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Mt. Lebanon Condo Plan Falls Through--Again

Mt. Lebanon's controversial condominium project known as Washington Park, to be built on property formerly owned by the municipality's Parking Authority, has officially fallen through. Officially, because the developer, Zamagias Properties, sent a letter to municipal officials asking to reapply for a different project on the same site. After years of tortuous efforts by elected officials to put high end condos on the site, municipal and school district taxpayers now have nothing to show and years of forgone tax revenues that might have been collected if the site had been sold to a developer without a bunch of strings on the development.

A brief history of Washington Park: In 2002, developer Bill Bannow proposed building high-end condos at the site. After being unable to secure the necessary private funding, this developer withdrew from the project. Zamagias Properties then stepped in and outlined a new plan in April 2006 calling for 60 high-end condos with 9,000 square feet of retail space to be built all at once. A tax-increment finance (TIF) package was put together and accepted by the municipality and school board, but not the County—who eventually helped to broker the TIF.

However, private funding was not forthcoming for the original plan so the developer then made changes to the project, ostensibly to satisfy private lenders. The number of condos and retail space was increased to 72 and 14,000 square feet respectively. A new TIF, for $6.1 million, was approved, and once again the County declined to participate. The development was to take place over two phases with an anticipated completion date of August 2009. To have completed Phase I by August 2009, would have required the project to be underway by early 2008, well before the financial crisis. Phase I was to create 46 condos and 8,600 square feet of retail while Phase II called for an additional 26 condos and more than 4,800 square feet of retail. The first part of the TIF financing was to be used for land acquisition, the construction of a public park, utility improvements, creating a turning lane, and parking.

The project even received state approval as the state Department of Community and Economic Development (DCED) agreed to guarantee $5 million of the TIF through its Commonwealth Financing Authority. The DCED claimed the public money would unlock $36.3 million in private matching funds for this project. According to the DCED, a note authorizing the guarantee for the financing was closed in December 2007.

Once again, while the public money was in place, the private money was not. Private financing would be released only after the developer was able to sell 25 percent of the units. At condo prices ranging from nearly $300,000 to more than $1 million, the market demand was not sufficient to reach the sales requirement. Thus, tangible work on the site never began despite the claims that "soft" work such as engineering and surveying, was being done. The lot remained empty, with the exception of a lone sales trailer.

The trailer should be gone soon and all that will be left of this fiasco are questions and reminders of why the scheme was flawed to begin with.

First, does the approved TIF funding disappear until a new project is drawn up and approved? Bear in mind too that major criteria for using TIFs were side stepped or finessed by the municipality and its advisors. TIFs by law are to be used for blighted areas. Clearly, the area in question did not meet any reasonable definition of blight as laid out in state law. Second, TIFs have a “but for” requirement. That is, the project would not be financially viable without the TIF funds. The municipality never offered evidence that the “but for” provision was met. Third, TIFs were never intended to be used for residential and retail developments. TIFs 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 the taxpayer investment.

It is also important to remember that TIF funded projects require the use of prevailing wage labor, which, in turn means the union labor rate. Research shows the prevailing wage requirement can add as much as 30 percent to the labor cost of a project, more than enough in many cases to use up the TIF dollars in the project. In other words the use of TIF is a way to create union construction jobs more than it is a way to get projects started.

The developer has expressed an interest in “reviewing alternatives” for the site. Will they replace the mixed use of residential/retail with something else? The TIF was approved for the condo/retail project so any new project might need to apply afresh for a new TIF.

Which begs an even more important question: why should the public underwrite *any* type of economic development in Mt. Lebanon? The publicly owned parcels should have been auctioned off to the highest bidder who, within the limits of the zoning laws, should have been allowed to build whatever development they deemed most appropriate. Local officials have insisted over the past decade or so they knew what was best and tried to direct the development to meet their specifications instead of letting the private market work. This interference has cost the municipality, school district, and County years of lost property taxes. They are back to square one having lost years of the fruits of development that could have been produced.

The final and key question: After the Galleria TIF fiasco and two embarrassing Washington Park episodes, why has it not dawned on Mt. Lebanon’s commissioners that perhaps they need to get out of the development business and allow the private sector to drive development? Some lower tax rates would also help, especially the punishing school tax. Of course the Allegheny Institute has been making these points for nearly ten years.

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