ALLEGHENY INSTITUTE FOR PUBLIC POLICY

January 29, 2014 **Policy Brief: Volume 14, Number 5**

Has the Mt. Lebanon TIF Saga Finally Ended?

For more than a decade developers have been attempting to develop a prime piece of real estate on the corner of Bower Hill Road and Washington Road in Mt. Lebanon. The parcel, once owned by Mt, Lebanon's Parking Authority, appears to have run out of proposals—more accurately, funding—and will sit vacant a while longer.

The Institute has followed the iterations of projects for quite some time (*Policy Briefs, Volume 7, Number 10 and Volume 10, Number 17*). In 2002, the proposal was to build high-end condos at the site, when private funding was not forthcoming, that developer withdrew. A new developer, Zamagias Properties, stepped in with a new plan in 2006—60 high end condos with 9,000 square feet of retail space. The twist this time was the appearance of a tax-increment financing (TIF) package. The municipality and school district accepted the TIF, but the County—who helped broker the TIF—did not. Once again the private financing did not materialize and changes were made to the plan which increased the number of condos and retail footage to 72 and 14,000 respectively. A new TIF of $6.1 million was approved, and again the County declined participation.

In the latest effort the TIF was used to back a $3.69 million loan from the Department of Community and Economic Development's Commonwealth Financing Authority (CFA). It was claimed at the time that the public money would unlock private financing. Of course this was in 2007 just before the financial collapse and the start of the great recession. Once again the private money, based on selling 25 percent of the units, did not appear and the project was scrapped by early 2010.

Zamagias' most recent development proposal for the site, townhouses, was denied by the township's zoning board when the developer sought exemptions from part of the zoning code. According to a news report, the developer went into default in early 2013 on the CFA's loans used to acquire the property. The State and its taxpayers are left picking up $1.78 million in loan guarantees while in a supreme irony the developer gets to keep the land.

This was clearly a terrible and misguided misuse of the TIF development tool. First, TIF's are to be used for blighted areas. By any measure this corner of Mt. Lebanon did not meet any reasonable definition of blight as laid out in the state law. Second, TIF's have a "but for" requirement. That is to say the project would not be financially viable without the TIF funds. Such a requirement was never put forth by the municipality. Third, TIF's were never intended to be used for residential and retail developments. TIF's were intended for high value added, high multiplier activities such as manufacturing that could create new jobs for the community and generate enough benefits to justify taxpayer investment.

Furthermore, if a TIF is granted, the project becomes subject to the state's prevailing wage law. This implies that the price of labor becomes the union rate which can increase the labor costs of the project by up to 30 percent. The value of the TIF can easily be consumed by the higher wage costs.

This episode should stand as an example to other municipalities who wish to venture into the economic development business. Presumably, none of the projects presented were economically viable by private sector standards, therefore the public sector should have been very wary about getting on board. Surely, there are developers who can devise viable plans for the site with no need for public funding.

Since the developer defaulted on state backed loans, yet still owns the property, any tax generated by any new development on that site now goes to the state to pay off the debt at least until the original TIF designation on the property expires in 2027. The municipality and school district will not reap any benefits unless the property is developed and throws off significant tax revenues. Had the municipality simply sold the parcel off to the highest bidder and used the zoning process to guide development, they would already be enjoying an expanded tax base instead of staring at a still vacant lot on their main thoroughfare.

Frank Gamrat, Ph.D., Sr. Research Assoc. **Jake Haulk, Ph.D., President**

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org