POLICY BRIEF

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The Holdup at Washington Park

August 2008 was to be an important month in the development of the Washington Park Tax Increment Financing (TIF) project, a mixed-use residential development, in Mt. Lebanon. It was the anticipated completion date for Phase I and the anticipated starting date for Phase II. But as August has come and gone, there is no serious construction activity underway at the site. The municipality and school district should be concerned as the results to date verify this was an ill-advised TIF.

While we have documented this ongoing saga in previous *Policy Briefs*, the highlights bear repeating. The original plan, released in April 2006, called for 60 high-end condos with 9,000 square feet of retail to be built all at once. The TIF was accepted by the Mt. Lebanon commissioners and the school board, but not by Allegheny County. After failing to secure the private financing necessary, the original developer abandoned the project.

A second developer was brought in and immediately changed the project. The number of condos was increased to 72 and the amount of retail space was increased to 14,000 square feet. A new TIF, for $6.1 million, was approved, and once again the County declined to participate. The development was to take place over two phases with an anticipated completion date of August 2009. Phase I is to create 46 condos and 8,600 square feet of retail while Phase II is expected to create 26 condos and more than 4,800 square feet of retail. The first part of the TIF financing was to be used for land acquisition, the construction of a public park, utility improvements, creating a turning lane, and parking.

The state Department of Community and Economic Development (DCED) agreed to guarantee $5 million of the TIF through its Commonwealth Financing Authority claiming the public money would unlock $36.3 million in private matching funds for this project. According to the DCED, a note authorizing the guarantee for the financing was closed in December 2007.

More than eight months since the note was authorized, there is no visible progress being made at the site. While there is a real estate sales office on site to handle potential buyers of these high-end condos, none seem to be forthcoming—a problem that could doom the project. According to the municipal manager, the private financing cannot be secured until the developer pre-sells 25 percent (18) of the units. And until the private financing is in hand, the TIF bonds will not be issued. The developer has not accomplished this sales goal and, as of September 2008, Phase I, which was to have been completed by now, has yet to begin. And since there is no set time frame for when construction is to start, this project could drag on for quite a while.

So what has been done? According to the Allegheny County's Economic Development agency "soft costs" such as architectural, engineering, and survey costs were being incurred and the project was still proceeding despite the lack of obvious activity at the site. But the developer can only work on soft costs for so long. Actual construction will have to begin soon before those who may have already purchased units back out and the project gets pushed to the scrap heap. Time is clearly not on the developer's side.

The developer has acquired at least some of the properties as outlined in the first phase, which in the original plan was to cost $1.1 million and include 417 Kenmont Avenue; and 418-434 Washington Road. Since TIF money has yet to become available, they had to use their own money to begin acquiring land—County real estate records show they paid $520,000 for a multi-parcel property sale that includes 434 Washington Road. How long they will sit on this property without beginning construction remains to be seen, but they are undoubtedly losing money as time drags on.

This project was supposed to be a jewel in Mt. Lebanon and satisfy the demand for high-end housing. As we pointed out on many occasions if the proposed Washington Park condo project was so wonderful, why doesn't the developer pay the full cost? Were they aware that this was such a risky project and thus wanted to use taxpayer money as a hedge? The private financial markets are obviously not convinced as to the merits of this development. They wanted proof of demand and none is forthcoming. And as months pass, the only proof we have is that this was an ill-advised TIF.

Bear in mind too that because this is a TIF project, workers at the site must be paid prevailing wages. That alone could add 10 to 20 percent to the total project cost compared to using non-union labor. As we have pointed out on numerous occasions TIF financing is a way to make labor controlled projects economically viable. With non-prevailing wage labor, the project would have been much less expensive and a TIF would be unnecessary. Just another indication of the power and reach of organized labor.

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