POLICY BRIEF

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Lazarus is Kaput, But Public Subsidies Live On

In the late 1990s the City of Pittsburgh gambled that building a new Downtown Lazarus department store would revitalize the crumbling Fifth and Forbes corridor. To make that happen, $48 million in incentives were used to build the store and a new underground parking garage. On top of that, favorable terms on some of the incentives—such as the store having to achieve very high per square foot sales in order to trigger loan repayments—were awarded to the store's owners that shielded them from paying back portions of the public money.

Predictably, the public's investment went unrewarded and the hoped for retail rebirth did not happen. The store closed for good in 2004. Not dissuaded by the Lazarus and the later Lord and Taylor debacles, a new residential vision for Downtown was created. As part of that vision, a development company (Millcraft) announced it was interested in purchasing the former store for a mixed use project with condos, office space, and street level retail.

With Downtown being described by the then-director of the Urban Redevelopment Authority as on an "upswing" because numerous condo developers were carrying out projects in the area, one would suspect that the developer's project would stand on its own two feet and not require more taxpayer dollars.

The adage of "old habits die hard" has proven to be true as the store's conversion is carried out:

- ***December of 2005***: On the 1st of the month, the head of the private Pittsburgh Task Force, a coalition focused on Downtown development, states "we certainly would welcome the Governor's assistance in the Lazarus Project and financially assisting in its sale and development". (He stopped short of saying that he would like the Governor to seek out and relocate tenants). On the 9th, details of the sale came to light with a sale price of $8.5 million, well below the nearly $60 million price tag of constructing the store. On the 20th, the Governor, while in town to grant PNC $30 million for its new office tower, awards $3.75 million to the Lazarus project.
- ***January of 2006***: The developer finalizes the sale for $8.5 million and agrees to add $2 million to the sale price as a partial reimbursement of $13 million from an

outstanding Pittsburgh Development Fund loan as part of the original incentive package. The development is renamed Piatt Place.

- ***June of 2007***: City Council approves a tax abatement program for new housing in 29 City neighborhoods that would waive City taxes on the first $250,000 of value for ten years. The mayor heralded the move as "symbolic of our effort to prioritize and give incentives for people to move back Downtown…" An official of Millcraft notes that the abatements are a "good start" and that they will "definitely…help us".
- ***September of 2007:*** The Pittsburgh school board adopts the tax abatement plan crafted by the City. Despite a provision in the City and school language that projects situated in tax increment finance districts would not be eligible for the abatements, the condos qualify since they "…will be built atop the building in 'air space' that was not included under the special financing…" according to the sales manager on the project. Note that ten years of abated taxes on $250,000 will come to the tidy sum of $65,000 per unit. That means taxpayers are essentially reducing the cost of the condo by that amount.
- ***December of 2007***: The URA proposes taking over a $1.7 million obligation the developer owes to the Pittsburgh Parking Authority for the purchase of 43 parking spaces in the garage underneath the development. The URA also discusses modifying a $2 million mortgage with the developer so that a program called the New Market Tax Credit can be utilized.
- ***February of 2008***: The URA pulls the trigger on the parking deal and acquires the 43 spaces from the Parking Authority to allow the developer to lease the spaces from the URA at a price of $103,000 per year. The URA decides on this action because "the developer originally had agreed to buy the spaces from the Parking Authority, but later found that adding the cost of the spots to the price of the condos could make the units too expensive". Now the developer can charge the same lease rates as would be charged to the general public, which, as pointed out by a URA official is "…no question that this is an assistance to the redevelopment of the building".

The obvious question for concerned taxpayers has to be, "when does the assistance gravy train end"? It took a massive government subsidy to create a department store. That failed. Now the state, the city, the school district, and the URA have all made moves to make living at the condo development more attractive. It is hard to tell how these actions are any different from the ones taken to make Lazarus a shopping destination.

The episode raises moral issues, especially the URA intervention on parking. Why should people who can afford over $300,000 for a condo be shielded from the cost of keeping their vehicle in a garage—while also getting a substantial tax break? If parking is a scarce commodity, which we know it is given a severe mismatch in supply and demand in the Downtown area, then shouldn't that cost be taken into account in the decision to live Downtown? Alternatively, why couldn't the developer absorb some of the parking space cost by lowering the price of the condos?

Undoubtedly, the pressure political leaders feel to make something work at the Lazarus site is understandably immense. The City took a major hit when the retail vision fizzled. But in their zeal to make the site payoff, they are repeating some of the same mistakes that got them into trouble in the first place. Of course all concerned are extremely confident it will work this time.

What a sad commentary on the leadership of the City. Instead of looking for ways to cut City government and school costs so that taxes for businesses and residents can be lowered, the powers that be keep hoping that subsidizing development will solve the problems. The abatement program itself tells us that the leaders know how important the City and school tax burden is. Why should current residents be forced to continue paying taxes at high levels while people enjoying new Downtown condos get a large tax break?

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