Overview: Making the Case for Evaluating the Economic Benefits of Potential Transit Investments

Center for Transit Oriented Development
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In 2005, Congress passed the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). This law outlines the federal government's role in transportation infrastructure spending, and made several important changes to the ways in which projects are selected for federal funding. One such change was the inclusion of how "economic development" might be effected by transit projects under the New Starts transit-funding program. A new Small Starts program was created for projects under $75 million in federal funds. Small Starts calls for an expedited and streamlined process that also evaluates economic development as one of the criteria for funding.

Questions have arisen, however, in how the term "economic development" is interpreted and how the government includes potential economic development benefits as a factor when evaluating transit projects.

The Federal Transit Administration (FTA) has found this new requirement challenging, citing the difficulty of developing useful methods for measuring and predicting economic development. In its May 2006 interim New Starts guidance,[1] FTA has called for this factor to be considered as an "other factor" in evaluating and rating New Start projects, effectively demoting the importance of economic development as an evaluation criterion rather than treating it on par with land use and cost effectiveness as required by the new law. In August, 2006 the Federal Transit Administration released Interim Guidance and Instructions for the new Small Starts program.[2] FTA intends to define specific measures for evaluating the economic development of Major Capital Investment candidate projects in the Notice of Proposed Rulemaking (NPRM) that is due in early 2007. It appears, however, that FTA is using a narrow definition for the term economic development, focusing on increased productivity by improvements to travel times.[3]

Transit practitioners have responded, calling for FTA to elevate economic development to a stand-alone criterion, equal to Land Use and Cost Effectiveness. They cite a more pragmatic definition for the term economic development, focusing on real estate development or job growth at the neighborhood or transit corridor scales.

This discrepancy between the definition of economic development by FTA and transit practitioners necessitates attention. To address these discrepancies and challenges, the Center for Transit-Oriented Development (CTOD) has organized a December 5, 2006 Forum on

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[1] "Notice of Availability of Final Guidance on New Starts Policies and Procedures, Updated Reporting Instructions and New Starts Rating and Evaluation Process," *Federal Register*, Vol. 71, No. 98 , May 22, 2006.
[2] "Notice of Availability of Interim Guidance and Instructions for Small Starts," *Federal Register*, Vol. 71, No. 152, August 8, 2006
[3] "Major Capital Investment Projects: Proposed Rules," *Federal Register*, Vol. 71, No. 19, January 30, 2006.

Evaluating Economic Development Benefits of Future Transit Investments. Specifically, the Forum seeks to:

- Draw attention to the importance of economic development as a measure of transit investment feasibility;
- Review a variety of definitions of economic development currently used by practitioners both inside and outside the transit profession;
- Identify potential methods for measuring and predicting economic development benefits of transit investments; and
- Discuss strategies for successfully influencing the New Starts/Small Starts processes.

FTA is in the process of broader rulemaking on its major capital investments program. The NPRM is anticipated to describe final guidance for both New Starts and Small Starts evaluation and rating methods. The upcoming Major Capital Investments NPRM provides an opportunity to share an informed and consolidated response to FTA, steering policy toward a more beneficial outcome. The NPRM comment period is expected to begin in early 2007 and extend for 90-days.

Defining Terms and Benefits

Does transit truly have a distinct impact on development? Can development validate transit investments and create benefits for the community that it serves? Is economic development really different from land use? Why is inclusion of economic development important in an evaluation of a federal investment in transit?

CTOD research shows that regions with extensive transit systems gain the most from their transit investments, with greater densities, property values around transit, higher non-auto mode shares and lower auto ownership rates near transit, compared with regions with no fixed-guideway transit systems or even regions with smaller fixed-guideway transit systems.

Though clearly, these results have something to do with the pattern of land use around transit stations, the value that is accrued to communities can be measured in terms that are much broader than simply the number of housing units and jobs near stations or the cost effectiveness of a particular project. This indicates that economic benefits of transit investments that are linked to transit-oriented development patterns could be profound and worth pursuing as an individual criterion.

