

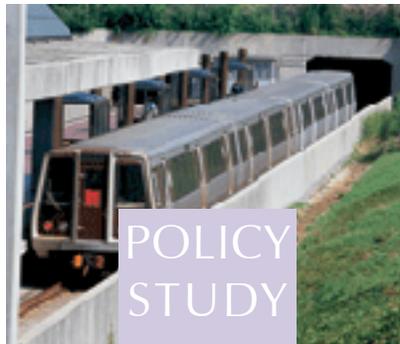
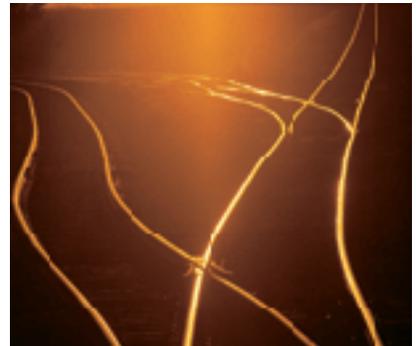


Reason

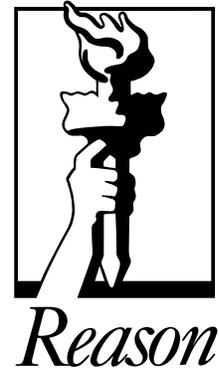
March 2003

SAN JOSÉ DEMONSTRATES THE LIMITS OF URBAN GROWTH BOUNDARIES AND URBAN RAIL

By Randall O'Toole
Project Director: Adrian T. Moore



POLICY
STUDY
309



Reason Public Policy Institute

A division of the Los Angeles-based Reason Foundation, Reason Public Policy Institute is a public-policy think tank promoting choice, competition, and a dynamic market economy as the foundation for human dignity and progress. Reason produces rigorous, peer-reviewed research and directly engages the policy process, seeking strategies that emphasize cooperation, flexibility, local knowledge, and results. Through practical and innovative approaches to complex problems, Reason changes the way people think about issues and promotes policies that allow and encourage individuals and voluntary institutions to flourish.

Reason Foundation

Reason Foundation is a national research and education organization that explores and promotes the twin values of rationality and freedom as the basic underpinnings of a good society. Since 1978, the Los Angeles-based Foundation has provided practical public-policy research, analysis, and commentary based upon principles of individual liberty and responsibility, limited government, and market competition. REASON is the nation's monthly magazine of "free minds and free markets." It covers politics, culture, and ideas through a provocative mix of news, analysis, commentary, and reviews.

Reason Foundation is a tax-exempt organization as defined under IRS code 501(c)(3). Reason Foundation neither seeks nor accepts government funding, and is supported by individual, foundation, and corporate contributions. Nothing appearing in this document is to be construed as necessarily representing the views of Reason Foundation or its trustees, or as an attempt to aid or hinder the passage of any bill before any legislative body.

Copyright © 2003 Reason Foundation. Photos used in this publication are copyright © 1996 Photodisc, Inc. All rights reserved.

Table of Contents

Introduction	1
San José Learns the Limits, and Consequences, of Urban-growth Boundaries	3
A. Growth Controls Introduced in the 1970s.....	3
B. Actual Growth Outstrips Planned Growth.....	4
C. The Nation's Fastest Rising Housing Costs	5
D. Housing Subsidies for the Upper-middle Class	6
San José Learns the Limits, and Consequences, of Light Rail	8
A. History.....	8
B. Ridership Falls Far Short of Projections.....	9
C. High Operating Costs.....	12
D. San José Congestion Increasing	13
E. Transit Funding Crisis.....	14
Conclusions and Recommendations.....	15
About the Author.....	16
Related Reason Foundation Studies	17
Endnotes	18

Policy Study No. 309

San José Demonstrates the Limits of Urban-growth boundaries and Urban Rail

BY RANDAL O'TOOLE

PROJECT DIRECTOR: ADRIAN MOORE

Part 1: Introduction

Cities around the nation struggle to cope with citizens' concerns about suburban development and traffic congestion. Recent years have seen urban-growth boundaries and light rail systems become very popular policy tools of urban planners and some municipal leaders.

