

POLICY BRIEF

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Getting Soaked in Deer Creek

Nearly five years after it was first proposed and following a lengthy legal battle over its environmental impacts, it looks as though the planned retail development called Deer Creek Crossing will come to fruition, supported by a Tax Increment Finance package.

Some elements of the project have changed since the development was first proposed in 1999. At its core is one million square feet of retail space. There is no mention of a movie theater, a self-storage facility, or nearly as much office space as was planned in the original project. There will be three hotels instead of two and an emphasis on freestanding restaurants if the project goes forward. Instead of 2,800 projected jobs, the revised project is slated to create a total of 2,940.

While approval from Harmar Township and Allegheny Valley School District has already been secured, Allegheny County Council should vote against participating in the TIF project.

Council needs to read and evaluate the study commissioned by the County that examines the economic impact of the development. The Allegheny Institute has many questions about the study's estimates of sales at the shopping center and the diversion of sales from existing Allegheny County retailers. As a result, the study's estimates of net new jobs and new taxes for the County are undoubtedly too high.

There are several problems with the study's sales estimations:

- The inflow sales are merely a guess. It is difficult to assign a meaningful number to the volume of sales resulting from people who are traveling through the region and leaving the turnpike to make purchases at the shopping center. For certain, \$54 million annually sounds very high.
- The estimate of projected sales to people living in the north-central reaches of Allegheny County and parts of Butler and Armstrong Counties seems problematic due to the relative difficulty of traveling to Deer Creek compared to existing shopping areas.
- The study does not mention the impact of the new shopping areas at Mt. Nebo Pointe or the Waterfront in Homestead.

- The shopping center is located in a part of the County that is not growing and is sparsely populated and must therefore depend on a large share of customers driving many miles to get to the center.

In short, the study's sales forecasts must be viewed with skepticism.

In its favor, the study does raise a very important red flag with respect to sales at existing Allegheny County retailers being diverted to the Deer Creek development. This may be the first study on subsidized retail to acknowledge that the development will shift a significant amount of spending from other locations. If there were no public funds involved, this would not be relevant. However, having the government subsidize competition for existing business creates an unfair situation. The study suggests that about half of all the sales at Deer Creek Crossing will be drawn away from existing County retailers. Undoubtedly, the bulk of those diverted sales will come from businesses in close proximity (near Routes 28 and 910), making the diversion very expensive for firms in nearby retail centers. In fact, the County could see a situation in which two TIF-supported developments--Deer Creek and the nearby Frazer Mills--could end up going after each other's sales.

Diverted sales will result in lower employment and potential property value declines at other retail sites. Obviously, some of the estimated 2,500 retail jobs at the development will come at the expense of other jobs in the County. Then too, the study's RAD tax projections are too high. Since half the sales are estimated to come from other County retailers, the RAD tax collection will only be half of the \$3 million per year the impact study predicts. Bear in mind that, despite a number of new centers coming on line in the County over the past few years, the RAD tax collections have been quite flat. This suggests an enormous sales diversion from existing retailers and other shopping centers to the newer, subsidized developments. To the degree that the new centers have received TIFs or other tax breaks, the County's policy of subsidizing new retail development is counterproductive.

And, while it is not possible to estimate with any degree of confidence the impact on other retail property values, there will be some negative effect.

Beyond these concerns there is another key reason for the County not to be involved in subsidizing retail development. Retail is very faddish and trends can change quickly. What assurances can we have that in 15 years the Deer Creek Crossing development will not look like the many other retail centers in the County that are struggling to survive? In which case, the project will have never contributed significantly to the County's tax revenues.

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