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A Primer on Tax Increment Financing in Pittsburgh

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KEY FINDINGS

- Tax Increment Financing (TIF) is an innovative method of funding redevelopment projects at the local level. It relies on the increase in property value of a specific project to pay some of the development costs.

- TIF began in California in 1951 as a match for federal funds. Today, 46 states utilize TIF to pay for redevelopment projects. In nearly all of these states, TIF projects must first and foremost be enacted to remove or prevent blight.

- Pennsylvania began to use TIF after the passage of Act 113 in 1990 (amended 1992). The first project in Pittsburgh that utilized TIF was for Union Switch and Signal at the Pittsburgh Technology Center in 1994. Since this project, ten others have used this funding strategy. Over time, there has been a decrease in the amount of the increment devoted to retire the bonds from the city, county, and school district.

- One of the major arguments against TIF is that it is not used to create jobs, but rather to move existing jobs into new facilities. This has occurred in the case of Pittsburgh. Union Switch and Signal moved 470 jobs from its location north of the city. It expected its employee base to grow by 550. To date, only 80 new jobs have been created.

- Perhaps the greatest misuse of TIF was for the Lazarus/Penn Avenue Place project. The project cost over $130 million dollars to complete, however, the appraised value of the buildings grew by a combined amount of only $38,868,000 million after completion. The cost of the project does not take into account the businesses dislocated by the project and the taxes lost from relocated businesses and employees.

- Allegheny County has awarded TIF to all the city projects even though these created few, if any new jobs for the county. To date, over $3 million dollars have been invested into retiring the bonds for these developments. The shifting of jobs within has led to no new net benefits to the taxpayers of Allegheny County.

- The only safeguards to prevent abuse of TIF are strict oversight and a strict limitation of their uses- that is, the redevelopment of blighted areas that does not result in a shifting of jobs and businesses.

INTRODUCTION

There has been much debate and discussion recently in Pittsburgh's City Council about the use of tax increment financing (TIF) in such projects as the Mellon

"…BY MISUSING TIF, LOCAL GOVERNING BODIES MAY BE SETTING THEMSELVES UP FOR PROBLEMS IN THE LONG

Operations Center, the Giant Eagle food warehouse in the West End, and the Home Depot in East Liberty. The debate focuses in large part on whether the approvals of these projects by Council were too hasty.

What exactly is TIF and does it have a significant positive impact upon the areas in which it is utilized? This paper describes the purposes and history of TIF, the process by which a project is approved, the players in the process, and the larger economic context in which the consequences are felt. The paper also examines case studies of Pittsburgh and Indianapolis, highlighting strengths and weaknesses in order to build a framework upon which specific TIF projects can be judged. The main point is that if done properly, TIF can be a viable option for redevelopment. However, by misusing TIF, local governing bodies may be setting themselves up for problems in the long run. Bear in mind that in a TIF funded projects are used to underwrite development deemed too risky by the private sector and can put taxpayers of risk in case the project under performs relative to forecast.

The use of Tax Increment Financing (TIF) as a tool for redevelopment is both old and new. It is old in the sense that the redevelopment authorities created under the original Housing Act of 1949 are being used to coordinate TIF projects. It is new in the sense that most states began to permit these authorities to use TIF to spur development projects in recent years. Again, the stress here is on the fact that this arrangement occurred in large part because of the cutbacks in federal dollars and a desire to move away from "regulated development."

THE THEORY OF TIF

TIF has been referred to as a "self-financing tool" for redevelopment. Pioneered at the state level in California in 1951 as a match for federal funds, forty-six states now have TIF in place as an option for redevelopment. While there is variation in the length of time for project application, the agency charged with directing its use, and what type of projects can utilize TIF, the theory behind TIF is relatively straightforward. It states that public improvements in a slated area can be financed by the increase in property taxes generated by private development. The reliance for funding comes from property taxes, not state or federal funds, nor general funding from the city budget. Simply put, the theory is that the property tax generated in a blighted area is flat or declining. If redevelopment can be stimulated, property values will rise and commercial activity will increase, creating an incremental increase in the tax revenues generated. TIF gives the [city] the power to capture this increment to pay off debt incurred to subsidize the development. Through TIF [cities] borrow and spend against future incremental tax revenue increases brought about by the development. (Jolin, 1994).

Thus the theory is that TIF pays for itself. Since there are no losses in net revenue in completing the project, it is a politically attractive option. The financing of the project is, however, based on an estimation of how well the project will perform.

QUALIFICATIONS FOR TIF USE

Throughout the forty-six states that have authorized local use of TIF, there is one determining qualification common to nearly all of the authorizing legislation, namely, the prevention or removal of blight. In Pennsylvania, Act 113 states that TIF projects must be “for the elimination and prevention of the development or spread of blight” in areas that a planning commission or redevelopment authority may determine as blighted. Illinois’ statute lists fourteen standards including “age, deterioration, excessive vacancies, and over-crowding”, among which five standards must be met to qualify an area as blighted. Only Maine, New Hampshire, Connecticut, and Wisconsin do not limit TIF projects to the removal of blight. (Shagin,1993, and Jolin, 1994).

Typically, a plan for development is drawn up by the redevelopment authority of the city. This plan includes the targeted area, project costs, and the point upon which much debate is generated, that the development would not have occurred without TIF. This requirement, referred to as the “but for” requirement, must demonstrate that private funds are not sufficient and the development would not reasonably be anticipated or realized without the adoption of the TIF portion of the plan. (Jolin, 1994). In other words, the local governing bodies leverage the taxpayers to fund a project deemed too risky by the private sector.

This qualification leaves the door wide open for abuse. Cities, facing not only a stream of dis-investment, but competition from other cities and regions, are eager to do whatever it takes to compete and remain strong. Businesses, looking for the “best deal” in locating a project, see the TIF program as a way to have infrastructure costs handled by the city. In shopping for the best opportunity, businesses see TIF as an option similar to low taxes, land, or other public subsidies. As Joel Michael notes, “TIF provides the economic equivalent of a property tax reduction or abatement”. (Michael,1987).

In an ideal world, the removal of blight and the "but for" qualifications would be met in every project that sought TIF as an opportunity for assistance. But loose definitions and easy interpretations of both standards mean that almost any project has a chance of moving through the process toward approval.

