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Tax Increment Foolishness

What is the world coming to? The new owners of the upscale Galleria Mall in Mt. Lebanon are seeking a blight designation of the area in order to qualify for tax increment financing. These funds will be used to redevelop the mall's parking garage and redesign an intersection leading to the mall.

Continental Real Estate, the developer of the Homestead Waterfront and future developer of the land between the City's new stadiums, recently purchased the mall for $17 million, nearly half of its 1999 asking price. Now they want the Mt. Lebanon Planning Board to examine conditions at the mall and the surrounding area to see if they constitute blight and thus warrant the extension of the finance package.

The basic conditions study prepared on behalf of the developer and the municipality notes several alleged indicators of blight. These indicators are not hard to find; the 1945 Urban Redevelopment Law, which defines blight criteria, is so broad that almost any site, including quite valuable land, can be declared blighted and subsequently become a tax increment finance district.

According to the study, the Galleria is plagued by a defective building design that is evidenced by the deterioration of the 1,220-space parking garage. The street layout is considered faulty, a product of a misaligned intersection on southbound Route19 and the lack of clear signage marking the entrance to the mall. They also note a restrictive covenant, which dates back to 1968, that has limited the expansion of the mall. The basic conditions study points out that this restriction "limits the commercial viability of the property". According to their analysis, any decline in market values of the site indicates an undesirable use of land and all of these factors contribute to the inadequacy of the area's planning.

Consider the condition of the garage: much of its problems stem from what seems like neglect. Corrosion to the ramp and poor drainage seems to be the two main culprits of the garage's present condition. But it is not owned by a public authority and does not provide parking for a larger commercial area; therefore, the onus of maintenance and repair should lie with the owner of the mall.

The decline in store occupancy is a non-issue in relation to a blight determination: most accounts point to the high rents, not poor planning or access, as a primary reason for empty stores at the mall.

And many communities have restrictions on the size and design of commercial establishments. The deed restrictions, which limit expansion of the mall and signage on the throughways, were in place when the purchase of the mall was made.

It is important to bear in mind that the Galleria was valued at $32 million through much of the 1980s when it was a Kaufmann's department store and before it was converted to a mall. The exterior of the building and the parking garage, as well as the ingress and egress at the mall are essentially the same now as then. What makes the current situation different? The difference is that Pennsylvania now has a tax increment finance law (passed in 1990) that allows developers to borrow public money to redevelop sites. This financial tool has been used to eradicate true blight--environmental contamination on industrial sites or housing/commercial structures in violation of health or building codes that pose safety or fire hazards--but it has also been used inappropriately in areas that are not in economic distress.

So is the Galleria worthy of receiving up front money that will be paid back by a future stream of tax dollars in order to fix up the site? No. With the exception of traffic flow and road design, the problems at the site are more likely the result of poor private decision-making and should be solved by private, not public means. To the extent that the restrictive covenant is the source of the mall's problems, that could be overcome by the developer negotiating with property owners in the area to acquire additional space in order to improve the site.

The decision by Continental to redesign the mall and try to make it more competitive is admirable and typifies the private sector activity this area needs. What the area does not need is more public debt that is incurred in the name of so-called "public improvements" that are really subsidies to private business.

Finally, we note that the use of tax increment financing to subsidize retail activity is not economically justified. There are no appreciable multiplier effects and most of the jobs created are low paying entry-level positions. Tax increment financing was intended for genuinely blighted areas in need of an economic boost. It was envisioned as a tool to generate industrial type employment with strong multiplier effects and high, family supporting wages. The County has rethought its criteria for approving tax increment proposals. It is time everyone did.

Eric Montarti, Policy Analyst

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www.alleghenyinstitute.org

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