The theory behind both urban-growth boundaries and light rail systems seems sensible at first. Growth boundaries stop development from "sprawling" beyond the limits it sets and forces new development and growth into denser development within the boundary. Light rail systems can carry a lot more people to and fro on a strip of land than can two lanes of cars with one occupant.

But from the beginning, reality has not matched theory. Urban-growth boundaries don't allow the kind of suburban house with a yard that most Americans want to own. Instead, they drive up the costs of all homes to increasingly unaffordable levels. And to frost the cake, by increasing density, they increase traffic and congestion. Likewise, light rail systems just don't meet any of the goals envisioned for them. Very few people can both live and work on a single thin line drawn by a planner for a light rail route. Very few people are willing to take a bus to the train, the train to a bus, the bus to work, and vice versa on the way home. So, light rail systems all carry vastly fewer passengers than expected as all transit systems keep losing market share to automobiles.

San José, California, provides an excellent case study of how the realities of urban-growth boundaries and light rail systems come home to roost. In the 25 years preceding the middle of 2001, San José housing prices grew by 936 percent, more than any other major urban area. And one consequence is that the city has spent hundreds of millions of dollars to provide housing subsidies to offset rising costs.

Meanwhile, San José's light rail system has flopped. Passenger miles of travel have remained below 1992 levels in every year through 2000 except 1998, and light rail ridership on the first line never exceeded half the riders projected in the original study. The system's operating costs are more than twice the national average for similar light rail systems and are more than the city's bus system measured either per passenger or per vehicle mile.

San José is a cautionary tale about believing the theory of urban-growth boundaries and light rail systems. The proponents of these policies prefer to talk about the theory, the logic, and the projections, and to ignore the harsh realities exposed by cities like San José that have implemented them. The story of what happened in San José can help policymakers evaluate urban-growth boundaries and light rail systems and understand why they have not lived up to their promises.

Part 2

San José Learns the Limits, and Consequences, of Urban-growth Boundaries

San José is California's oldest city, but it was a sleepy town of less than 100,000 people in 1950. Under pro-growth city manager A.P. Hamann, San José nearly quintupled in population from 1950 through 1970, representing an incredible 8 percent annual growth rate. By comparison, Las Vegas, the fastest growing major U.S. city in the last decade, is growing at only about 6 percent per year.¹

Part of San José's growth was due to an aggressive annexation program that octupled San José's land area in 20 years. As a result, the city's population density during that period declined from more than 5,600 people per square mile to less than 3,300.²

In 1970, the microprocessor was yet to be invented. Hardly anyone—not even science fiction writers—had imagined personal computers, and if you mentioned the World Wide Web to someone, he probably would have thought you were talking about some international communist conspiracy. At a time when such technology was evolving, changing the way people live and work, planners in the city of San José felt confident enough to write a 20-year plan based on traditional concepts of commuting that would lock the region into ever-spiraling housing prices. Partly as a result of their plan, within 25 years San José housing prices would increase by 936 percent, more than in any other major U.S. housing market.³

A. Growth Controls Introduced in the 1970s

Soon after Hamann retired in 1969, San José elected a succession of mayors and city councils with a very different attitude toward growth. First, Norman Mineta was elected mayor in 1971 and served until 1974, when he was elected to Congress. Of course, Mineta is now Secretary of Transportation.

Mineta was succeeded as mayor by Janet Gray Hayes, an outspoken opponent of Hamann's growth policies, even though she herself was a beneficiary of those policies, having moved to San José in the 1950s. Hayes initiated a downtown revitalization program that eventually pumped nearly \$1.5 billion into downtown San José.⁴ While downtown has several museums and tax-subsidized hotels, the retail sector remains lethargic and all but a tiny percentage of jobs are located elsewhere.

Under Mineta, the city wrote a land use plan, known as the "General Plan," that called for curtailing growth. The plan covered not just the 136 square miles in the city limits but another 200 square miles that the city deemed to be within its "sphere of influence." With the complicity of Santa Clara County, the city conspired to limit or prevent development from taking place on these 200 square miles of land.

When the plan was written, planners estimated that 643,000 people lived within this "sphere of influence," or at least 100,000 more than in the city itself. The plan considered four alternative populations for 1990: 643,000 (zero growth), 795,000 (which the plan called moderate growth), 878,000 (which the plan called high growth), and 1,036,000 (which the plan called maximum growth).

