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POLICYPAPER

Valley Metro Light Rail Economic Development Claims Fall Flat

By . Randal O'Toole

Having opened one light-rail line, Valley Metro persuaded Phoenix voters to increase sales taxes to build more light-rail lines in 2015. Businesses along the proposed light rail expansion would be severely impacted by the construction and configuration of the new rail lines, so now a new measure is on the ballot in August 2019 that would halt further rail construction and spend the funds on road repairs and alternative transit instead.

Valley Metro's major argument in favor of rail is that rail transit stimulates economic development. The agency has compiled a list of 344 developments along the existing rail line that it says took place because of the construction of that line. In fact, this paper will show that the vast majority of these new projects would have happened anyway, happened only because they were subsidized and that the cost of rail construction exceeded any actual economic development created by light rail.

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Portland's Light Rail Disaster

The claim that light rail stimulates economic development originated in Portland, Oregon. In 1986, Portland opened the first light-rail line built with federal funds. It proved to be a disaster. Before construction began, 9.9 percent of Portland-area commuters took transit to work.[1] Significant cost overruns during construction forced Portland's transit agency, TriMet, to raise bus fares and cut bus service. As a result, after the line opened, only 6.8 percent of Portland-area commuters took transit to work.[2]

To justify this disaster, TriMet claimed that light rail had stimulated economic development. It called this the "field of dreams" theory, after the 1989 movie whose catch phrase was "build it and they will come."[3]

A close look at the list of projects that TriMet claimed were built because of the light rail revealed that nearly all would have been built without it. For example, the Portland Trailblazers wanted a new basketball arena so they could sell more tickets. They built the new one right next to the old one, which happened to be near the light-rail line. The arena would have been built with or without the light rail.

Downtown Portland experienced a building boom after the light rail opened, and since the light rail went downtown, TriMet took credit for it. The agency neglected to mention that President Clinton and Oregon Governor Barbara Roberts both signed executive orders requiring federal and state agencies to locate their offices downtown.[4] This was a great gift to downtown property owners, and it led agencies such as the U.S. Bureau of Land Management to move from northeast Portland to downtown and the Oregon Department of Transportation to move from southeast Portland to downtown, but it had nothing to do with light rail.

The chink in TriMet's argument was revealed in 1996 when Portland's city council held hearings on vacant lands in the city that might be suitable for development. Portland city planner Mike Saba sadly testified to the council that all of the land around light-rail stations had been zoned for such development, but despite this "we have not seen any of the kind of development—of a mid-rise, higher-density, mixed-use, mixed-income type—that we would've liked to have seen" in the station areas.[5]

"We are in the hottest real estate market in the country," noted city commissioner Charles Hales, yet "most of those sites [along the light-rail line] are still vacant."[6] Hales proposed, and the city commission agreed, to resolve this problem by heavily subsidizing projects along the light-rail route. This became a precedent for all future rail projects in Portland. Yet TriMet continued to claim that all developments, including subsidized ones, were built solely because of the rail lines.

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FTA Asks if Rail Creates Growth

In 1995, the Federal Transit Administration wanted a definitive answer: Does rail transit, including both light rail such as Portland's and heavy rail such as San Francisco BART, stimulate economic development? It asked UC Berkeley planning professor Robert Cervero, a strong advocate of transit-oriented development, and Portland transportation consultant and transit advocate Samuel Seskin, to study the question.

Their 55-page report concluded that rail transit does not stimulate new development. "Urban rail transit investments rarely 'create' new growth," they said, "but more typically redistribute growth that would have taken place without the investment." The main beneficiary of that redistribution, they continued, has been downtowns in "the form of redeveloped land and new office, commercial, and institutional development."[7]

In other words, development along the rail line is a zero-sum game; more development there meant less development somewhere else in the urban area. Total tax revenues in the urban area aren't increased by light rail, except to the extent that taxes are raised to pay for it.

