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The Lazarus TIF--The Start of Something Bad

Federated Department Stores' decision to close the downtown Pittsburgh Lazarus-Macy's confirmed what we have long argued: Subsidizing retail is an unwise development strategy. Tax Increment Financing, or TIF, is one of the funding tools in the Lazarus project. Since the Lazarus project, Allegheny County municipalities have latched on to TIF schemes to help fund retail development projects. This is a wrongheaded strategy that has failed in its first major test.

In an Allegheny Institute report "A Primer on Tax Increment Financing" (1999), it was argued that awarding a TIF to a retail development is ill advised because retail is an industry with little or no multiplier effect. "Retail development produces low-wage jobs and minimally serves other connected businesses. In this TIF project (Lazarus), service industry jobs previously located in the area were eliminated and were replaced with more service industry jobs (13)."

The cost of the new store and garage totaled more than $70 million, with anticipated property taxes from the new store to reach $978,000 per year, $446,000 of which would be used to repay the TIF borrowing. However, the store was later valued at only $26.5 million and is producing only $800,000 in property taxes—far short of the amount needed to make the TIF debt service payment.

To meet the $70 million price tag, the URA contributed an $18 million loan from the Pittsburgh Development Fund while the City contributed $5 million from its own coffers. Lazarus did not have to make payments on the $18 million loan until annual sales reached $41 million. The highest sales total reached was $22 million. Furthermore, the Lazarus store was expected to create 260 new jobs. At the time of the closing announcement, there were only 115 employees.

Despite warnings from the Allegheny Institute, the Lazarus project quickly became he blueprint for using TIFs to fund retail all around the County. By using TIF for retail, the URA broke new ground in subsidizing retail development and has been widely emulated around the county. TIF plans for retail include malls in Harmar Township (Deer Creek Crossing), Frazer Township (Frazer Mills), Homestead (The Waterfront), and Ohio Township (Mt. Nebo Pointe). Unlike the City's development of the Lazarus store, which had replaced existing businesses and relocated jobs, these projects are primarily located in green spaces (except for The Waterfront which is on an old mill site). The only community to shun the use of a TIF for retail was Mt. Lebanon where the school board had the courage to turn down a plan for the Galleria Mall.

All of these projects have a common thread: They offer taxpayer-subsidized competition to existing retailers and a shifting of consumer spending from one part of the county to another—including away from the city. As a result the URA may have sown the seeds of Lazarus's demise by introducing a new subsidization scheme that has sparked a flood of retail development in the suburbs. Presumably, some of these projects would not have been undertaken without a TIF. After all, one of the criteria for receiving a TIF is that the project would not go forward absent the TIF.

Whether or not these suburban projects will become long-term successes remains to be seen. However, their existence has undoubtedly helped seal Lazarus's fate by siphoning off current and future sales that might have come to Lazarus downtown. This is not to argue that Lazarus would have been successful if the other retail development had not occurred. Lazarus downtown was a long shot for a number of reasons. Furthermore, by helping to launch a retail building surge, the use of TIF at the downtown Lazarus has probably also hurt other downtown retailers.

Unintended consequences can be very unpleasant. Those who choose to ignore market trends, demographic trends, and sound economic principles should not be surprised when things go badly wrong.

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