POLICY BRIEF
An electronic publication of
The Allegheny Institute for Public Policy

January 3, 2006 **Volume 6, Number 1**

Tax Dollar Misuse for PNC Project

Trying to convince the Governor and the civic and political leadership in Pittsburgh that subsidizing nearly 30 percent of the cost of a private construction project is economically undesirable is the next thing to a fool's errand. The fact that taxpayers are unlikely to ever see a full repayment of their investment and unsubsidized building owners will face unfair competition are apparently of no consequence to those eager to hand out government checks.

Those arguments, along with piles of evidence from prior examples of misspent tax dollars, fall on deaf ears. Nonetheless, it's still worth pointing out an unreported and little understood aspect of the latest corporate welfare scheme to hit Pittsburgh, i.e., the condo, office, and hotel project planned by PNC.

The state gift of $30 million ($33.75 million according to the Secretary of the DCED) and the planned TIF of $18 million combine to represent 28 percent of the building's $170 million cost. Because of the government money going into the project, Pennsylvania law requires that it be built with prevailing wage labor. That would be true even if the dollar amount as much lower. Mandating the use of prevailing wages and benefits on the project will add—conservatively—$25 million to the construction cost compared to using non-union labor. In all likelihood, the project could be done for $145 million with non-union contractors.

So, if the plan all along was to use prevailing wage labor, then the state grant will cover the added labor expense. Thus, the state grant can be viewed as the taxpayers compensating the builder for the fact that only union labor will have a chance to work on the project.

Plans call for 30 condos, a 150-room hotel and 360,000 square feet of office space along with some retail space. The hotel is slated to be an upscale facility, which means expensive to build and furnish. Condos will also be of the more luxurious variety. And no doubt since the half the office space is to be taken by a large, rich law firm, it too will be very nice and costly to build. Another developer is constructing an 18-story, 82-condominium project downtown for just $26 million, making the price tag of the $170 million PNC project seem too high by comparison.

At a cost of more than $50 million to the taxpayers, the question must be asked: when, if ever, can taxpayers expect to be repaid a reasonable return on their investment? If other such handouts of taxpayer money are any guide the answer is never. Rather than traveling around the state doling out large checks, government officials should be doing the careful analysis that would prove that previous handouts were actually producing significant numbers of permanent net new jobs. Temporary construction jobs do not count. Taxpayers can only be repaid based on the long-term success of the projects, not their construction.

However, in light of the evidence to date, and earlier research the Allegheny Institute carried out in 2003, there is little chance the latest giveaway will produce significant real economic gains and surely nowhere near the levels promised.

The government handouts for the PNC project fail on several levels. First, taxpayers should not be investing in a private project. If there is legitimate infrastructure help, fine—but certainly not to the tune of putting up 30 percent of the financing. Second, this is primarily an upscale development. Asking taxpayers to subsidize a luxury hotel and condominiums is morally wrong. Most people will not be able to afford either. One must ask, who will receive the subsidy benefits? The project owner; or will the owner pass them through to the users of the facility by keeping prices below what they should be with a purely private development? Either way this amounts to a redirection of society's resources in a manner that is simply unacceptable.

Third, having taxpayers massively subsidize new office space, hotel rooms and retail space in a downtown that is oversupplied already is beyond understanding. The additional space will simply depress market rents and occupancy rates further. That, in turn, will drive down the value of other buildings. So, in the final analysis, the overall assessed value of downtown property may not rise at all.

Sadly, this misguided economic growth strategy will be with us until state leaders begin to recognize the true causes of Pennsylvania's sluggish economic performance and start to address them. History offers little hope of that happening.

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