THE PROCESS OF TIF APPROVAL

Unlike the federal urban renewal programs of the past, TIF use begins with an interest rather than a need. The interest may come from either a business or the redevelopment authority of a city or municipality. The initiator of the project must make a formal presentation to the city. The business or the authority, or both, must make the case by informing the city of its intentions to stem the blight growth of an area by attracting commercial activity. These intentions must include the redevelopment plans and an estimate of the impact of the project on property values and tax revenues. If this interest is taken seriously, a representative is named as a liaison between the participants. (Shagin, 1993).

The next step is the creation of a tax increment district. The boundaries of the district are usually a contiguous area of redevelopment to be created by an ordinance or resolution by the city. The city informs any other taxing entities that overlap the TIF district, which most often includes a county and a school district. The three taxing bodies that levy taxes in the district must decide whether or not to partake in the proposal. A public hearing is then set in order to hear any objections or suggestions to the proposal. After public opinion is weighed, the three entities decide to participate in whole or in part with the plan. (Mullin, 1993).

The next step is to determine the increase in the assessed value over the base valuation, of the project. A tax assessor determines the pre-development market value of the property within the tax increment district. The taxes on this baseline assessment will continue to go to the city, county, and the school board. An economic feasibility study is done to determine the estimated increase in tax revenue if the project is undertaken to completion. These incrementally higher revenues are used to cover the costs of improvements, which can include sidewalk improvements, utility upgrades, or the construction of a parking garage near the proposed development. (Shagin, 1993). The revenues funding these improvements can be used in one of two ways: either in a "pay-as-you-go" arrangement in which the revenues are spent as they are received without incurring debt, or more commonly, selling bonds and incurring debt based on anticipated revenue streams. (Klacik and Nunn, 1997).

In the latter arrangement, the bonds financing the project can be guaranteed by the anticipated revenues of the project or the general obligation of the city. They are, therefore, speculative, but attractive due to their exemption from federal taxation. A bank plays the role of the trustee in this equation. For the duration of financing the infrastructure costs, which is most often a twenty year period, the taxpayers within the TIF district send either all or part of their rising tax payments to the trustee instead of the taxing bodies. The trustee takes these payments and forwards them to the bondholders. This arrangement with the trustee ends after the twenty-year period and the higher tax receipts then revert to the three taxing bodies. In this sense, there is a degree of deferred benefit as the city, county, and school district must wait to receive the higher revenues that can fund better services. (Mullin, 1993, Shagin, 1993).

DETERMINATION OF A TAX INCREMENT
X= Base Assessment on the Current Property
Y= New Assessment after the Estimate of Commercial Activity Increase by the Redevelopment Authority
Z= Combined Millage of City, County, and School District
@= Difference Between Base and New Valuation of Property
Y-X=@ **@(Z)= Tax Increment**
Example:$30,000,000 –25,000,000 = $5,000,000
$5,000,000(.014) = $70,000 (Tax Increment)

The process of TIF approval has been simplified to its basic essence. It is a multi-stage, multi-participant process that follows no set scheme. The point here is to highlight the fact that although a plan is drawn up, taxing bodies review it, and investment dollars are committed, the process is often a mere formality because cities want development and businesses want incentives. Therefore, TIF is often agreed upon even before the process commences.

The potential losers in the policy of TIF are the residents of the city who are not included in or near the TIF district. Since the increased tax receipts do not go to the city, county, and school district until the bonds are retired, any increased service needs in the targeted area are financed by non-district residents and businesses through increased taxes.

WHO BENEFITS? WHO LOSES?

Heralded as an innovative solution to solve the problems of blight and loss of business, TIF seems to benefit all those involved. The local government bodies finance a major development project without general fund payments and without state or federal strings attached. They will enjoy higher property tax revenues when the bonds are retired and will have employment and in turn receive greater wage tax revenues. Private investors have a tax- exempt bond that generates tax-free returns. Developers have infrastructure paid for, which is the equivalent of an abatement or tax reduction. Property owners in the district see their property values rise after the development occurs. (Michael, 1987 and Mullin, 1993).

Some researchers have pointed to the fact that TIF connects costs to benefits in the larger taxing scheme. Namely, without TIF, a city would bear the costs of development alone while other taxing bodies would share in the development benefit of increased tax revenues. With TIF, all the taxing jurisdictions share the costs of the development in proportion to their relative property tax revenue gain. (Huddleston, 1981, 1986).

The potential losers in the policy of TIF are the residents of the city who are not included in or near the TIF district. Since the increased tax receipts do not go to the city, county, and school district until the bonds are retired, any increased service needs in the targeted area are financed by non-district residents and businesses through increased taxes. This system thus punishes those outside of the district. (Man, 1994). Investors can face higher costs if the bonds are tax allocation bonds, not general obligation bonds backed by the city. Since bondholders require some assurance on their investment, the flexibility of the development plans are limited once they have been drawn up. (Mullin, 1993).

Municipal abuses are always possible. Cities have been known to designate large portions of the city as tax increment districts in order to generate increments which are not connected to the project. An indefinite extension of TIF can be so widely used that the benefits may never return to the community as a whole. There is always the possibility that an increment may not materialize and the city must turn to its general funds in order to pay the debt service on the bonds. Corruption and abuse may rear their heads and the project may go sour. (Mullin, 1993).

Overuse or inappropriate use of TIF can lead to rapidly diminishing returns to taxpayers in cases where private funding should have been used. In many instances, other programs and less expensive incentives could accomplish the same goal.

TIF is a political tool that causes some to lose and others to win. Sometimes the winners and losers may be the same participants. A city runs the risk when it undertakes a TIF project since the basis for commercial activity increases is an estimate. If the activity does not occur, the city will have no recourse but to fall back on its general funds.