However, confusion can arise around the ambiguity of the term “economic development.” A systematic review of 25 transit operators’ websites by CTOD revealed several different definitions of economic development. Economic development is defined as having an impact on real estate development or property values for slightly over half of the agencies surveyed. Another popular definition referenced job creation as a result of transit. Along the same line, increased accessibility is commonly mentioned as a definition of economic development, specifically regarding greater job accessibility. The following table summarizes the various definitions of economic development used by transit agencies and their frequency. It should be noted that several agencies provided definitions that fell into more than one category.

Table 1: Definitions of Economic Development Used by Transit Agencies

Definition Category	Frequency
Real Estate/Property Values	36%
Employment	14%
Accessibility	14%
Local Spending	8%
Tax Revenues	6%
Social Justice	3%
None/Undefined	19%

Source: Center for Transit-Oriented Development, 2006.

While this survey provides no clear, consensus definition, it illustrates that transit operators have several proxy definitions of economic development, which are very different than a measure of "gross regional product" or productivity savings definition.

Indeed, the macro economists' view of "economic development" calls for measures of the standard of living of residents in a region as indicated by income, health statistics and education opportunities. From this perspective, it is difficult to separate out the specific economic benefits that a particular transit investment could make. However, planners and development economists use other measures that are more local or sub-regional, to assess the value provided by a specific capital investment to the employers, residents and local governments of that area, such as improved access to jobs, increased real estate values, and avoided infrastructure costs due to alternative patterns of development. Table 2 highlights some economic development impacts associated with different kinds of transit investments.

Table 2: Value Creation Case Studies for Selected Transit Lines

Ź	Dallas: DART System	Hudson-Bergen LRT Line	Evanston, IL: METRA	Chicago: UPNW Commuter Line	Portland: Streetcar	Minneapolis: Hiawatha	Arlington: Rosslyn-Ballston METROrail
Technology	LRT	LRT	Commuter Heavy Rail	Commuter Heavy Rail	LRT	LRT	Rapid Heavy Rail
Stations	39	23	4 stations	21	38 Stops	17	5
Extent	45 mi	15 mi		63 miles	6 mi	12 mi	3 mi
Amount of Development	Ź	9,435 New Housing Units	2,500 new housing units, 2.3 million sq feet of office added between 1986-2005	ŹOver 16,000 new dwelling units added since 2000 in addition to nearly 2 million sq. ft. of commercial space within _ mile of stations.	Since 1997, over 7,000 new housing units and 4.5 million sq. ft. of commercial within 2 blocks of stations.	Since 2003, nearly 11,000 new housing units, 760,000 sq. ft. of commercial within _ mile of stations.	Since 1972, 13,000 new housing units, 18 million sq.ft. of commercial
Value of Development	1999-2005: $3.3 Billion private investment; Between 1997 and 2005, DART-adjacent office properties saw 53% greater valuation increases than non-DART properties -- for residential properties, the figure was 39%. (WEINSTEIN 2005)		Assessed value increased 191 percent between 1985-2004		$2.28 Billion in Residential and Commercial Development since 1997 in a two block radius	Ź	As of 2006, the Rosslyn-Ballston Corridor had a taxable real estate value (land + improvements) of $14.54 billion.

Source: Center for Transit Oriented Development, 2006

Empirical evidence that transit paired with appropriate land use patterns creates significant value – measured in many different ways – is mounting. The challenge posed by FTA is: How can we take retrospective assessments of economic development and turn them into ***prospective estimates*** of benefits? How can we ensure that measures of economic development are distinctly different than current measures of land use and cost effectiveness? And how can a national evaluation model be established that does not unduly burden project sponsors and further complicate the existing New Starts process?

The answers to these questions are indeed challenging. However, when we look beyond traditional macro economics, we find predictive tools and methodologies that can be deployed, including:

- Entropy Indexes
- Housing and Transportation Affordability Index
- Job Sector Analyses
- Hedonic price models
- Input/Output models
- Base-case scenario comparisons
- Sketch modeling
- Econometric models
- Qualitative measures including developer agreements, TIFs, etc.

