





After years of declining property values, The Galleria is now assessed at less than half of its 1980 value. New owners, Columbus, Ohio-based Continental Development, are requesting tax increment financing assistance to try to restore the property values. Opposite page, Continental's Barry Ford, left, and Mike Hudec have already spent some of the company's money on renovations.

TIF

TAX INCREMENT FINANCING SPARKS DEBATE

BY MERLE JANTZ

PHOTOS BY CHRISTOPHER ROLINSON

Everybody agrees that somebody needs to put some money into the slumping Galleria shopping mall. Where opinions diverge is when it comes down to who should pay.

Continental Development, of Columbus, Ohio, owner of The Galleria, is requesting several million dollars in tax increment financing (TIF) to further renovate the 16-year-old shopping mall (interior renovations have begun) and make other improvements to the lower Washington Road commercial area, which includes The Galleria, two gas stations and the former Elby's site, now controlled by McDonald's. The amount of financing requested is still under discussion.

First, a quick definition: Under TIF, if a development project has the promise to raise property tax revenue significantly, the property tax is frozen for a predetermined number of years; the developer borrows money, and money from the increase in assessed value is used to retire the debt.

In the Galleria project, Mt. Lebanon Municipality and Mt. Lebanon School District are the two taxing bodies that may participate in the project—Allegheny County will not.



The Mt. Lebanon Commission, along with the Mt. Lebanon School Board, will make the final determination on whether to grant a developer's request for tax increment financing, after holding at least one public hearing each and gathering input from residents. Mt. Lebanon commissioners, clockwise from left: Dale Colby, Ty Ely, Keith Mulvihill, Dave Humphreys and Barbara Logan.



Continental is appealing the current \$21.9 million county tax assessment of The Galleria, since it paid \$17 million for the property. Once the appeal is settled and a figure is reached, if the TIF is granted, the municipality and the school district will collect property taxes at that figure for the next 19 years. As the property increases in assessed value, the money that Continental would have paid to the two taxing bodies is used to pay off the debt.

The local program for tax increment financing was developed and recommended by Mt. Lebanon's Economic Development Council, a group of volunteers with backgrounds in fields such as banking, real estate and development. If approved by the Mt. Lebanon Commission and the Mt. Lebanon School Board, The Galleria would be the first local project to receive a TIF. The two bodies have held public hearings on the issue, and a decision is expected before the end of the year.

Tax increment financing—for the Galleria project or in general—is not without its critics. A June 16 editorial in the Tribune Review, which has been an outspoken opponent of TIF in general, left little doubt about where the paper's editorial board stands on the debate. It was titled "LOU-nee, as in 'crazy, foolish.'"

At Mt. Lebanon Commission's July public hearing, Westover Road resident Jake Haulk, president of the conservative Allegheny Institute of Public Policy, expressed skepticism about Continental's revenue projections. "Retail is inherently faddish," Haulk said "There is simply no guarantee that \$13 million in construction investment will result in a \$36 million appraisal for tax purposes."

Barry Ford, vice president of development for Continental in Pittsburgh, has earmarked the proposed funding for renovations to The Galleria's aging underground parking garage, and the realignment of Washington Road entrances to The Galleria





and the former Elby's site, improving access to both places. A traffic signal also is proposed for that intersection.

The developers will spend money on the mall, to make inside and outside improvements, including renovating storefronts and revamping signs to make the mall more visible to passersby.

Continental needed to spend money after buying the place "just to stop the bleeding," says Ford. Noting that the vacancy rate is hovering at about 30 percent, he says, "The location is the only thing this place has going for it. Everything else is a problem."

If the TIF is denied, Continental will have less money to spend on upgrading the mall and attracting good anchors. Plans to update and modernize The Galleria will move forward in any case, Ford says, but without the TIF, the garage renovations will have to be done at the expense of "sexier" changes, such as new signs and a new look for the 16-year-old mall, that will attract shoppers and diners. And without

the TIF, it would be difficult to meet the space and rent-per-square-foot demands of highly desirable anchor tenants, such as Bravo's or Barnes and Noble.

"This place needs an incredible infusion of energy, talent and money," Ford says.

If the TIF is approved, Continental would borrow the money through the Redevelopment Authority of Allegheny County and would be responsible for debt service payments. While it is possible that if The Galleria's assessed value falls below the figure that is ultimately agreed upon (probably about \$18 million) the municipality and school district could see less tax money than expected, Continental will always be responsible for paying the debt service on the loan.

If The Galleria's value should increase more quickly than projected, the municipality and school district would get additional revenue that either could be put into their general funds or be used to pay down the TIF bond sooner.

Continental estimates The Galleria's

Some of the funding requested by The Galleria's new owners would be spent on realignment of the Washington Road entrances to The Galleria and the former Elby's site, improving access to both places. A traffic signal also is proposed for that intersection. Properties included in the proposed tax increment financing zone are The Galleria, the former Elby's and the gas stations at the corner of Washington and Gilkeson roads.

worth will jump from its current level of \$18 million to \$34 million within seven years of renovation, if the TIF is granted. With the TIF money helping to defray the cost of upfront infrastructure improvements, there would be more private dollars available to attract tenants and customers.

"We'll figure out how to do the project either way," says Ford. "Without the TIF, the risk of failure is much greater, but we'll make our money. The TIF investment allows the taxing bodies to make some money also." ➤



Mt. Lebanon School District relies on property tax for a much larger portion of its income than the municipality or the county. School district millage is 20.76, compared to 3.99 mills of municipal property tax and 4.72 mills for Allegheny County. School board members and school officials, from left: Jean Palcho, James Blazek, Skip Kasky, school solicitor Thomas Peterson, Rob Keenan, Superintendent Glenn Smartschan, secretary Jeannine Szalinski, Carol Walton, Ron Hoffman and Rodney Shepherd. Nor pictured: board member Beverly Maurhoff.