The "high" and "maximum" alternatives, however, were considered "undesirable" because they would be "too costly in terms of environmental quality and public facilities." Even the high growth alternate, said the plan, would be bad because "the densities required to house the population . . . would be appreciably higher than current typical densities"—unless, of course, growth were allowed to spill over into the area that the city did not want to see developed.

The twin goals of the plan, then, were to keep growth within an urban-growth boundary and to keep the density of housing within that boundary from growing "appreciably higher than current typical densities." Of course, the plan did not say how it would keep population growth from exceeding "desirable" rates or what would happen if the city were forced to choose between expanding the boundary and appreciably increasing densities within the boundary.

The boundary (which wasn't originally called an urban-growth boundary) excluded the hills around San José above the "15-percent-slope" line. It also excluded certain areas of the valley bottom, notably the Coyote Valley and South Almaden Valley.

B. Actual Growth Outstrips Planned Growth

By 1990, San José's population had grown to 782,000. If 100,000 more people still lived outside the city but within its "sphere of influence," then the region's population had grown at the undesirable "high growth" rate.

While San José might have limited growth within its sphere of influence, it couldn't stop Santa Clara County from growing by nearly half a million people between 1970 and 1990. The Census Bureau says that more than 400,000 of those people moved into the San José urbanized area. By coincidence, the Census Bureau's urbanized area is almost exactly the same size as San José's sphere of influence. The urbanized area, however, includes a number of cities that had incorporated in the 1950s and 1960s to escape from being annexed by San José.

The growth limits imposed by San José, combined with pressures to grow faster than San José deemed "desirable," led to rapidly inflating home prices. According to the Department of Housing and Urban Development, between 1976 and 1990, the price of a typical home grew by 365 percent.⁵ This was about three times as much as in Portland (122 percent), Denver (126 percent), Atlanta (114 percent), and Dallas (117 percent).

Despite the growing unaffordability of housing, the city wrote a new General Plan in the 1990s that basically affirmed the growth boundary (which it now formally called the urban-growth boundary). The basic excuses for not expanding the boundary were that it would lead people to drive too much and pose high urban-service costs on the city.

The 1994 General Plan classified the Coyote and South Almaden valleys as "urban reserves." These areas would be added to the boundary, said the plan, only under certain strict conditions:

- Enough new jobs were available in those areas to allow new residents to minimize commuting;
- Funding was available to pay for all the capital costs of new urban services; and
- The city's future budget was considered "stable" enough to pay for the operation and maintenance of those urban services for at least five years.

Note that these "triggers," as the plan calls them, have nothing to do with housing prices. Despite the fact that housing continued to become less affordable every month, the city refused to permit development of these areas. Cisco Systems wanted to build a new factory in the Coyote Valley, and homebuilders were more than happy to pay for construction of all necessary infrastructure. But the city argued that its finances weren't stable enough to ensure that it could maintain that infrastructure.

C. The Nation's Fastest Rising Housing Costs

So housing prices continued to grow, nearly doubling in the 1990s. In the 25 years preceding the middle of 2001, San José housing prices had grown by 936 percent, more than any other major urban area. During the same period, housing prices grew by 821 percent in San Francisco, 584 percent in Seattle, 398 percent in Portland, and just 138 percent in Houston.

Today, a 5-year-old, two-bedroom house that would be considered a "starter home" in most cities sells for around \$400,000 in San José. In October, 2002, the average sale price of a single-family detached home in Santa Clara County was \$641,000, while the average condo or townhouse sold for \$372,000.

According to Coldwell Banker, a 2,200-square-foot, four-bedroom home that would cost \$160,000 to \$180,000 in Las Vegas or Houston costs nearly \$630,000 in San José and even more in other Silicon Valley communities.⁶ While San José is only the 25th (out of 317) most expensive city on Coldwell Banker's list, most of the top 24 cities are also in the San José, San Francisco-Oakland, or Los Angeles urban areas and thus suffer from many of the same growth restrictions.