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Portland Subsidizes Transit-Oriented Developments

Nevertheless, transit agencies continued to claim that rail transit generated economic development. As noted above, Portland in particular decided that to get that development, it would have to subsidize it. Under Oregon law, Portland is allowed to create urban renewal districts and subsidize development in those districts. The city located all of its districts along rail transit lines and directed close to $2 billion in subsidies to the developments along those lines.[8]

One of the rail lines was a new streetcar line built from north of downtown, through downtown, to south of downtown. This line went through four urban renewal districts that together received subsidies of around a billion dollars. Among the subsidies were parking garages built to support retailers who located near the streetcar lines.

The city then issued a report claiming that all new development along the line was due to the streetcar. Developments attributed to the streetcar included parking garages with thousands of new parking spaces, most of which were built at taxpayer expense. Significantly, the city could find almost no new development around the one part of the streetcar line that went outside of an urban-renewal district.[9]

Valley Metro Borrows Portland's Rhetoric

In 2015, to help persuade voters to fund more light-rail lines, Valley Metro decided to follow Portland's example, with an added twist. It issued a paper claiming that the region's first light-rail line had stimulated $7 billion of new developments. Yet a close scrutiny of this paper in a study I authored and released by the Arizona Free Enterprise Club revealed that almost all of the developments fell into one of three categories: Projects that would have been built without the light rail; projects that were subsidized; and — the new twist — projects that were planned but never built.

The Phoenix Convention Center was built long before light rail tracks were ever laid in Phoenix, yet Valley Metro claims it is responsible for the $600 million renovation in 2008.

Projects on Valley Metro's list included a $600 million expansion of the Phoenix Convention Center and a new high school. Both of these clearly would have been built without the light-rail line. If anything, the convention center influenced the location of the light rail, not the other way around. Additionally, the convention center expansion was largely financed and paid for by the State of Arizona, not local taxpayers. Other projects were funded with low-income tax credits, but many on Valley Metro's list were never built at all and the land where they were to be located was still vacant in 2015.

For example, Valley Metro counted a $2.6 million planned multifamily housing project called Sycamore Station in Mesa that was never built. It also counted a mixed-use development with 15,000 square feet of retail and 160 residences on 17th and Camelback that was to be called Escala on Camelback. The land it was to be built on was sold at foreclosure in 2011. Both sites remain vacant to this day; if light rail really did spur economic development, someone would have bought them and built on them.

Valley Metro's Latest Claims

Today, Valley Metro says it has weeded out uncompleted projects and added more so that it now attributes $11 billion worth of development to light rail. Light rail is "creating economic vitality," says one Valley Metro publication. "Every $1 invested in transit creates $8 in economic growth."[10]

Valley Metro has persuaded many elected officials that light rail is the generator of economic growth. Light rail "has resulted in $240 million of completed economic development projects" in Mesa, said Mesa Mayor John Giles earlier this year.[11]

Proving that light rail created new economic growth would require a comparison of new development along the light-rail line with the amount of new development in the rest of the urban area. Yet Valley Metro makes no such comparison. Instead, it merely tallies all of the new development within ½ mile of a light rail line and claims, or at least implies, that such development was stimulated by the rail line.

The Talking Stick Arena was renovated for $75 million in 2005 – three years before light rail opened.

A parking garage at the Phoenix Biomedical Campus that cost $19 million to build. Valley Metro fails to explain how light rail leads to building more parking garages.

One of the most absurd projects on Valley Metro's list is a 2,000-space parking garage for air travelers. The garage happens to be next to a light-rail station, so Valley Metro includes it on the list. Yet this station is the closest light rail comes to Sky Harbor Airport, so no one using the parking garage would ever use the light rail to get between the garage and the airport. Many other projects on the list similarly have nothing to do with transit.

The projects that have the most to do with light rail are classified by Valley Metro as "transit-oriented developments." On their web page on such developments, Valley Metro admits that "The cities of Phoenix, Tempe and Mesa have taken action to encourage development near the light rail alignment."[12] Valley Metro's own data indicates that this "action" has included spending $2.8 billion in taxpayer funding , all of which Valley Metro includes in its $11 billion total. This is on top of a variety of tax breaks and tax credits for such projects. If light rail alone were able to create transit-oriented developments and other economic growth, why was it necessary for Phoenix, Tempe, and Mesa to spend billions of dollars in public money to "encourage" that growth?

