POLICY BRIEF

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Does the Developer Have Money for the Grand Plan?

Pittsburgh's leaders continue to insist that economic development projects be based on "visions" rather than reality. Obviously, lessons from the failed Lazarus and Lord and Taylor's department stores were not learned. The latest episode involves building a long awaited grocery store in the Hill District. District residents and the City's Urban Redevelopment Authority must decide between two proposals, a relatively modest but fully adequate low cost store and a more extravagant development that would include a "super" market with a dry cleaner and pharmacy.

Either would answer the basic needs of residents who have endured the inconvenience of not having a grocery in the neighborhood for almost 30 years. The first option will be owned and run by a large national chain and is designed especially to meet the basic grocery needs of the community with very low prices. The second option has been described as "what the future of Centre Avenue should be."

The Hill District, a low-income neighborhood in Pittsburgh, has had great difficulty attracting a grocery store for years having been rebuffed by local chains since the last grocery store closed nearly three decades ago. Now with the help of a community benefits agreement crafted jointly by representatives of the Hill, the City and the Pittsburgh Penguins, $2 million in seed money has become available to assist in building a new store. National grocer Save-A-Lot put forth a proposal in early 2008 to build a no-frills 16,500 square foot store. The store is projected to cost around $4.5 million to build.

Then in mid 2008, the Hill House Economic Development Group released the details of a proposed 100,000 square foot retail development with a 50,000 square foot Kuhn's market as its anchor. Both store projects are competing for not only the $2 million in seed money, but for the same parcel of land on Centre Avenue.

The larger development will likely be a more popular choice among residents as it will include a super grocery store with services such as a deli, bakery, and dry cleaning. As noted by the Hill House CEO, his group "wanted more than a grocery store" and that the "project would be an expansive complex with a full service Kuhn's market, a pharmacy with an elegant plaza, outdoor dining, a café, restaurants, and retail space." All told, the project has an estimated initial price tag of $24 million. But with only $2 million to get the project started, the question that must be answered is where will the other $22 million come from?

Clearly, given financial market conditions obtaining private funding for the remaining $22 million would appear to be a daunting task, especially at affordable interest rates. Finding lenders willing to take on a large, high cost upscale project in a low income neighborhood in the current financial situation will not be easy.

So, here's what it boils down to for the URA's decision makers. On the one hand there is a deep pocketed grocery chain willing to build a store. Nice, but without a lot of bells and whistles. On the other hand there is a proposal for a much more elaborate, much more expensive project. How to decide? Presumably, the URA wants the store to get underway as soon as possible. After all, the community has waited 30 years already and some forward movement pointing to real progress needs to occur. Here's what the URA must ask the large project developer. Do you have $22 million in private funding lined up and secured? Or are you planning for state or local government assistance? If so you might want to consider that right now with taxpayers facing the prospect of having to pay back massive federal as well as enormous state borrowing, it will be very difficult to obtain financing.

The County and City governments are in no position to jump in at this time either, especially to help pay for a large retail project that is designed more to satisfy wants than legitimate needs. Infrastructure repairs are going undone for want of money and the City is planning significant job cuts.

If this project is to be done with only the $2 million pledged by the Penguins and the URA along with private funds, it is incumbent upon the developer to show proof of having the money and it is incumbent upon the URA to insist the money be in place before approving the more expensive project. Otherwise the project could drag on for years. Besides, there is every reason to believe that if the Save-a-Lot store is a success—and with the company's deep pockets it has good chance of making it through tight spots and succeeding—other retailers and service stores such as a dry cleaner or pharmacy could decide to move in as well.

We just watched a casino project fail miserably because of a lack of funding. There is no reason to re-learn that lesson this soon. Doing what's best requires that a prudent approach be taken.

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