The National Association of Home Builders' Housing Opportunity Index, which estimates the percent of homes in a particular housing market that are affordable to a median-income family in that market, provides another measure of San José's unaffordability. In the most recent quarter for which data area available, the first quarter of 2002, the median-income San José family could afford just 20.1 percent of homes. This compares with a nationwide average of 67 percent and indices of 70 percent or more in Las Vegas, Phoenix, Tallahassee, Dallas, and Fort Lauderdale, all of which are relatively unregulated and are growing faster than the San José urbanized area.

Two sorts of government policies are largely responsible for unaffordable housing: urban-growth boundaries that drive up the cost of land and land use regulations that make subdivisions more time-consuming and expensive.⁷ San José suffers from both problems. Because of the boundary, an acre of land suitable for housing can cost well over a million dollars, or roughly 40 to 50 times as much as in many cities without such boundaries. The city of San José recently paid \$1.7 million an acre for five acres of land, located about 2.5 miles from downtown, on which it proposes to build affordable housing. In the Hamann era, subdivisions could be approved in a few months; today, it takes years. This delay is certainly a partial cause of high housing prices.

One response to high land costs has been an appreciable increase in residential densities. Census data indicate that the city's population density has risen from under 3,300 people per square mile in 1970 to more than 5,100 in 2000. The San José urbanized area is denser still, with more than 5,900 people per square mile. San José's land-use policies have not preserved open space so much as they have traded off urban open spaces, such as backyards and parks that are used and enjoyed by the public every day, for rural open spaces, such as private farms and rangelands that are not open to public use.

All of this suggests that land-use planning is the major reason why San José housing costs three to four times as much as in less regulated urban areas. San José's population growth is not responsible for this cost, as Las Vegas and other areas have been growing much faster than San José yet have remained very affordable. Higher incomes are not primarily responsible for this cost; although median San José incomes are 75 percent greater than the national average, this would allow for homes only 75 percent more expensive, not 250 to 300 percent more expensive than in less regulated communities. The fact that housing costs in other more regulated areas, such as Portland, San Francisco, and San Diego, are similarly inflated reinforces the conclusion that land-use planning is a major cause of San José's affordability crisis.

D. Housing Subsidies for the Upper-middle Class

Predictably, San José has also responded to high housing prices by either subsidizing "affordable housing" or requiring developers to provide a certain number of "below-cost" housing units as a condition of getting a permit to build at all.

The San José Housing Department proudly lists on its Web site 72 housing projects built in the 1990s that provide just under 6,000 units of low-income housing.⁸ These are mostly apartments but include some condominiums and even a few single-family homes.

The Web site reveals that San José has spent nearly \$180 million subsidizing this housing, not to mention tens of millions in city-backed, tax-exempt bonds, below-market land sales, and other indirect subsidies. The direct subsidies alone amount to \$30,000 per dwelling unit. In many projects, these subsidies are matched by support from churches and other charitable organizations.

On a per unit basis, the most heavily subsidized project was thirty-five single-family homes on 3,500-square-foot lots "located in the desirable Almaden Valley." San José provided \$142,000 per home to make these houses available to "moderate income families." This presumably reduced the price of these homes—for less than three dozen lucky families—from nearly \$500,000 to around \$350,000.

Of course, everything is distorted in Silicon Valley, including the definition of very low, low, and moderate incomes. The average income for a family of four in Santa Clara County is \$96,000.⁹ Even at today's low interest rates, with a 10 percent down payment, this is barely enough to afford a \$400,000 house—and, as noted, such homes are rare in San José.

The San José Housing Department thus defines "moderate income" for a family of four as up to \$96,000 a year.¹⁰ "Low income" is up to \$74,000 a year and "very low income" is up to \$48,000 a year for a family of four.

Even the moderate income definition leaves out many who are hurt by high housing costs. To qualify for a loan, even at today's low interest rates, someone wanting to purchase an average home in San José, with a 10-percent down payment and 30-year payoff, would have to earn more than \$120,000 a year.

Many of the cash subsidies provided by the city come from the federal government, which leads to an interesting irony. Nationwide, the median income for a family of four is about \$62,000. This means that many taxpayers outside of San José are paying to subsidize housing for San José families who earn more than the people subsidizing them.