TIF specialist Dusty Elias Kirk is an attorney with Pepper Hamilton and special counsel to the Redevelopment Authority of Allegheny County. She stresses that any risk involved in granting a TIF rests with the developer.

“There are a number of ways a TIF can be structured, but in any case, if the developer fails, there is some security that must be posted,” she says. The particulars of what that “security” will be are currently being negotiated between Continental and representatives of the municipality and the school district.

Tax increment financing is an economic development tool that has been used to help launch a number of regional development projects, including Station Square, The Waterfront and the still-under-construction Brentwood Town Centre.

Continental was the developer of the Waterfront, the 260-acre shopping and entertainment complex in Homestead. Allegheny County, Homestead, West Homestead and Munhall all participated in a \$32 million TIF for The Waterfront. Increased tax revenues from the developed property over 20 years will pay the debt on bonds issued to lay the initial groundwork for construction. Over the next 15 years, the participating municipalities must also contribute a total of \$100,000 a year from The Waterfront’s new real estate tax receipts to a Main Street Fund that will be used to revitalize the commercial district surrounding the Waterfront.

“Without that TIF, The Waterfront never would have happened,” says Ford, who oversaw the project for Continental.

the process

Before the TIF request can be acted upon, state law mandates a series of steps that have to be taken. In Pennsylvania, the Urban

Redevelopment Law spells out very concrete requirements for granting a TIF. The process can take anywhere from a few months to several years to complete.

In Mt. Lebanon, a committee was formed last January composed of representatives from the school board and the municipality. Serving on the committee were School Directors Jean Palcho and Rodney Shepherd, Commissioners Dale Colby and Ty Ely, and Jim DiGregory of the economic development council. Kurt Ferguson, Mt. Lebanon’s former economic development officer, and Jan Klein, school district finance officer, provided staff support. The county is not participating in the TIF project, which means Continental will have to pay the full county tax no matter what the other two bodies decide. The committee was formed in the late winter and held a series of meetings through the end of May.

Under the law, an area cannot be eligible for a TIF unless a basic conditions report shows that it meets one or more criteria of “blight,” as defined under the law. There are 14 criteria, including unsafe, unsanitary, inadequate or overcrowded condition of the dwellings in the area; inadequate planning of the area or excessive land coverage by the building; lack of proper light, air and open

Under TIF, if a development project has the promise to raise property tax revenue significantly, the property tax is frozen for a predetermined number of years; the developer borrows money, and money from the increase in assessed value is used to retire the debt. Continental Development, owners of The Galleria, top right, are requesting the first-ever TIF in Mt. Lebanon. Bottom right: Continental also was the developer of The Waterfront, the 260-acre shopping and entertainment complex in Homestead, Allegheny County, Homestead, West Homestead and Munhall all participated in a \$32 million TIF for The Waterfront. Increased tax revenues from the developed property over 20 years will pay the debt on bonds issued to lay the initial groundwork for construction.

space; defective design and arrangement of the buildings; faulty street or lot layout, and economically or socially undesirable land use. The report is submitted to the municipal planning board for consideration, and if the report is accepted, a public hearing must be held, and each of the two taxing bodies must vote to grant the TIF.

According to the report submitted to Mt. Lebanon Planning Board by consultant Steven Zecher of Planning and Project Management, The Galleria area should be designated as blighted because the mall was poorly designed, and traffic patterns in and around the mall and its parking facility cause “congestion, confusion, and limited access and ingress.” Zecher says that the unaligned exits from The Galleria and from the former Elby’s site add to the confusion.

Fulfilling the condition of “economically undesirable land” was done by citing the decline in market value of The Galleria and the other properties in the TIF district, from a high of \$52,171,040 in 1980 to its current \$18,466,100, pending appeal.

In June, the planning board voted to accept the report.

Navahoe Drive resident Bill Matthews believes the planning board was premature in its acceptance.

Matthews, who spoke at a public hearing on the TIF request and also submitted a written report, complained that the proposal did not take into consideration Mt. Lebanon’s comprehensive plan.

Mt. Lebanon planner Keith McGill points out, however, that Mt. Lebanon’s comprehensive plan, adopted last



Photo courtesy of Continental Development

December, defines the role of the economic development council and lists priorities for the council, including continuing to “develop appropriate product support.” Tax increment financing is identified as a possible tool to be used.

“In this sense the use of TIF as a development tool is consistent with the priorities of the EDC as identified in the comprehensive plan,” McGill says. Mt. Lebanon Commissioner Dale Colby, who serves on the TIF committee, says he is grateful to all of the residents who have provided information and feedback during the decision-making phase.

“It’s a subjective issue,” says Colby. “Naturally the question is, ‘but for the TIF, could Continental make the project succeed?’ Well, I don’t think we’d do this, if we thought they would turn the same profit either way.”

Colby, a financial planner, believes whatever

decision the commission reaches, it will be one borne of long and careful consideration.

“The Galleria is by far our biggest commercial property, and as big of a decision as it is for us, it’s much more than that for the school district, which receives 80 percent of its revenue from property taxes,” he says. “So we are not approaching this lightly.”

“What I do know is that there is a very good market for retail in the South Hills, if it’s done right.”

And “doing it right” means attracting and maintaining the kind of retail that meets residents needs and enhances the community, McGill suggests, once again citing the community comprehensive plan. “One of the objectives in the plan is “to encourage diversification of Mt. Lebanon’s commercial base,” he says. The Galleria site provides the opportunity for a variety of commercial uses to meet that objective, as opposed to a single use or ‘big box’ retailer.”