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A LOOK AT PITTSBURGH'S KOZ PROPERTIES

When the Pennsylvania General Assembly passed legislation to allow for an expansion of the Keystone Opportunity Zone (KOZ) program, which removes most state and local taxes on distressed and abandoned property in order to stimulate development, the state's second largest city decided to participate. Pittsburgh passed on the initial round of the program in 1999 when the school board objected to the potential loss of real estate tax dollars under the program.

Pittsburgh is a part of the Southwest KOZ, which since the inception of the program has attracted 12 projects that have led to the creation of 147 jobs, and has seen a significant amount of development. Most recently, a site in Fayette County was selected as the newest location for WE Motors', a multinational manufacturer of electrical motors for industrial applications, warehouse operations.

The City designated nearly 15 acres of property in the neighborhoods of Homewood, the Hill District, Hazelwood, and several others. Those parcels were approved by the Department of Community and Economic Development as part of the year 2001 expansion of the program.

Counties in the Southwest KOZ

*Allegheny, Beaver, Butler, Fayette, Greene,
Indiana, Washington, and Westmoreland*

Pittsburgh's expansion KOZ strategy both mimics and departs from that of other Pennsylvania cities (York, Scranton, Philadelphia, Reading, etc.) seeking to redevelop property through the program. Like those cities, the designated properties in Pittsburgh include a mix of residential and commercial structures, some privately owned, others owned by public entities to minimize the tax loss. Similarly, the expectation is that the public parcels may revert to private (and taxable) ownership. Also, some parcels are still occupied, while others are abandoned and barely standing. Lastly, like its urban counterparts, all of the properties either have the necessary utility infrastructure (water, sewer, gas, electric) on the site or ending at the street directly in front of the property.

Yet Pittsburgh is different in that it has included far more residential property (nearly 20% of all parcels) than other cities around the state participating in the expansion KOZ. Most of this residential property is located in the city's Homewood and California-Kirkbride sections and most are tax delinquent and/or are out of compliance with building codes. The incentive for the owners of privately-held properties to rehab the structures is that the tax abatements and credits of the program will not kick in until those problems are remedied. Another difference, at least at this stage of the planning process, is that unlike plans in other cities, Pittsburgh wants the KOZ program to help rehab the housing and for it to remain residential rather than converting it to commercial use.

KOZ Parcels in City of Pittsburgh

- Total Number of Parcels--175
- Privately-Held Parcels--57 (32%)
- Publicly-Owned Parcels--118 (68%)
- Annual Tax Loss from Private Parcels (to City, County, and School District)--\$45,073
- Tax Benefits End in 2010

To be sure, there are big job-creation plans for some of the properties: a grocery store and other commercial development in the Hill District, a health service facility on Mt. Washington, and technology office space in East Liberty. Many of these larger sites bring with them environmental problems that the tax incentives may offset. And that is exactly what the KOZ program was intended to do from the outset: to provide incentives for development on problematic sites, not on prime real estate.

Pittsburgh's participation in the KOZ program may lead to significant redevelopment in the near term in some of the City's more distressed neighborhoods. Philadelphia experienced considerable success during the first two years of the KOZ program. It landed the largest single job-creating project in the KOZ program with the TJMaxx distribution center project, creating 1,100 jobs. There were also 38 job-creating or job-retaining KOZ projects, the most of any city in the Commonwealth. Based on this success, the City of Pittsburgh will hopefully be able to experience similar economic development on its KOZ properties.

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