This irony, however, is less important than the fact that San José's efforts to subsidize affordable housing are a drop in the proverbial bucket. San José has about 280,000 households, half of whom (by definition) earn less than median income. This means that the 6,000 units of subsidized housing help just 4 percent of those households. And in most cases, this doesn't represent much help, since the subsidies average just 20 percent of the cost of homes or apartments that are priced more than three times too high.

The inconsequential nature of housing subsidies is even more apparent when comparing the value of San José housing with those subsidies. If the average single-family home is worth \$640,000 and the average multi-family home is worth \$370,000, and 60 percent of San José dwelling units are single-family, then the total value of San José housing is nearly \$150 billion. Since (compared with relatively free-market cities such as Las Vegas or Houston) San José housing is priced more than three times too high, about \$100 billion of this value is caused by land-use regulation and the urban-growth boundary. Spending \$180 million in a decade on "affordable housing" will not do much to mitigate this cost.

Fixing San José's problems won't be easy. The biggest beneficiaries are people who owned land or housing before the 1974 General Plan. Since San José's population has nearly doubled since then, and less than two-thirds of San José families were homeowners in 1974, more people have been harmed than helped. Yet 62 percent of San José families own homes today, and they aren't going to want to see the drop in home values that would result from eliminating the urban-growth boundary or relaxing land-use regulations.

So it is not surprising that there continues to be strong opposition to opening the Coyote and South Almaden valleys to development. Opponents are brash enough to claim that developing these areas would lead to "increased gridlock, worsening air quality, and soaring home prices," when in fact the opposite is true. Former Mayor Janet Gray Hayes even called a plan to develop Coyote Valley "the Los Angelization of San José"¹¹. In fact, it is her policies that are turning San José into Los Angeles, the densest and most congested urban area in America.

Part 3

San José Learns the Limits, and Consequences, of Light Rail

Like San Diego, Portland, and St. Louis, San José jumped on the light-rail bandwagon in the early 1980s. It opened its first light-rail line in 1988 and has steadily, if slowly, expanded the system ever since. Secretary of Transportation Norman Mineta, who was San José's representative in Congress when the first light-rail lines were funded, is a big fan of light rail and promotes it in many other cities.

Yet no reasonable person could look at San José's light-rail lines as an example of sound transportation planning. Not only does San José light rail contribute almost nothing to the region's transportation needs, its ridership is pathetic even by the standard of other U.S. light-rail lines.

San José's light-rail construction costs have not been excessive relative to other light-rail lines, but its low ridership means high operating costs per rider. These high costs are a major factor in a financial crisis that is facing San José's transit agency, the Santa Clara Valley Transportation Authority (VTA).

A. History

The Santa Clara County Transit District (now known as the Valley Transportation Authority or VTA) took over San José's privately owned bus lines in 1976. Armed with a one-half cent sales tax, the agency rapidly expanded the region's bus service and doubled bus ridership in just three years. From the start, the agency was also enamored with light rail and began planning an extensive rail network.

A 1983 environmental impact statement for the first light-rail line also considered busways, HOV lanes, and highway expansions as alternatives to light rail. The study showed that highways were by far the most efficient way to handle increased transportation demand. While the cost of light rail per new rider (that is, the cost of attracting someone out of his car) was estimated to be around \$2 per rider, the cost of new roads diverting a car off of existing roads was estimated to be less than 10 cents per vehicle mile.¹² Yet the road improvement alternatives were discarded.

The study also estimated that a busway would cost less to build and attract more riders than light rail. But it also estimated that light rail would cost less to operate than buses. "Since the (operating) subsidies needed to supplement fares are paid out of local tax resources," said the plan, this difference in operating costs tilted the decision toward rail.¹³



For the cost of constructing its first light-rail line, the transit agency could have doubled the number of buses in its system. But then it would have to operate those buses, which it couldn't afford to do. Since federal and state funds were available only for capital costs, not operating costs, it elected to spend the maximum capital funds on projects that would pose the least operating cost. Of course, the reason why operating costs were low was that the project served only a tiny fraction of the region.

In short, light-rail technology was selected for reasons other than efficiency or common sense. The effect on the transit agency's budget probably played the biggest role in the decision to choose light rail over roads or expanded bus service.

Environmental impact reports for later light-rail lines did not seriously consider busway or highway improvements. They did, however, project significantly higher costs per new rider.