TIF: THE COSTS AND THE BENEFITS

PARTICIPANTS	COSTS	BENEFITS
• THE CITY, THE COUNTY, AND THE SCHOOL BOARD…	• WILL HAVE TO WAIT AN AVERAGE OF TWENTY YEARS IN ORDER TO USE THE INCREASED TAXES FOR SERVICE NEEDS • WILL HAVE TO FUND ANY FINANCIAL SHORTFALL IF THE PROJECT FAILS AND THE BOND DOES NOT MATERIALIZE	• FINANCE A MAJOR PROJECT WITHOUT PAYMENTS OUT OF THE GENERAL FUND AND WITHOUT STATE OR FEDERAL STRINGS ATTACHED • ENJOY HIGHER PROPERTY TAXES ONCE THE BONDS ARE RETIRED • SEE MORE EMPLOYMENT, WHICH TRANSLATES INTO MORE WAGE TAX REVENUES
• THE TAXPAYERS…	• FUND A PROJECT DEEMED TOO RISKY BY THE PRIVATE SECTOR • WILL HAVE TO COVER ANY INCREASED SERVICE NEEDS OF THE DISTRICT THROUGH HIGHER TAXES IF THEY LIVE NEAR, BUT NOT IN, THE DISTRICT	• ENJOY A NEW FACILITY THAT MAY SPUR MORE BUSINESSES • MAY SEE THEIR TAXES REDUCED AS A RESULT OF THE NEW PROJECT • SEE THE ELIMINATION OF A BLIGHTED AREA THAT MAY HAVE REMAINED
• THE DEVELOPER…	• PAYS THE COST OF BUILDING THE BULK OF THE PROJECT	• HAS PART OR ALL OF THE INFRASTRUCTURE COMPLETED WITH PUBLIC DOLLARS
• THE INVESTORS…	• MAY FACE HIGHER COSTS IF THE BONDS ARE ALLOCATION BONDS NOT BACKED BY THE CITY'S GENERAL OBLIGATIONS	• RECEIVE A TAX EXEMPT BOND THAT GENERATES TAX FREE DIVIDENDS

TIF IN PITTSBURGH: A CASE STUDY

This paper began with a brief discussion on the current state of development affairs in the city of Pittsburgh. Indeed, Mayor Tom Murphy has been a zealous proponent and user of TIF in order to stimulate economic development. But City Council, the entity of the city that must authorize TIF, has applied the brakes. Recently, bids were solicited from non-profit organizations and universities to study the general trends, if any, which characterize TIF selection and the impacts of these trends. The section below provides a brief description of these trends and the politics surrounding them.

Mixed Results

Since its inception in Pennsylvania under Act 113 of 1990 (amended in 1992), TIF has been used in the Pittsburgh region dating back to 1994. Since that time, there has been a mixed bag of results from those projects. Below are descriptions of two projects, the Pittsburgh Technology Center and the Mellon Operations Center, which detail the changing trends in the use of TIF in Pittsburgh.

The Pittsburgh Technology Center. Based upon the construction of a 170,000 square foot office and research facility for Union Switch and Signal costing $27,500,000, the Urban Redevelopment Authority (URA) issued $5,500,000 in bonds to stimulate the project. Soon after, the University of Pittsburgh and Carnegie Mellon University joined in to construct research facilities of their own. Lastly, two additional properties, Aristech and 2000 Technology Drive, also planned developments to be connected to the quickly developing area.

What did this development mean for the region? For starters, employment figures were predicted to rise as a result of the development. Union Switch and Signal estimated its full-time employee base would grow from 470 to 1000. As of 1999, full-time payroll employees totaled 530.   It also meant an increase in tax revenues for the taxing bodies. Under the original finance structure, the city, county, and the school board were slated to receive a combined $561,581 in tax revenues after the bonds were retired. With participation by Aristech and 2000 Technology Drive, this amount increased to $1,060,306 annually. Since CMU and the University of Pittsburgh are tax-exempt, they were calculated into the market value, but not the assessed value. They make municipal service payments of $30,443 to help retire the bond. With a combined appraisal of $31 million dollars on these properties, property taxes would figure to $3,623,900. Thus, they pay considerably less. Perhaps the only bright spot in financing the project is that as a result of the additional companies, the bonds will retire in 2005, rather than 2014.

The URA estimated that after completion of the site, the three taxing bodies would receive $2,843,452 in revenues. Although not perfect, this project is an example of the potential a TIF project can make with a relatively small investment.

Pittsburgh Technology Center Development Summary

Projected Market Value	Assessed Value (25 % of Market Value)	Tax Increment (Assessed Value x Mills)	Amount of Increment Devoted to Retire Bond	Percent Participation of Three Taxing Entities
$72,521,000	$10,380,000 *	$1,060,306	$1,060.306	100%

As of this writing, CMU and the University of Pittsburgh make municipal service payments of $30,443 to help retire the bonds. Since they are tax-exempt, they were figured into the market value, but not the assessed value.

Mellon Operations Center Project. With construction on a parcel of land next to the corporate headquarters in downtown Pittsburgh, the Center will be an eleven-story structure costing $110 million. The building will be financially assisted through the use of TIF. The URA has issued $15 million in bonds, $8 million of which will go into the project for land grading, road and sewer improvements, and the alteration of the subway stop beneath the proposed building. The other $7 million will help with nearby downtown development.

Several factors have changed since the technology project described above. First, there is a general negative sentiment among policy-makers towards the use of TIF on this type of project. URA Treasurer Dan Frankel was quoted in the Pittsburgh Post-Gazette stating “the theory…[is] to reduce the amount of TIF financing we’re using”. City Councilman Diven stated that the city is “going along blindly” in its approval of projects. The ultimate testament to this second-guessing was the request for proposals to evaluate the use of TIF by City Council. Obviously, the attitude is one of skepticism, possibly the result of misinformation on the part of public officials charged with judging the merits of each project.

Secondly, the percent of participation has decreased since the initial TIF projects. There is a cautionary outlook on the part of the county, the city, and the school board. They feel that TIF is diverting tax dollars for too long a period of time. This would explain why the rate of participation has decreased and other taxes have been funneled back into the projects.

The Mellon Operations Center has expectations. The projected benefits of the project include:

- 3500 workers, several hundred of them new positions, in “check processing, printing, and other labor intensive functions”;

- 1000 new construction jobs during the 20-month duration of the project’s Construction;

- Strengthening of the shopping district in conjunction with the Center

- Removal of blight.