Valley Metro's Economic Development Database

The $2.8 billion figure comes from a list of 344 projects worth $11 billion that Valley Metro calls its "light-rail transit economic development database."[13] In conjunction with property tax and development data provided by the Arizona Tax Research Association, our analysis of the projects found:

Cityscape in downtown Phoenix receives generous GPLET subsidies; yet Valley Metro claims light rail is the reason for its $320 million development.

- 42 projects worth $2.5 billion were subsidized through a program called Government Property Lease Excise Tax (GPLET). This generous subsidy eliminates taxes on the development for up to eight years, then replaces property taxes for an excise tax that is lower than the property tax for a total of 25 years. This tax break was specifically designed to promote the kind of development and redevelopment that Valley Metro claims was stimulated by light rail.[14]

Maricopa County Sheriff Office headquarters cost taxpayers $92 million. Is Valley Metro claiming that light rail brings so much additional crime that it spurred the need for public safety expansion?

- 46 projects worth $2.1 billion were government buildings such as the Maricopa County Sheriff's headquarters, the Department of Child Safety building, Arizona School for the Arts, the Phoenix Children's Museum, the Arizona Science Center, the Phoenix Police Forensic Lab, the renovation of Talking Stick Arena, and the expansion to the Phoenix Convention Center. If the governments that built these projects deliberately located them on the light-rail line, it was probably more to boost rail ridership than because the rail line had stimulated their construction.

Arizona Department of Child Safety spent $500,000 to redevelop their building. Valley Metro doesn't explain how this has anything to do with light rail.

Phoenix Forensic Lab was built in 2007, before light rail was in operation. It cost Phoenix taxpayers $44 million.

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Manzanita Hall, housing for ASU students, was built in the 1960s. ASU renovated the building for $50 million. Is Valley Metro claiming ASU would not have renovated this building without light rail?

- 46 projects worth $2.2 billion were university buildings, mostly at the University of Arizona in Tempe. Some of the most curious projects included were the renovations of Manzanita Hall and other student housing, renovations at Sun Devil Stadium, the Sun Devil Fitness Complex and the renovation of the Memorial Union, the ASU campus community center. This university, of course, is on the light-rail line, but it is difficult to see how the light rail would have stimulated expansion of the university. Instead, Valley Metro simply took credit for buildings that would have been built anyway.

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Sun Devil Fitness Complex cost over $32 million.

ASU's Memorial Union building cost over $54 million to renovate.

- 10 projects worth $910 million were on university property leased to private developers who were able to avoid paying property taxes because the university owns the land. The most notable example is the Marina Heights development in Tempe. Again, the university is near the light-rail line, but the property tax abatement was more likely the stimulus to these projects than the light rail.

The Marina Heights project receives $12 million a year in property tax abatements, a much more likely enticement for the $530 million development than that of light rail.

Proving that light rail created new economic growth would require a comparison of new development along the light-rail line with the amount of new development in the rest of the urban area. Yet Valley Metro makes no such comparison. Instead, it merely tallies all of the new development within ½ mile of a light rail line and claims, or at least implies, that such development was stimulated by the rail line.

Wash Werks Car Wash on Broadway is located 0.7 mile from the light rail, yet Valley Metro claims its $482,030 capital investment.

- 17 projects worth $317 million were located more than a half mile away—in most cases, more than a mile away—from a light-rail station, and 2 more projects worth $61 million were built several years before the light rail. These projects were probably not influenced by the light rail in any way.

- 17 projects worth $229 million that received low-income housing tax credits. The tax credits, more than the light rail, stimulated these projects.

- 16 other projects worth $154 million that received various other subsidies, mostly related to low-income housing.

Valley Metro says that another $418 million worth of commercial projects were generated by light rail. With two exceptions, these don't appear to have received any subsidies, yet it is questionable whether light rail did anything more than influence the location of some of the projects, and probably didn't even do that for many of them. These projects include:

The Tesla dealership located in Tempe. It is absurd for Valley Metro to claim that light rail is the reason why Tesla decided to open their dealership at this location.

- A Tesla automobile dealership, an airport parking garage with more than 2,000 spaces, and two gas stations. The Tesla dealer and one of the gas stations are located more than a half mile from a light-rail station and shouldn't even be on the list. As previously noted, the parking garage is located next to the light-rail station that is nearest to the airport, so no one would use the light rail to get from the garage to the airport. Is Valley Metro saying that light rail has stimulated people to buy more cars and park them at the airport?