Where the first line was estimated to cost around \$2 per new rider, the second line, known as the Tasman Corridor, was projected to cost more than \$40 per new rider. Capital costs of \$42 million per mile, compared to less than \$30 million per mile for the initial line, played only a small part of this cost hike. The main reasons for the increase appear to be more realistic estimates of operating costs and ridership.

Phase one of the region's first light-rail line opened in 1988 and by 1992 it was 21 miles long. The 7.6-mile Tasman line opened in 1999 and a 1.9-mile extension opened in 2001. With funding from another one-half cent sales tax approved in 1996, two more lines are expected to open in 2004.

B. Ridership Falls Far Short of Projections

The emphasis on light rail led the agency to forego further expansions to the bus system. As a result, transit ridership in 1987 was actually lower than in 1982.

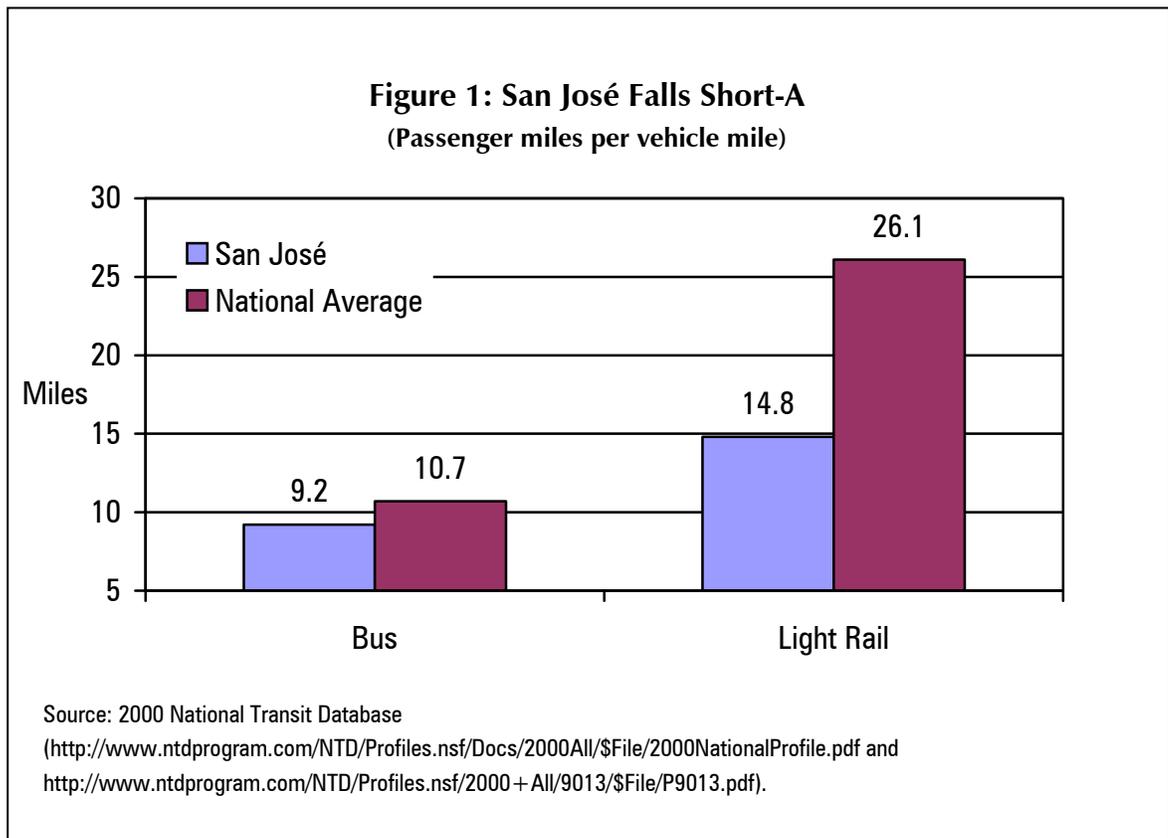
Ridership grew over the next four years as phases one through four of the first light-rail line were opened in succession. By 1992, when the line was completed, transit ridership was 35 percent greater than before it opened. Since many riders are counted twice—when they board a bus and again when they transfer to rail—at least some of this increase was due to more transfers as the agency replaced downtown buses with buses to light-rail stations. But at least some of the increase was real.