Mellon Operations Center Development Summary

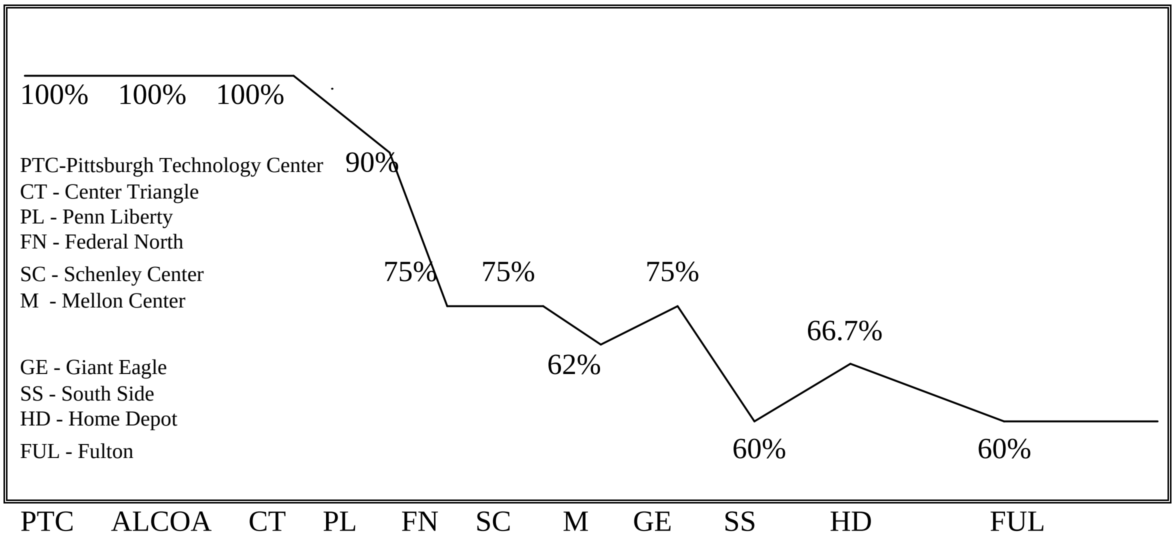
Projected Market Value	Assessed Value (20.5 % of Market Value)	Tax Increment (Assessed Value x Mills)	Amount of Increment Devoted to Retire Bond	Percent Participation of Three Taxing Entities *
$97,072,927	$19,899,950	$1,927,625	$1,607,659	62%

*The city has leveraged parking taxes totaling $412,500 toward the retirement of the bond

A few things have changed in the financing structure of the Mellon TIF as compared with the PTC TIF. First, the Mellon TIF is a structured two-tier bond; a part is set aside for the Operations Center, and a part is set aside for the development of a retail corridor. Unlike the technology center TIF, there is no expectation that the Operations Center will generate development connected to it. There is a belief that only the city, county, and school board can initiate any business activity because the Mellon project is isolated and has no attachment to tangentially-connected industries.

Second, the participation rate has dropped. In the technology center, all of the tax increment went to amortize the bonds used to fund the development in the first place. Now, the realization may be that TIF ties up money for too long, forcing local governments to search for other revenues to pay for services. Thus, under this situation, only part of the property tax increase and now parking revenues are used to pay off the bonds. So, the part of the increment devoted to retire the debt will total $1,607,659.

PORTION OF TAX INCREMENT
DEVOTED TO RETIRING TIF BONDS,
_1994-1999_



The Center Triangle Project: An Ill-Advised TIF Plan

Perhaps the most blatant misuse of TIF in Pittsburgh was for the construction of a new Lazarus department store and the conversion of the company's old store into mixed-use office and retail space. In contrast with other projects in which vacant land or an economically disadvantaged space was used for a TIF, the Center Triangle District TIF involved the conversion of property valued at $22 million dollars with many businesses and employees on the site. The goal of the project was to anchor the downtown retail district.

The areas slated for redevelopment were certified as blighted in 1995 when the URA found that over 50 percent of the structures in the area were deteriorating. The rationale for this development was that "the retention of a major department store in the downtown is considered very important. The Penn Avenue Place (office space) redevelopment is…a beneficial reuse of the existing store". Many of the jobs in the new office space are simply transfers from other areas downtown and from Allegheny County suburbs and are therefore of little net new benefit to the county. In order to fully understand the ramifications of these projects, a closer look is necessary.

The Penn Avenue Place project took the old Lazarus building and converted it to office and retail space. The original market value of the building was $11,209,000, and its assessed value was $2,802,300. The costs of acquiring and refurbishing the building was $53,400,000, with $10 million provided by tax increment financing. The URA estimated the assessed value of the project after completion to be $13,758,750, thus generating $1,383,197 in new taxes. A municipal service payment of $1,500,000 from the city bolstered the pledge of the local governing bodies.

Analysis of the projects supporting documentation and actual post-development figures reveal a story at odds with the glowing picture painted by the project proponents. For example, the county's property assessment board lists the property as having a market value of $35,312,200, assessed for tax purposes at $7,239,000, and generating $1,142,088 in taxes. This is $241,109 less than the amount predicted in the project proposal. The bottom line: the URA spent $53 million on the Penn Avenue development that is now appraised at $35 million, a mere $24 million increase over the value of the property before the rehabilitation.

Meanwhile, the new Lazarus store took several pre-existing businesses and leveled them in order to construct a new store and parking garage. The appraised value market value of the properties included in the project was $11,735,000 and assessed at $2,933,750. The cost of the construction of the new store and garage totaled $78,100,000. Taxes generated by the project were forecast to total $978,043 per year.

Again reality does not match the project proposal. The latest property values show that the building and the garage are appraised at $26,500,000 with an assessed value of $5,379,500, nearly $1million less than the figures used in the project documentation. The taxes from this assessment total $861,044, or $116,999 less than the prediction of the URA. Thus, the project is not generating the necessary tax revenues to service the TIF backed bonds.

In short, local governments were persuaded to underwrite through tax concessions a project that cost $78 million to build but whose appraised value is only $26.5 million. Thus, $78 million in outlays have resulted in an increase in appraised value of only $15.5 million.

In addition to the fact that the project failed to deliver value commensurate with its cost, there are several negative aspects of this development. First, existing structures and businesses were demolished and relocated in order to make room for the new buildings. Although some of these structures may have been deteriorating, an expenditure of $28 million for acquisition and demolition was incurred to rid the downtown of properties with a market value over $22 million.

Another problem posed by the projects is that they were allowed to proceed despite the fact that forecast property values would be far less than the projected cost of the development.

Finally, in the case of Lazarus, a TIF was awarded to an industry with little or no multiplier effect. Retail development produces low-wage jobs and minimally serves other connected businesses. In this TIF project, service industry jobs previously located in the area were eliminated or displaced and were replaced with more service industry jobs. Worst of all, the project documentation prepared by the URA does not mention the value of business activity that was located in the area before the project, the number of jobs or the taxes that were being paid by the businesses and their employees. Therefore, it is impossible to determine whether the development has even generated a positive net tax benefit to the city, the county or school district.

