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Predictable Effects of Tax-Supported Mega Malls Come to Light

It happens all the time. A glitzy new development opens its doors and existing businesses have to compete and stay sharp to attract business. Sometimes the established businesses hold their own, sometimes they don't. But what happens when the fight is made even harder because the new development was aided along by special tax treatment?

We have long predicted that retail developments built with tax increment finance deals would have an impact on nearby existing retailers, most of whom were never granted favorable tax treatment. The Waterfront, South Side Works, Robinson Mall, and the soon-to-be Victory Center are just a few retail establishments who have won their share of favored treatment. The TIF deals are often made in conjunction with other state sources of aid. It is enough to make non-granted businesses shudder, realizing that they are paying full freight and trying to make a go of it while others are showered with subsidies.

Chalk up two businesses that have succumbed to the Pittsburgh Mills development, which received a tax increment finance deal and other public dollars totaling $58 million to get the project built. It opened for business in 2005. Just recently, the owner of an Abate' and Dingbats' restaurants closed after twenty years in business. The two restaurants were located in the Waterworks, a shopping center located a few exits down Route 28 from the Mills.

Upon closing, the owner noted that business dropped by nearly 30 percent since the opening of the new upscale development. With weak or no population gains, the owner noted that new businesses are "dividing up the pie among everyone that's left, so we get a smaller share by definition". It is an eerie repetition of the 2001 case of Keystone Plumbing, which saw a 30 percent drop in its business after a brand new, tax increment finance supported Home Depot opened nearby in East Liberty.

Closures such as these create a real nightmare for taxing bodies as they represent a net tax loss since the established businesses were not subsidized and are still paying real estate taxes in full.

Pittsburgh Mills has also had an impact on another nearby subsidized development, Deer Creek Crossing, which lost tenants to the Mills and is still waiting to get off of the ground. Here the situation is two taxpayer-supported retail centers competing against one another. Although they lie in two separate municipalities and school districts, the County pledged its support to both tax increment finance deals, even though the study done for the County showed the possibility of diverting sales from established retailers.

But none of this is to suggest that Pittsburgh Mills is booming. It still deals with the same constraints facing the region in the way of sluggish population growth and the necessary redirection of limited disposable income. A planned go-cart track never materialized, and its upscale bowling alley attraction has already announced it will close.

Businesses come and go on a daily basis. New developments supplant older ones, and the faddish state of retail and restaurants is constantly in flux. There is no denying those realities. But as we have explained on numerous occasions, existing non-subsidized businesses should not have to face stiff competition that benefits from hefty subsidies. The results of this flawed development policy are becoming all too evident in the Route 28 corridor.

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