Success was short lived, however, as ridership immediately began to decline after 1992. Ridership fell so much in 1993 that the agency was forced to cut bus and rail service due to revenue shortfalls. While the number of riders began to rise again in 1996, passenger miles of travel have remained below 1992 levels in every year through 2000 except 1998. Moreover, light-rail ridership on the first line never exceeded half the riders projected in the original study.

In 2000, Santa Clara County voters were persuaded to fund more light-rail lines as well as an extension of BART to San José. Proponents naturally claimed that rail transit would reduce regional congestion. In fact, transit in general, and light rail in particular, has an insignificant effect on congestion.

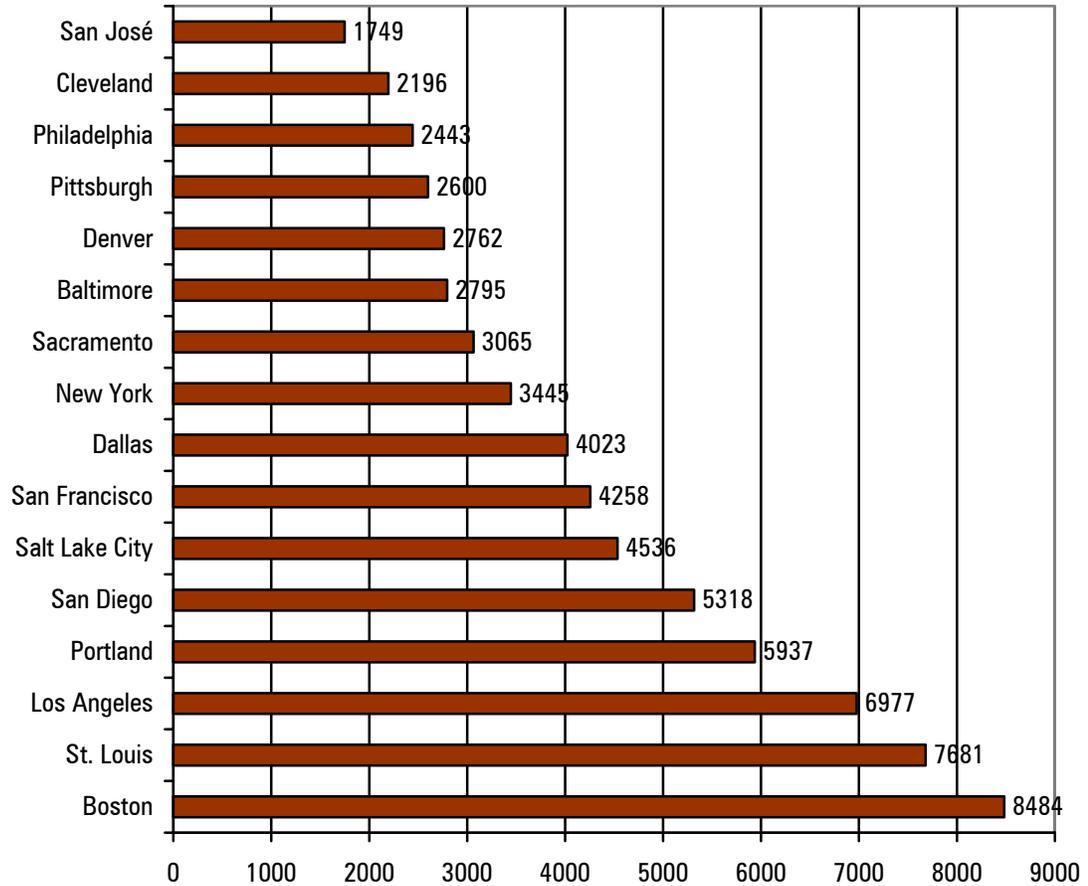
When compared with other light-rail lines in the United States, San José's light-rail vehicles appear to be running almost empty. On average, San José buses carry 9.2 people at any given time, which is about 86 percent of the national average. But San José light-rail vehicles carry only 14.8 people at any given time, which is less than 57 percent of the national average.¹⁴

Another standard of comparison is the number of passenger miles carried per route mile of track. On average, U.S. light-rail lines carried 4,400 passengers per route mile per day in 2000. By this measure, the most productive modern light-rail system is in Boston, which carried 8,500 passenger miles per mile. The least productive is—you guessed it—San José's, which at 1,750 passenger miles per mile carried less than half the average and only about a fifth of Boston's level.