Lastly, the local government entities, including Allegheny County, awarded a TIF to a business that would only serve to generate subsidized competition with other retail jobs in the County. A public subsidy for Lazarus does nothing for employment in the County and could well be detrimental if property values in shopping areas other than downtown are pushed lower because of Lazarus.

The Center Triangle District may become the definitive TIF project in the Pittsburgh area. It uprooted businesses, offered little connection to other sectors, and created more unnecessary competition. But most important, it fails to deliver value equal to its cost.

County Wide Economic Development: A Need For TIF?

Proponents of TIF argue that it is a sound method of allowing a region to compete for business and jobs, two tangible factors of economic well-being. With heavy competition between regions, any and all tools that level the playing field should be utilized. Again, TIF is but one of these tools. But are "regional" policy-makers buying into the use of TIF too easily? Is there a better method of funding redevelopment? If so, is this method in use currently?

In May of 1998, the voters of Allegheny County, which surrounds the city of Pittsburgh, narrowly approved a home rule charter that altered the system of government in the county from three commissioners to an elected executive, a professional manager, and a 15-member council. The message was fairly clear: in order to have a liaison for economic development, one executive is much better than three.

The concern with this change is not so much structural as it is behavioral. In other words, one person can handle the task of making economic contact, but should TIF be a primary method to attract jobs? Pennsylvania law states that cooperation on a TIF project is voluntary; it only takes one of the three local entities to pursue a project and see it through. In practice, however, the situation is quite different. All three bodies in the region have agreed amongst themselves to an "all for one" arrangement, namely, if one body (most likely the city) agrees to pursue a plan, the county and the school board will participate. It is evident from the funding structure of the Mellon project that the three bodies are no longer lock-step in giving all of the tax revenues to the retirement of the bonds.

Are there any prescriptions for the County in how it should use TIF? According to the 1998 and 1999 budgets, there are three primary goals of the county in relation to the use of TIF:

- “Continue to undertake a number of strategies on behalf of client municipalities that will result in the use of tax increment financing"
- “Enhance the county’s infrastructure base through the use of TIF in cooperation with the County’s redevelopment authority”
- "Have three major projects move forward through the TIF process by completing their financial packages and move forward into the construction phase"(Allegheny County Budget, 1998 and 1999 Editions).

The current chairman of the Board of County Commissioners, Mike Dawida, has touted TIFs as “incentives that will have some teeth in them in order to bring companies that will create good jobs in our area” and as ways to “support existing companies in order to stop the exodus of major employers and jobs from the county”.

The problem with this argument is that most of the TIF projects in the County have resulted in economic activity movements from town to town within the County or for companies (Mellon, Giant Eagle) that would have not left the region given their local connections. Critics of TIF question whether TIF generates new development or just moves it from one community to another. (Lemov, 1994). That being said, there is always a possibility that these companies may have looked outside of the region for a location to set up their operations. But, there is also the possibility that these threats were just threats, especially given the difficulty of relocating or hiring 3,500 employees as Mellon would have had to do. A move to Carnegie or Greentree or Robinson might have been a choice, but out of the region seems unlikely.

In the five years since the first TIF in Pittsburgh, Allegheny County has participated in all of the projects. Below is a summary of the projects undertaken with the use of TIF and the dollars of revenue foregone. All of the projects were in accordance with Dawida’s first criterion, that existing companies should be supported. But, these are companies that most likely would not have left the region and were certainly not new companies bringing new jobs to the County. If total economic activity in the County has not been increased, how have taxpayers benefited from the loss of tax revenue in the TIF plans?

ALLEGHENY COUNTY:
PARTICIPATION IN TIF PROJECTS, 1994-1999

Pittsburgh Technology Center = $206,720
ALCOA = $189,000
Center Triangle = $ 305,320
Penn Liberty = $130,398
Federal North = $156,870
Schenley Center = $159,978
Giant Eagle = $77,395
Mellon = $415,547
Fulton = $136,144
South Side = $1,196,449
Home Depot = $41,328

$3,015,149 Pledged to Pay TIF Bonds[1]

Granted, the share of the county's participation in these TIF projects is not as great as the share of the city or the school board. Likewise, proponents of TIF would claim that this is a small investment for retaining business. Essentially, this is what one author calls "tax shifting"

> [It] is intended to increase the net present value of proposed projects from the city's perspective. This is done through the [participation] of non-city governments which serve to lower the actual costs of development projects to the city. (Huddleston, 1986).

The problem with this logic, however, is that the county may continue to participate in these projects and TIF businesses that would have never left the county borders. If for example, Mellon had built elsewhere in the County, the total tax take for the County would have likely have risen.

ALTERNATIVE TAX INCENTIVES

Focusing one alternative to TIF is the recently passed Keystone Opportunity Zone (KOZ). This legislation is aimed at assisting "distressed communities in stimulating economic growth through tax abatements and incentives for both community residents and businesses"(Van Allen, et al, 1998). There are similarities as well as differences in the KOZ and TIF approaches, some of these are described below. Three major differences between TIF and KOZ are 1) the time period for KOZ is shorter, 2) KOZ areas exempt virtually all taxes, not just property taxes and 3) KOZ areas are open to all businesses and are focused on employment creation while TIF projects are usually specific to a business and are more concerned about the increase in property value needed to underwrite the development.

