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PDF—R.I.P.?

Created by using a loophole in the law that established the Regional Asset District tax, the Pittsburgh Development Fund (PDF) has had a checkered and controversial history. Indeed, it is probably time to terminate the fund's operations.

The City and its eagle-eyed attorneys found the City was not expressly prohibited from directing a portion of its share of the RAD tax revenue to pay off bonds issued for economic development projects. Bear in mind the intent of the RAD legislation was to provide funding for regional assets like the zoo and provide municipalities with funds to be used to lower the burden on taxpayers. But, legislative intent was not a deterrent to the City's attorneys finding the loophole.

The City issued $60 million in bonds and dedicated $6.2 million per year of RAD tax revenue for 10 years and $7.5 million per year (starting in March 2005) for an additional 10 years to repay debt and interest. The proceeds were turned over to the URA to be used to underwrite development projects. Incredibly, according to the recent report of the Commonwealth's Legislative Budget and Finance Committee, paying off the bonds would currently cost $60 million.

How has the fund performed? The report states that the fund has been stellar in achieving certain regional economic goals. But that ignores the fact that many groups and various other sources of public subsidies are often involved in these projects as well. Thus to attribute any and all "success" to the existence of the PDF would be incorrect. Then too, many of the job benefits often came about by simply transferring jobs from other locations in the County to the City, thus resulting in no net benefit. The involvement of the PDF in middle- to upper-income housing developments further casts doubt on the ability of the private sector to function without interference in the City.

Since 1995, the PDF has disbursed funds totaling $106.6 million for 49 projects. Of those, 31 had outstanding loans at the end of 2003 that stood at $55 million. If the PDF is judged on its biggest allocations, it does not fair well. We now know that its largest loan—$18 million to Lazarus in 1995—will not be paid as the store is closing and never achieved the performance measures necessary to trigger repayment. In many cases, the URA tied repayment of a loan to performance measures. Who knows how many more of these loans will have a similar fate?

Thus, the question turns to the likelihood of the fund being liquidated and the revenue streams supporting it returned to the City as another source of money for its operations. Clearly, there is reluctance to make such a move on the part of the URA. Its officials and the study's authors acknowledge that the outstanding loans would only bring in about $16 million on the open market. How can $55 million in outstanding loans have a market value of only $16 million?

With the market value of the outstanding loans less than half of the portfolio's book value suggests that the URA is not a shrewd investor. In fact it is time to strip them of their "banking" duties.

With the City in financial peril, the PDF needs to be dissolved. One way to accomplish this would be for the URA to sell off $60 million of its assets to retire the PDF bonds. Our examination of tax-exempt property in the City of Pittsburgh showed that the URA owned over 1,800 parcels at an appraised value of $150 million. Selling $60 million of these properties would take care of the bond issue which would accomplish two things: 1) it would allow the RAD revenue stream—$6.2 million this year and $7.5 beginning next--to flow to the City; and 2) it would relieve the City of $60 million worth of debt. Furthermore any repayment of PDF loans—estimated at $3.4 per year—could be diverted to the City to aid in its recovery. This plan would provide the City with new revenues of $11 million per year.

The Pittsburgh Development Fund is a blatant misuse of taxpayer dollars. The City was supposed to use its share of the RAD funds to assist in tax relief, not economic development. The PDF is a telling example of how the City viewed their share of the tax. Instead of following the spirit and intent of the RAD law, the City saw a sliver of wiggle room, took it, and now has tied up a significant share of its RAD money well into the future when it could be better used for other purposes.

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