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Redeveloping the Lower Hill

Late in the summer, the Mayor of Pittsburgh announced that he wanted to establish the largest ever Tax Increment Financing district (TIF) in the City of Pittsburgh's history. The proposed TIF will stretch from the Lower Hill through the Upper Hill to the City's Oakland neighborhood—in all seven neighborhoods are anticipating benefits.

The centerpiece of this TIF project will be a plan for the redevelopment of the 28 acre parcel of land where the Civic Arena once stood—a plan that was finally agreed upon by all parties involved, including the Pittsburgh Penguins, the Hill District community, and local government leaders. According to the spokesperson for the Urban Redevelopment Authority (URA), formal resolutions of Intent to Participate will be sent to the three taxing bodies involved beginning in November. If approved, which is a strong possibility since the Mayor and County Executive pushed for the plan, a TIF Committee will be formed and the TIF Plan will be created. They are forecasting this to be completed sometime mid-2015.

The redevelopment project will be placed in the hands of the Pittsburgh Penguins as per an agreement which awarded them their new home in 2007. Naturally, the officials and community leaders involved are lauding this plan as they are projecting that a twenty year TIF from this development will generate a minimum of $22 million to perhaps as much as $50 million to be used for public improvements in the other six neighborhoods. The problem for analysts is that it is unknown as yet how much of the TIF funds will be used on the original 28 acre site. And, the total amount of TIF borrowing has not been specified and the details of the plan have yet to be released to the public—but should be before the taxing bodies agree to participate. Presumably, total TIF borrowing will be above $50 million.

According to the URA, who will be involved in the project, the TIF proceeds will help with "public improvements in support of commercial and/or residential development", along with housing in the area, both for sale and rental properties, property stabilization to repair and preserve structures, and neighborhood parking solutions. In a full length report from 1999, Report 99-06, we wrote, "a TIF project allows for "public improvements in a slated area (to be) financed by the increase in property taxes generated by private development." It is used in a blighted area where property tax receipts are flat or declining. A bond is issued for the project. As the development takes place, property values rise as do the subsequent property tax revenues.

In order for the TIF to proceed, a government body must issue a bond for the specified plan amount. That is, the money is borrowed up front and repaid over time from the increment in tax revenue. However, if the development fails to generate enough of an increment in property taxes to satisfy the debt issue, taxpayers could then be on the hook for the bonds, or bond insurance would pay, resulting in a down grade of the issuing body's credit rating. Either way the sponsoring government would suffer from the default. The Department of Community and Economic Development does offer a guarantee program for TIFs that guarantees $5 million per project. However, this program is not available for projects located within cities of the first or second class, thereby excluding Pittsburgh.

One glaring example of a City TIF project gone awry comes to mind—the Lazarus department store. As was noted in our 1999 report, the Lazarus project failed to deliver the promised increase in property taxes. Of course, fifteen years later, Lazarus is sadly but a distant memory for most Pittsburghers and development officials.

But of course the Lower Hill development is different from the Lazarus project, especially in the scope of the project. It encompasses property that has not been paying property taxes as the Civic Arena was owned by the City-County Sports and Exhibition Authority. Thus, there isn't a base amount of property taxes being collected. Instead the agreement entered into by government and community leaders is that the resulting property taxes generated from the development will be split between the taxing bodies (35 percent) and the bond repayment (65 percent). While highly doubtful, it is still possible that one or more of these bodies, school district, City, or County, will decline to participate—most likely it would be the school board since, as mentioned above, the Mayor and Executive were involved in the negotiations. However, the County did decline to participate in a retail/residential development in Mt. Lebanon, which never got off the ground and the municipality relied on DCED's guarantee program, i.e. the taxpayers, for reimbursement. Indeed, the County had taken a position not to involve itself in residential TIFs several years earlier.

But does the project meet the letter of the TIF law? According to the TIF law, the project's main intent should be to remove blighted areas. The Lower Hill, Crawford Roberts, the Bluff, and Greater Crawford Roberts districts were designated as blighted years ago and, under the original Urban Redevelopment Law of 1945, that designation has not been removed (Act 35 of 2006, which amends that law, set a twenty year time limit on such a designation going forward). Secondly, TIFs have a "but for" requirement. That is, the project would not be financially viable without the TIF funds. With real estate overlooking the Downtown area, it is hard to believe that a private developer would not jump at the chance to develop these 28 acres without government subsidies. Finally, and perhaps most importantly, TIFs were envisioned to be used primarily as a means to promote developments targeting high value added, high multiplier activities and jobs such as manufacturing that could create family sustaining jobs for the community, renew blighted areas with economic vitality and generate ample long term benefits to justify the taxpayers' investment—not for retail and residential development, which is the crux of the Lower Hill plan.

For the residential portion of this plan there is a further complication for the TIF, or at least the size of the TIF. The previous mayoral administration created tax incentives to lure residents into the Golden Triangle. There are three programs from which potential buyers can take advantage; whether or not they will be extended to condos/residences in the Lower Hill will have to be determined, but on the URA website they acknowledge "parcels that developers choose to use the abatement or economic stimulus program on would have to be removed from the TIF district, removing potential TIF proceeds and requiring formal action by all three taxing bodies."

Keeping in mind that since public money will be used, prevailing wages will have to be paid on the entire project. Prevailing wages will increase the labor cost of the project significantly above what market wages would cost. A recent study conducted on behalf of the New York State Economic Development Council noted that statewide the average increase in project costs due to prevailing wages was 36 percent with a range of 23 to 52 percent in the state's metro regions. While, the Pittsburgh percentage of increased costs has not been determined through detailed study, it seems reasonable to believe it is at least 20 percent, which would put the cost extra cost of the forecast $400 million in construction on the site at $80 million.

As mentioned earlier, the original intent of TIF was not to support retail or residential development, but rather manufacturing or other high value, high multiplier projects. The City has not had much success with retail TIFs; Lazarus, immediately comes to mind, and even the Southside Works has had its struggles with retail as several stores have turned over in its short existence. Interestingly and somewhat ominously, the economic analysis completed on behalf of the team, commented that "retail provides a challenging environment" and that on-site residents "do not typically generate demand for substantial new retail space." So why are they so eager to go down this path? This 28 acre site represents a great opportunity for the City of Pittsburgh. The best thing government officials can do is get out of the way. The team was already provided an excessively sweet deal by getting development rights to this area. Let them pay market value for the lots and develop them as they see fit—and use their own money, not taxpayer money.

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