million in net TIF proceeds from the first bond issue will be used for highly questionable purposes. For example, \$1.1 million will be spent for land acquisition. Surely, the developer should have to come up with his own money to buy the land.

Since the TIF district will contain just 1.71 acres, the \$1.1 million represents an expenditure of \$647,000 per acre—a huge premium for land that by law will have to be declared blighted by the Commissioners. There are three property holders in the district with the key Mt. Lebanon Parking Authority lots valued by the County at \$390,000. If the authority sells at its appraised value, over \$700,000 will remain to pay for the other parcels having a combined value of \$455,000. That's \$1.50 for each \$1 of appraised value.

Phase I also includes the construction of a public park at \$981,202, to be paid for by TIF funds—quite a price tag considering that the “park” is actually “a plaza including landscaping, planters, lighting, decorative pavers, and a fountain for use and enjoyment by the general public and visitors to the first floor retail spaces.” So it is not really a park per se, but a front porch-patio for the retail and condo complex.

That leaves \$631,000 of Phase I TIF proceeds. Over half of these remaining funds will be used for utility improvements, including burying the overhead wires outside the condos and tapping into larger sewer lines, which was done “per the request of the Municipality of Mt. Lebanon”. Then \$64,000 will be spent on creating a turn lane at Bower Hill Road and another \$77,000 will be spent on parking. TIFs are supposed to be used for infrastructure, but in this plan, infrastructure is getting extremely short shrift.

There are other problematic areas in addition to those presented by the Phase I numbers. One, the County is not participating in the tax diversion plan even though the RAAC is the steering agent for the TIF plan. This fact should have told the Commissioners something, as it is very rare for the County to opt out of a TIF plan.

Second, there are questions as to whether the site can be legally declared blighted under the very narrow definition of blight contained in a recently passed state law. While Commissioners might argue that the new law only applies to eminent domain cases where a blight designation is required, it seems unlikely that the Commonwealth would have separate definitions of blight for different purposes unless they specifically spelled them in the statute.

Third, the Commissioners have still not dealt with the issue of prevailing wages that must be paid on TIF projects. Prevailing wages can add as much as 30 to 40 percent to labor costs on a construction job compared to market wages. It is time for Pennsylvania to amend the TIF law to require that two proposals be prepared for each project: one with costs using prevailing wages and one without. In this way local officials can evaluate whether it even makes sense to borrow money that will be used largely to cover bond issuance fees and higher labor costs on the development.

But don't look for the state to make these changes any time soon. Things are actually moving in the opposite direction. Thanks to Pennsylvania's massive expansion in economic development financing, it is possible that the upscale condominium project could qualify for a state TIF guarantee that puts the faith and credit of the Commonwealth into backing \$5 million of the project's TIF debt.

Lastly, there seems to be a reluctance to let the market work. Recall that a few years ago this attitude—that the market would not cure long-standing development problems—nearly led to a TIF going to the upscale Galleria shopping mall. That never came to pass. Today, the much-improved mall is a testament to what can happen when private investment is allowed to operate. Certainly, the officials who argued that nothing would happen at the Galleria without a TIF subsidy ought to be embarrassed. But the ongoing efforts to create a TIF for the condos prove otherwise.

Ideally, using a TIF for the condo project should never have been pursued. If the June deadline arrives and the School Board has not approved the tax increment plan, the municipality should put the Parking Authority's parcels up for auction and let investors and the market decide the best use of the land. Enough is enough.

---

**Jake Haulk, Ph.D. President**

**Eric Montarti, Policy Analyst**

---

*Policy Briefs may be reprinted as long as proper attribution is given.*

*For more information about this and other topics, please visit our website:*

[www.alleghenyinstitute.org](http://www.alleghenyinstitute.org)

<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd. * Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: <a href="mailto:aipp@alleghenyinstitute.org">aipp@alleghenyinstitute.org</a></p>
--