QuikTrip on Broadway Road

- 128 projects with parking garages and another 163 with surface parking for a total of well over 70,000 parking spaces. Valley Metro's list didn't include the number of spaces for about a quarter of the parking areas, so the actual total was probably closer to 90,000, roughly two thirds of which were in subsidized projects. In effect, Valley Metro is saying that light rail led to so much increased driving that developers had to build tens of thousands of new parking spaces.

Tempe City Hall Parking Garage

The City of Phoenix sold the $350 million Sheraton Hotel for a loss last year.

- 11 hotels worth $233 million, including the Sheraton Hotel which was taxpayer financed. While it is conceivable that the light rail influenced the location of some of these hotels, it is very difficult to see how the light rail would lead hoteliers to build more hotels than would have been built without it.

- 7 office complexes worth $88 million. As with the hotels, the light rail may have influenced the location of some of these office buildings, but it probably didn't lead developers to build more offices than otherwise would have been built.

- 28 restaurant and retail centers worth $57 million. Is Valley Metro saying that people in Phoenix are eating out more because it built the light rail?

- 4 healthcare centers worth $20 million. Is Valley Metro saying that light rail is leading to more disease and injuries, thereby stimulating the construction of more healthcare centers?

- Three banks and two self-storage centers collectively worth $15 million. Again, it is difficult to imagine what mechanism might cause light rail to lead people to need to store their goods or increase their banking.

- A $6.9 million warehouse-industrial park built near the airport and completed two years before the light-rail line opened. Moreover, according to Valley Metro, it was financed entirely with public funds. To the extent that this was "stimulated" by anything, it was more influenced by its proximity to the airport than by light rail.

This leaves 78 residential projects worth just under $2 billion. It is easy to imagine that the light-rail line might influence the location of residential projects. However, a review of web ads for some of these projects shows that many of them emphasize nearby restaurants, shops, and entertainment centers as amenities but fail to mention the light rail.

The Osborn, a collection of projects on Osborn and Central Avenue costing well over $100 million, advertises that it is near the "best in night-life, dining, shopping, parks, arts, music, sports, and more." But its web page doesn't mention light rail.[15] Web pages for some of the projects do mention proximity to light rail, but the fact that some don't suggests that at least some of the developers were not influenced by the light rail to locate where they did.

Furthermore, Valley Metro's economic development database shows that 60 of the projects have more parking spaces than dwelling units (only 6 have fewer and the rest are unknown). This suggests that developers have little faith that residents would be willing to give up their cars because they lived near a light-rail station.

Census data shows that Maricopa County was growing at 3.0 percent per year in the decade before the light-rail line opened, and has grown at less than 1.6 percent per year in the decade since then, a 47 percent decline in growth rates.[16] In claiming that these residential developments were built because of the light rail, Valley Metro is effectively saying that the region grew faster because of the light rail and needed more housing. Since in fact it grew slower after the light rail opened, this is a difficult claim to support.

Of course, the slowdown in growth may be partly attributable to the 2008 financial crisis. But the U.S. population growth only slowed by about 29 percent after the recession—from about 1.0 percent per year to 0.7 percent.[17] What really changed was migration rates between states and urban areas. For some reason, the migration rate into the Phoenix metropolitan area slowed down. One possible explanation is the higher taxes imposed to pay for both the light rail and the subsidized developments along the light-rail line have discouraged employers from moving to the region.

A recent study of infrastructure investment found that it doesn't always lead to economic growth. If the investment is unproductive, researchers found, it can lead instead to "economic fragility."[18] Considering that Valley Metro light-rail fares only covered 28 percent of the costs of operations and maintenance in 2017, it is hard to classify Phoenix light rail as a "productive investment."[19]

Valley Metro might be justified in claiming that the locations of some developments were influenced by the light-rail line. Still, the data Valley Metro has provided to date is not sufficient to support this claim. To confirm this, far more data would be needed, including data showing how many developments have been built in the region that aren't on the light-rail line, which could reveal whether the areas along the line are getting a disproportionate share of new developments. Valley Metro, however, is making the much stronger claim that these $11 billion worth of developments happened *because of* the light rail. That is clearly untrue for the vast majority of them, and almost certainly not true for any of them.