Another strategy is to suggest that FTA use a ***bundle of measures*** to evaluate how proposed transit investments leverage economic development, such as the ability to link transit-oriented jobs to residential neighborhoods, estimated cost savings to regional households based on specific transit investments, the potential for various local land use actions to generate significant development value, and avoidance of raw land consumption and/or other infrastructure costs.

Finally, a more significant change would be to modify the framework for the New Starts process to better link the goals for a particular transit investment with the goals of specific stakeholders. Such a system would be far more holistic – not simply about land use, cost effectiveness or economic development – but provide a more transparent connection between those who stand to benefit from a proposed investment. A preliminary structure for such a system might be as follows:

Table 3: New Starts Evaluation Measures Organized by Beneficiary

Category	Evaluation Measure*	Criteria Addressed**
Community Benefits	VMT Reduction/Mode Shift to Non-Auto	Environmental Benefits
	Community Reinvestment/Value Creation	Economic Development
	Concentrated Development	Economic Development/Transit Supportive Land Use
	Transit Supportive Land Use Plans, Zoning + Implementation Tools	Transit Supportive Land Use
	Mixed-Income Housing Strategy	Economic Development
	Job Center Connectivity	Economic Development
	Local Street Connectivity Measure	Environmental Benefits
	Parking Reduction Program	Transit Supportive Land Use
	Avoided Infrastructure Improvements	Economic Development
	Air Quality/Pollution Emissions	Environmental Benefits
	Public-Private Partnerships	Economic Development/Transit Supportive Land Use
User Benefits	Transit Supportive Land Use Plans, Zoning + Implementation Tools	Mobility Improvement
	Transit Service Connectivity	Mobility Improvement
	Travel Time Savings	Cost Effectiveness/ Mobility Improvements
	Low Income Households Served (existing and future)	Mobility Improvement
	Lower HH Transportation Costs	Economic Development
	Transit Service Enhancements (bulk passes, wifi, bikes)	Mobility Improvement
	User Congestion Avoidance	Cost Effectiveness
Transit Agency Benefits	Cost Effectiveness	Cost Effectiveness
	Operating Efficiencies	Operating Efficiencies/Mobility Improvements
	Ancillary Revenue Generation	Cost Effectiveness
	Reduced Access Costs	Mobility Improvement
	Joint Development Program	Transit Supportive Land Use/Operating Efficiencies
	Value Engineering	Cost Effectiveness

* This is a very preliminary list of measures. Duplication in different categories would require different metrics or simplifying to one category/measure

* * These are the current new Starts Project Justification Criterion.

Source: Center for Transit Oriented Development, 2006

This Symposium

Many questions remain unanswered pertaining to the role of economic development in planning for and evaluating prospective transit investments. Four perspectives on the linkages between transit investments and economic development will be provided, followed by discussion aimed at addressing the following questions:

- What are the key elements for making a persuasive case that economic development needs to have equal weight given to it in the evaluation of transit investments?
- Does closely bundling the consideration of transit investment and economic development diminish or enhance the proper evaluation of each criterion?
- Can we agree on a definition of economic development that work in the context of the New Starts/Small Starts process?
- Do the proposed models listed fully encompass the benefits created by transit and transit-oriented development? Are there other models that should be included?
- Can evaluation measures or models be created that do not unduly burden project sponsors? Could such methods be applied to both New Starts and Small Starts, or are different approaches needed given different scale of investments?
- What is an effective strategy for including the symposium recommendations in FTA's New Starts Evaluation process?

Simple observation and review of successful projects is showing that, more and more, communities seek transit investments as one of several means of maintaining economic competitiveness, providing mobility options and building livable communities. Though it is often a complex issue, FTA should incorporate this option into its analysis rather than overlook it. For that reason, guidance is needed to help facilitate FTA acceptance of the role that economic development plays in successful transit investments. Expertise from leaders in the field could steer FTA's decision-making, ensuring that the next generation of transit investments receive the support they require to attain all of their goals and achieve true success.