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The URA--A Dose of Reality

The Legislative Budget and Finance Committee recently released a study of the Urban Redevelopment Authority's use of the Pittsburgh Development Fund. The LBFC interviewed URA officials and beneficiaries of the fund and issued its finding that the PDF is a positive use of tax dollars. Based on this report State Senator Jay Costa has claimed that critics of the URA "could not attack the facts" of the PDF's success. We would like to take the Senator up on his challenge.

First, the City used a portion of its allocated RAD tax revenue—originally designed to lower the burden on municipal taxpayers—and created the Pittsburgh Development Fund. The City issued $61 million in bonds and has dedicated $6.2 million per year of RAD tax revenue over the past ten years to service the debt. After a decade into the life of the loan and $62 million in RAD payments later, the LBFC claims that paying off the bonds would still cost $60 million. Starting next year, ten additional payments of $7.5 million per year in RAD revenues will be required to repay these bonds.

Secondly, since 1995, the PDF has disbursed funds totaling $106.6 million for 49 projects. At the end of 2003, there were 31 outstanding loans with a book value at $55 million. Judging the PDF on its biggest allocations it does not fare well. We now know that its largest loan—$18 million to Lazarus in 1995—will not be repaid as the store has closed and never achieved the performance measures necessary to trigger repayment. Many other loans have repayments tied to performance measures. How many more of these loans will have a fate similar to Lazarus?

Apparently very many; URA officials and the study's authors acknowledge that the outstanding loans would bring in only $16 million on the open market. How can $55 million in outstanding loans have a market value of only $16 million? Only if it is a very poorly managed portfolio.

Finally, subsidizing retail projects like Lazarus, Lord and Taylor, and the Southside Works merely shifts spending around the city and county while creating unfair competition for existing taxpaying retailers. Just imagine what subsidized retail at the Southside Works will do to the establishments on Carson Street, downtown, Shadyside, Oakland, and other communities. What type of net new jobs will be added, if any?

Projects like Lazarus and the Pittsburgh Technology Center are questionable on two grounds: first, they never lived up to the expectations of jobs promised—Aristech (Sunoco) and Cellomics have furloughed large numbers of their workforce, while Union Switch and Signal simply consolidated employees from around the county. Secondly, much of the property tax revenue is being diverted to repay TIF bonds.

Senator Costa claims that the URA and the PDF have achieved certain economic objectives of the City. He 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 jobs claimed came about by simply transferring jobs from other locations within the City and County, resulting in no net benefit to the County since PDF is financed by RAD funds, which come from the extra 1 percent sales tax in Allegheny County.

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 fund questionable economic development projects. The large sums of public money spent by the URA through the PDF will never be recovered through the small increases to the property tax revenues since much of that revenue is going toward repayment of TIF bonds and there are few net new jobs being created by these projects. It is time to liquidate assets of the URA, pay off the PDF bonds and return the RAD money to the City.

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