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The continuing saga of the Pittsburgh Mills TIF

Summary: In late September, the owner of the Pittsburgh Mills mall staved off a sheriff's sale of the property by coming up with $11.5 million in owed back fees. While this chapter may have closed, it's worth revisiting the saga of the tax increment financing (TIF) plan that started it all and how the mall began strong but faded quickly and became a stark warning against the public financing of retail.

Background

The Institute has written several *Policy Briefs* on the topic of TIFs, in general, and the Pittsburgh Mills development, specifically.

Policy Brief, Vol. 16, No. 41, noted that as the construction of a project using a TIF is finished, any increase in tax value that has been created will be diverted to pay off the bonds that were issued to fund the project. The taxing body retains the original amount of the tax value.

In the case of Pittsburgh Mills, before the development began, the property was valued (in 2002) at $1.3 million and the three taxing bodies collected $38,918. Allegheny County collected $6,242, Frazer Township collected $2,063 and the Deer Lakes School District collected $30,613. After the development was completed, the mall was built for $226 million while the entire project was completed for $350 million. The property was assessed in 2006 at $215.13 million, the mall itself was $190 million of the total and the amount of taxes now owed was $6,290,297. The increment was $6,251,379, which was to be used to retire the bond issued to facilitate the development.

The project issued a $50 million TIF bond in 2004 to be retired in 2023. It also received another $8 million (not part of the TIF) in public assistance, presumably for infrastructure improvements. However, both Allegheny County and Frazer Township each agreed to keep 25 percent of their respective increments and Deer Lakes agreed to keep 20 percent of its increment.

Allegheny County's tax owed jumped to $1,008,943 for an increment of $1,002,701. Frazer Township's amount jumped to $333,446 and Deer Lakes to $4,947,908. If the three taxing bodies did keep some of the increment ($1,325,179 in total) and deducted the original tax bill ($38,918), there would still be $4,926,200 to retire TIF bonds. In 2006, the debt service payment was only $2,729,850. Even with administrative costs and a $500,000 public safety payment to Frazer Township totaling $581,312, the payment of $3.31 million was easily covered by the increment.

All seemed well.

However, the main problem with a TIF is what happens when the value of the property begins to fall and the amount of the increment collected is no longer able to cover the repayment of the bond.

For Pittsburgh Mills, it happened when tenants began to leave. In 2012 it was reported that the mall's occupancy rate was 85 percent. By 2016 it had fallen to 58 percent. The assessed value of the entire project increased to $237.59 million. But the assessed value of the mall had fallen from $190 million to $138.36 million. But in 2016 the market value was reported to be just $11 million and the mortgage holder foreclosed. Ancillary buildings in the development also began to close (Sears and Smokey Bones). The balance on the $50 million bond stood at $33.16 million as of December 2015.

The ability to repay the bonds became a question.

Neighborhood improvement district backstop

As was noted in *Policy Brief, Vol. 20, No. 10*, in 2002 the project planners inserted a Neighborhood Improvement District (NID) as a backstop for the TIF, should the increment not be sufficient to make the bond payments (in addition to having any overages placed in a reserve fund). The NID was to be levied in any given year if the TIF revenues were insufficient to cover the bond debt repayments.

As the vacancies mounted, the property owners began to appeal their assessed values, which had a major impact on the retail development, including the mall. As that *Brief* noted, during 2018-20, 25 of 37 properties appealed their assessments. Twelve had lower assessed values in 2020 than in 2018. This included the mall itself, whose value fell from $138.4 million to $14.1 million, which is the current assessment as of 2023. The current owner bought the mall in 2018 for $11 million.

As a result of the appeals, the overall project's assessed value fell from $235.8 million to $91.1 million. In 2018 the amount of revenue collected from the increment in value of the project was $6.46 million. In 2020, after the appeals, that had declined nearly two-thirds to $2.47 million. A 2020 NID report noted the NID payment for 2019 was $4.6 million. The TIF couldn't cover the required bond payment.

According to the Redevelopment Authority of Allegheny County's (RAAC) audited financial statements for 2021 (the most recent available), the TIF bond outstanding on Pittsburgh Mills development was $19.18 million. This represented 64 percent of the RAAC's total bonds outstanding of $29.97 million.

As mentioned above, the TIF bonds were to be retired in 2023. Perhaps the $11.5 million in special NID assessments levied on the mall owner represented the final payment to retire the debt.

Conclusion and recommendations

The fate of the mall remains a question. While the mall's owner made the payment to avoid the sheriff's sale, it still must contend with a currently reported vacancy rate of 75 percent. No doubt, local officials will be watching what the current owner does with the property.

But what is not in doubt is that no more public money should be invested in any plans involving the mall going forward. As we noted years ago, in *Policy Brief Vol. 4 No. 3*, subsidizing retail does two things: First, it shifts consumer spending away from established retail to the new project, often leading to the closing of established, non-subsidized retailers. And secondly, it subsidizes an industry with little or no multiplier effect for the economy.

The project did meet its TIF obligations for a while and each of the three taxing bodies did have an increase in real estate tax revenues as they each took some of the increment due to the higher assessment. But two decades later what will become of the mostly vacant, underperforming mall? The area is already seeing what happens when a mall owner no longer maintains the property and leaves the structure to rot (Century III mall). Will the same fate await Pittsburgh Mills?

This project provides a stark warning to economic developers that wish to use taxpayer money to subsidize retail. It is an unwise development strategy and one that taxing bodies may regret decades later.

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