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Additionally, the economic database fails to account for the economic loss associated with the dislocation and elimination of businesses due to light rail. If Valley Metro is going to claim that certain businesses are influenced and developed as a result of light rail, then the economic destruction caused by light rail should be included in their analysis for a proper accounting of project development along rail lines.

The bottom line is that virtually all of the projects on Valley Metro's economic development list would have been built somewhere in the Phoenix metropolitan area even if no light-rail line had been built. Given the various government projects and subsidies, most of them would have been built exactly where they were built. The locations of a few projects such as hotels and apartments might have been influenced by the light rail, but it is unlikely that a single additional hotel room or apartment was built because of the light rail than would have been built without it. If anything, the high costs of light rail slowed the growth of the Phoenix metropolitan area.

Endnotes

1. 1980 *Census of Population* (Washington: Census Bureau, 1982), table 118, “means of transportation to work,” for urbanized areas.
2. 1990 *Census of Population* (Washington: Census Bureau, 1992), table P30, “ means of transportation to work,” for urbanized areas.
3. G. B. Arrington, Jr., *Beyond the Field of Dreams: Light Rail and Growth Management in Portland* (Portland, TriMet, 1996).
4. William J. Clinton, Executive Order no. 12988, Civil Justice Reform, February 5, 1996, and Executive Order no. 13006, Locating Federal Facilities on Historic Properties in Our Nation’s Central Cities, May 21, 1996; Barbara Roberts, Executive Order no. 94-07, Siting State Offices in Oregon’s Community Centers, June 7, 1994.
5. Quotes from the October 23, 1996, city council meeting are taken from a videotape of that meeting made by the city of Portland, a synopsis of which is available, with links to selected portions of the video, at debunkingportland.com/transit/lightraildevelopment.htm.
6. Ibid.
7. Robert Cervero and Samuel Seskin, *An Evaluation of the Relationships Between Transit and Urban Form* (Washington: Transit Cooperative Research Program, 1995), p. 3.
8. *Prosper Portland: Adopted Budget FY18-19* (Portland: City of Portland, 2018), p. 20.
9. “Portland Streetcar: Development Oriented Transit,” City of Portland Office of Transportation, April 2008, p. 2.
10. “Valley Metro Rail: Creating Economic Vitality,” Valley Metro, 2016, tinyurl.com/y2ddlesu.
11. “Valley Metro Celebrates Mesa Light Rail Extension,” AZFamily.com, May 18, 2019, tinyurl.com/y65cb8rk.
12. “Transit Oriented Development,” Valley Metro, 2019, tinyurl.com/y5wvgwdo.
13. Since this list is not available on Valley Metro’s web site, I have posted it at ti.org/docs/VMEconDev.xlsx.
14. “Arizona Incentives: Lease Excise,” Arizona Commerce Authority, Phoenix, https://www.azcommerce.com/incentives/lease-excise.
15. “The Osborn,” Professional Equity Management, 2019, theosbornlife.com.
16. Census Bureau, “Annual Estimates of the Resident Population for Counties: April 1, 2010 to July 1, 2018,” tinyurl.com/y67394q2; “Intercensal Estimates of the Resident Population for Counties: April 1, 2000 to July 1, 2010,” tinyurl.com/y4scj52j; “Time Series of Arizona Intercensal Population Estimates by County: April 1, 1990 to April 1, 2000,” tinyurl.com/y4jospqr.
17. Ibid.
18. Atif Ansar, Bent Flyvbjerg, Alexander Budzier, and Daniel Lunn, “Does Infrastructure Investment Lead to Economic Growth or Economic Fragility? Evidence from China,” *Oxford Review of Economic Policy*, Volume 32, Number 3, 2016, pp. 360–390
19. 2017 National Transit Database (Washington: Federal Transit Administration, 2018), Fares, Operating Costs, and Capital Use spreadsheets. (The FTA classifies maintenance of existing facilities as a “capital use” and distinguishes it from construction of new facilities.)

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