1 Source: Project Summaries of the URA.

COMPARING AND CONTRASTING TIF AND KOZ

SIMILARITIES	DIFFERENCES
MISSION: BOTH SEEK TO STIMULATE ECONOMIC GROWTH THROUGH THE USE OF TAX ABATEMENTS AND INCENTIVES	***INITIAL QUALIFICATIONS***: TIF NEEDS TWO STIPULATIONS, THAT OF BLIGHT AND THE "BUT FOR" REQUIREMENT, WHILE THE KOZ HAS TWELVE CRITERIA, TWO OF WHICH MUST BE SATISFIED
TARGETED AREA: BOTH ARE AIMED AT ELIMINATING BLIGHTED OR DETERIORATED PROPERTIES	***TIME ELEMENT***: KOZ HAS A LIFE SPAN OF TWELVE YEARS, WHILE TIF CAN LAST UP TO TWENTY
APPLICATION PROCESS: BOTH BEGIN WITH A PLAN, A STRUCTURED COURSE OF ACTION THAT INCLUDES A MAP OF THE AREA AND THE OBJECTIVES OF THE PROPOSED PLAN	***ELIGIBLE TAXES***: TIF RELIES SOLELY ON PROPERTY TAXES, IN SOME CASES, SALES AND PARKING TAXES, WHILE KOZ WAIVES AN ASSORTMENT OF TAXES, INCLUDING SALES, INCOME, AND PROPERTY
PARTICIPATION OF LOCAL ENTITIES: BOTH REQUIRE LOCAL BODIES TO PASS AN ORDINANCE OR A RESOLUTION TO DETAIL THE GOAL AND SCOPE OF THE PROGRAM	***"PROOF'***: KOZ SEARCHES FOR PROOF OF ECONOMIC IMPROVEMENT VIA EDUCATIONAL ATTAINMENTS, CRIME REDUCTION, JOB PLACEMENT AND TRAINING, WHILE TIF OFTEN HAS NO SUCH REQUIREMENTS
	SPECIFICITY: KOZ TARGETS A GENERAL AREA, REDUCES PROHIBITIVE TAXES, AND UTILIZES WHATEVER BUSINESSES COME FORTH, WHILE THE TIF IS OFTEN TAILORED TO A SPECIFIC BUSINESS OR PROJECT

INDIANAPOLIS AND ITS (NON) USE OF TIF

In what ways can Pittsburgh gauge its success or failure in using TIF as a strategy for improving its selection of incentive strategies? It can undertake its current approach of researching where the program has gone thus far. It can forecast trends and estimate direction based on these trends. Or it can examine other areas to see what they have done in order to utilize TIF as an economic tool. The case of Indianapolis offers an excellent case study in what smaller government and tax abatements with responsibility can accomplish.

There are several points of importance to note before examining the case of Indianapolis. The city of Indianapolis is a combined government with Marion County, so there is no competition or service duplication between the two. Mayor Steven Goldsmith, who literally turned the city around, embarked on a major effort to “marketize” public services through competition using the private sector. In 1992, a Regulatory Study Commission was created to examine the business climate and many unnecessary rules have been eliminated since that time. The line on property taxes has been held and the vacancy rate of downtown real estate has dropped below 1987 lows. In other words, there has been an ambitious movement toward smaller and smarter government in order to improve ties with business. Thus, Indianapolis has taken important steps in creating a business-friendly environment in which they do not have to use TIF as the only leveraging tool to attract or retain business, as the case seems with Pittsburgh.

The city's most significant uses of TIF were in the construction of its Circle Center project, an enclosed shopping mall in the downtown area that redeveloped several blocks of the central business district with the use of some $150 million in public funds and the United Airlines Maintenance Center at Indianapolis International Airport. (Klacik and Nunn, 1997). As a result of competitive public service delivery, some $240 million was saved and devoted back into "the largest infrastructure rebuilding program in city history". Instead of using TIF as the only option, Indianapolis took a different approach

In 1995 Indianapolis completed the Building Better Neighborhoods program. This three-year, $530 million program was designed to rebuild the city's deteriorating infrastructure. Dilapidated thoroughfares are smooth again, new neighborhood parks have been built, sewers a century old have been renovated, and bridges and sidewalks have been repaired for the first time in decades.

Another important component to the Indianapolis business strategy is to hold business accountable if they have received tax abatement. Among the tenets of this strategy are:

- A requirement that companies pay a share of their incentives if they fail to meet their commitments
- A researched comparative method in which the city examines the expected revenue from the company with the amount of the abatement and the city's costs in providing services to the company and its employees
- Strict attention to the number of jobs created, the number of jobs retained, wage levels of the new jobs, the amount of the company's capital investment, and the impact of this investment on the neighborhood

Indianapolis is on the right track in its attitude towards government and its relationship to business. In creating a more efficient structure of government that is leaner and competitive with its provision of services, savings are put back into public works and public safety measures, which have immeasurable effects on the business climate. These factors allow cities to be very selective with programs such as TIF. It has been Indianapolis' change in government philosophy--not tax abatements and giveaways--that have led to the rapid growth in the shining jewel of the Midwest.

IF THE JUSTIFICATION IS THE RETENTION AND ATTRACTION OF BUSINESS, ALONG WITH THE REMOVAL OF BLIGHT, THEN TIFS MUST BE TARGETED TOWARD THE AREAS WHERE THESE GOALS CAN BE ATTAINED. IF NOT, THE COURSE WILL CONTINUE ON TOWARDS FUNDING NARROW, SPECIFIC PROJECTS THAT MAY NOT HAVE ANY COROLLARY BENEFITS.

ARE THERE RIGHT WAYS AND WRONG WAYS TO DO TIF?

The comparison between Pittsburgh, Allegheny County, and Indianapolis is not meant to downplay all of the success that this region has achieved in improving its business climate. But much more needs to be done. A TIF for a retail department store, such as Lazarus or Nordstrom, is wrong-headed because of the fact that the return on the investment is minimal. Low-wage jobs are created, and infrastructure is financed for a project that could locate anywhere in the County without the subsidy. Thus, the TIF for the downtown department store was done under incorrect precepts.

Is there a right kind of TIF? It is hard to say. Certain TIFs that fund infrastructure that can lead to substantial new development, such as the proposed TIF for an interchange in nearby Collier Township, could be warranted. If the justification is the retention and attraction of business, along with the removal of blight, then TIFs must be targeted toward the areas where these goals can be attained. If not, the course will continue on towards funding narrow, specific projects that may not have any corollary benefits. In sum, a good TIF will:

1. Result in substantial leveraging of new jobs such as a roadway interchange. Note that even in a high tax area such as Pittsburgh, TIF revenues cannot fund a bond issue equal to the total increase in appraised value of a project. Thus, if a TIF project is not to use other funds, there must be a substantial market leveraging of property values beyond the costs of construction. For instance, for each dollar of property value increase, the annual tax revenue will be 3.6 cents. At the same time, a dollar of tax exempt bonds requires 7.8 cents per year for debt service.

   TIF projects for infrastructure which significantly enhance the value of property within the affected area represent the most effective use of TIF.

2. Lead to high value added activity and have multiplier affects on the economy.
3. Have backward and forward linkages with other sectors in the local business community.

A HYPOTHETICAL EXAMPLE OF A GOOD TIF

1. A vacant building sits on a piece of land in of a city. Given its location, the redevelopment agency of the city recognizes commercial potential if public improvements were made to entice business development. For a variety of reasons private development is extremely unlikely.
2. A tax increment district is created which covers the building and the area around it. The city, county, and the school board agree to participate in the project.
3. The redevelopment agency plans improvements in the area, including sewer and water upgrades, and utility and sidewalk improvements.
4. An assessment of the property is taken, and the base is valued at $1,000,000. Given the combined millage rate of the three taxing bodies is 14 mills, the taxes on the base assessment continue to go to the city, county, and school board. A feasibility study is done and the new assessed value, after improvements, is estimated at $11,000,000.
5. This difference is used to determine the tax increment generated by the project: $11,000,000 - $1,000,000 = 10,000,000 x .014= $140,000 to be devoted to paying the bond and, upon termination of the project, to be returned to the three bodies.
6. It creates new jobs and economic activity for the county.

A HYPOTHETICAL EXAMPLE OF A BAD TIF

1. The redevelopment authority of a city sees an area where a mixed development of residential and commercial uses could succeed. The area currently has several small businesses. The lynchpin of the development is a department store similar to those located in malls outside of the city. It is believed the store will rebuild the retail corridor of the city.
2. The base assessment of the current property is $30 million dollars. The redevelopment authority plans to purchase the land, relocate the businesses, grade a nearby slope and construct plazas, all to prepare for the developer's vision of the store. The new assessment of the property, after the project's completion, is estimated at $50 million. $15 million in bonds are sold to pay for the public improvements.
3. Regardless of the fact that the development is a low-value added industry with no multiplier effect and will generate subsidized competition for other department stores, the store is constructed.
4. The forecast for the store is grossly over-stated, and the development only raises the assessment by $5 million dollars to $35 million.
5. The project fails to produce an increment sufficient to retire the debt of $15 million, forcing the city to cover the costs by raising taxes.
6. It merely shifts jobs and economic activity within the county.

CONCLUSION

Tax increment financing is an innovative method for funding redevelopment at the local level. It began as a match for federal funding, then as a primary way to attract development to blighted areas without state or federal oversight. TIF connects the local institutions of government together in a project so that the costs and the benefits of the project are shared relative to their contributions.

As shown in the case of Western Pennsylvania, TIF can be awarded to projects that may do more harm than good. In granting TIF to retail development, such as Lazarus, subsidized competition was established. In granting TIF to projects that would not have moved, Allegheny County diverted funds to businesses that produce no net benefit to the taxpayers of the county. To date, the county has devoted over $3 million dollars to retire TIF bonds.

To ensure that only the most deserving of projects are awarded a TIF, a firm understanding of this policy is necessary. Also, strict oversight by those charged with its use is imperative. Without these two important components, the course of tax increment financing will be uncharted, and may produce serious detrimental effects.

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THE USE OF TAX INCREMENTS TO RETIRE
BONDS USED FOR REDEVELOPMENT

PROJECT	PRIOR MKT VALUE (ASSESSED VALUE)	VALUE AFTER IMPROV. (ASSESSED VALUE)			TAX INCREMENTS
ALCOA	$0	$30,000,000			*CITY-BLDG.,LAND*
	($0)	($7,500,000)	*		$259,634 INCR.
					COUNTY REAL ES.
			"	*X .0252*	$189,000 INCR.
					SC. DIST.-REAL ES.
			"	*X.0597*	$447,750 INCR.

					=$896,384 TO RETIRE $8,415,000 NOTE ISSUED BY URA

* ASSESSED VALUE OF BLDG. $7,351,250 X .0320 = $235,880
ASSESSED VALUE OF LAND $128,750 X .1845 = $23,754

FED. NOR.	$348,700	$24,885,000			*CITY-BLDG.,LAND*
	($87,175)	($6,221,250)	*		$213,758 INCR.
					COUNTY REAL ES.
			"	*X.0252*	$156,776 INCR.
					SC. DIST. REAL ES
			"	*X.0597*	$371,409 INCR.

					$741,942
					-$87,195 TO 3 TB

					=$654,747 TO RETIRE $5,257,500 NOTE ISSUED BY URA

*ASSESSED VALUE OF BLDG. $6,125,000 X .0320 = $196,000
ASSESSED VALUE OF LAND $96,250 X .1845 = $17,758

SCHENLEY CTR.	$30,800	$25,393,377			*CITY-BLDG., LAND*
	($7,700)	($6,348,344)	*		$204,322 INCR.
					COUNTY REAL ES.
			“	*X.0252*	$159,978 INCR.

					SC. DIST. REAL ES.
		“		*X.0597*	$378,996 INCR.

					$743,296
					-$187,380 TO 3 TB

					$555,916 TO RETIRE $5,103,000 NOTE ISSUED BY URA

*ASSESSED VALUE OF BLDG.- $6,340,644 X .0320= $202,901
ASSESSED VALUE OF LAND-$7,700 X .1845 = $1,421

<u>LAZARUS/PENN AVE</u>.	$22,944,200	$60,000,000			*CITY-BLDG., LAND*
	($5,736,050)	($12,300,000)	*		$976,712 INCR.
					COUNTY REAL ES.
		"		*X.0252*	$478,209 INCR.
					SC. DIST. REAL ES.
		"		*X.0597*	$903,319 INCR.

					$2,358,240
					-$1, 167,101 TO 3 TB
					+ $1,500,000 MUN.

					$2,694,139 TO RETIRE $29,950,000 NOTE ISSUED BY URA

*THE CITY HAS PLEGED A $1,500,000 MUNICIPAL SERVICE PAYMENT ON THE PENN AVENUE PLACE PROJECT TO HELP RETIRE THE BOND

<u>GIANT EAGLE</u>	$0	$14,981,596			*CITY-LAND, BLDG.*
	($0)	($3,071,227)	*		$192,976 INCR.
					COUNTY-REAL ES.
		"		*X.0252*	$77,395 INCR.
					SC. DIST.-REAL ES.
		"		*X.0597*	$183,352 INCR.

					$453,723 TAX INC.
					-$113,431 TO 3 TB
					+$75,000 MER. TX@

					= **$415,292** TO RETIRE $3,887,259 NOTE ISSUED BY URA

*ASSESSED VALUE OF BLDG. $2,450,267 X .0320= $78,409

ASSESSED VALUE OF LAND $620,960 X .1845 = $114,567
@THERE IS AN EXPECTATION THAT THE NEW SITE WILL GENERATE $82,000 ANNUALLY IN MERCANTILE TAXES, OF WHICH $75,000 WILL BE PLEGED TO RETIRE THE BONDS

MELLON OPER.	$13,640,000	$97,072,927		*CITY-BLDG*.
	(3.4M)	($19,899,950)	*X.0320* *	$527,678 INCR.
				COUNTY-REAL ES.
		"	*X.0252*	$415,547 INCR.
				SC. DIST.-REAL ES.
		"	*X.0597*	$984,450 INCR.

				$1,927,625 INCRE.
				-$732,517 TO 3 TB
				+$412,500 PKG. TX

				=$1,607,659 TO RETIRE $14,700,000 NOTE ISSUED BY URA

*. THE CITY WILL TAKE NO INCREMENT ON THE LAND AFTER THE INCREASE IN THE MKT VALUE OF THE PROPERTY. THE INCREMENT WAS FIGURED AS SUCH:

FUTURE ASSESSMENT - CURRENT ASSESSMENT X MILLS = INCREMENT

$19,899,950 **-** $3,410,000 = $16,489,950 X .0252 (COUNTY) = $415,547

FULTON BLDG.	$1,242,800	$28,846,064		*CITY-BLDG., LAND*
	($372,000)	($5,913,443)	*	$256,078 INCR.
				COUNTY REAL ES.
		"	*X.0252*	$136,144 INCR.
				SC. DIST. REAL ES.
		"	*X.0597*	$322,531 INCR.

				$714,752
				- $339,031 TO 3 TB

				$375,721 TO RETIRE $3,448,025 NOTE ISSUED BY URA

SOUTH SIDE	$607,600	$230,859,610		*CITY-BLDG., LAND*
	($151,900)	($47,326,221)	*	$1,839,939 INCR.
				COUNTY REAL ES.
		"	*X.0252*	$1,192,620 INCR
				SC. DIST. REAL ES.
		"	*X.0597*	$2,825,375 INCR.

				$5,857,935
				- $2,395,646 TO 3 TB

				$4,163,913 TO RETIRE

$25,000,000 NOTE ISSUED
BY URA

*PARKING REVENUES OF $649,152 WILL ALSO BE PLEDGED TO RETIRE THE BOND.

HOME DEPOT	$558,312	$8,000,000		*CITY-BLDG., LAND*
	($139,578)	($1,640,000)	*	$130,585 INCR.
				COUNTY REAL ES.
		"	*X.0252*	$41,328 INCR.
				SC. DIST. REAL ES.
		"	*X.0597*	$97,908 INCR.

				$269,821
			-	$106,821 TO 3 TB

			$163,000 TO RETIRE $1,616,790 NOTE ISSUED BY URA	

*ASSESSED VALUE OF BLDG.- $1,127,833 X .0320 = $36,090
ASSESSED VALUE OF LAND- $512,167 X .1845 = $94,494

PROJECTS IN PITTSBURGH THAT HAVE UTILIZED TIF

PROJECT	PART OF PROJECT TO WHICH TIF MONEY WAS DEVOTED
PITTSBURGH TECHNOLOGY CENTER	PARKING GARAGE, PREPARATION OF UNION SWITCH AND SIGNAL FACILITY
ALCOA	PARKING GARAGE, INFRASTRUCTURE IMPROVEMENTS
LAZARUS/PENN AVENUE PLACE	PARKING GARAGE, RENOVATION OF OLD LAZARUS BUILDING INTO OFFICE SPACE
PENN LIBERTY PLAZA	PARKING GARAGE
FEDERAL NORTH REDEVELOPMENT	PARKING GARAGE, SITE PREPARATION FOR ALLEGHENY GENERAL
SCHENLEY CENTER	PARKING GARAGE, SITE PREPARATION
MELLON OPERATIONS/FIFTH AND FORBES RETAIL	SITE PREPARATION OVER SUBWAY SYSTEM, DEVELOPPMENT OF RETAIL CORRIDOR
GIANT EAGLE DISTRIBUTION CENTER	SITE PREPARATION
SOUTH SIDE WORKS	RENOVATION OF STREET PATTERNS, UTILITIES, PARKING FACILITIES, PLAZAS, AND GREEN SPACES
HOME DEPOT	SITE DEVELOPMENT
FULTON BUILDING	PRESERVATION OF HISTORICAL SIGNIFICANCE OF THE BUILDING AND SITE PREPARATION FOR A MARIOTT HOTEL

EMPLOYMENT IMPACT FROM TIF PROJECTS,

1994-1999

PROJECT	JOBS CREATED, MOVED, OR BOTH ?	IF CREATED, HOW MANY? IF MOVED, FROM WHERE?
PITTSBURGH TECHNOLOGY CENTER	BOTH	470 MOVED FROM McCANDLESS TOWNSHIP, 80 MORE CREATED TO DATE
ALCOA	MOVED	MOVED FROM DOWNTOWN ALCOA BUILDING
LAZARUS/PENN AVENUE PLACE	BOTH	580 EMPLOYEES MOVED FROM GREENTREE AND DEMOLISHED STRUCTURES: LAZARUS EXPECTS TO EMPLOY 260
PENN LIBERTY PLAZA	MOVED	720 EMPLOYEES MOVED FROM OLIVER PLAZA TO NEW SITE
FEDERAL NORTH	CREATED	56 NEW FULL TIME JOBS
SCHENLEY CENTER	CREATED	110 NEW FULL TIME JOBS
MELLON OPERATIONS/FIFTH AND FORBES	BOTH	SEVERAL HUNDRED ESTIMATED, OTHERS MOVED FROM DOWNTOWN LOCATION
GIANT EAGLE DISTRIBUTION CENTER	BOTH	45 NEW FULL TIME JOBS, OTHERS MOVED FROM LAWRENCEVILLE LOCATION
SOUTH SIDE WORKS	UNKNOWN	
HOME DEPOT	CREATED	150 NEW EMPLOYEES
FULTON BUILDING	CREATED	100 NEW MANAGERIAL, STAFF, AND SUPERVISORY JOBS ARE EXPECTED