San José light rail does not compare well with other forms of transportation either. The only rail transit that is less productive than San José's LRT are the poorly located tourist trolleys in Seattle, Memphis, and Kenosha. San Francisco cable cars and New Orleans tourist streetcars are both more productive than San José light rail. (The Hudson-Bergen light rail, which is also poorly patronized, is a new line, so adequate data are not yet available for comparison.)

**Figure 2: San José Falls Short-B
(Daily Passenger Miles per Route Mile)**



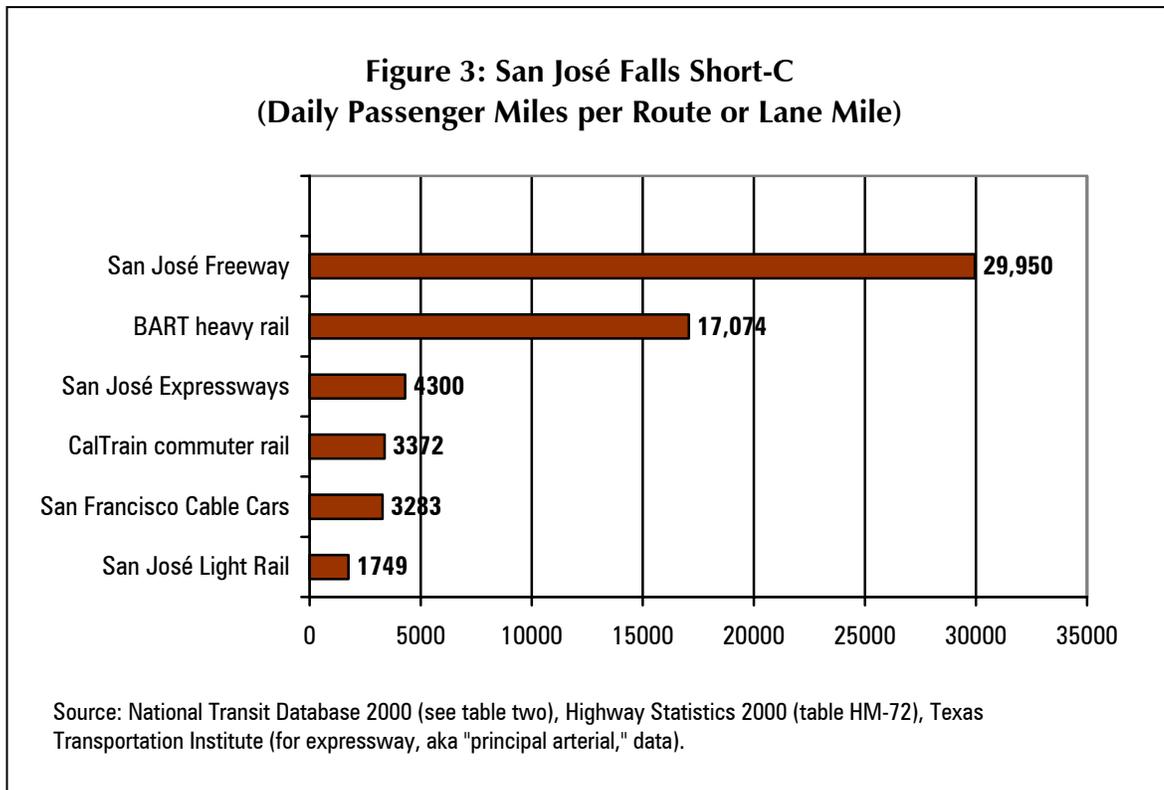
Source: National Transit Database 2000

San José's original light-rail line cost about \$25 million per mile in 1992 dollars (about \$30 million in today's dollars). More recent lines cost or are projected to cost about \$40 million a mile.¹⁵ These costs are for tracks in both directions, so must be cut in half to get the cost per route mile.

For comparison, a lane mile of expressway costs about \$2 to \$3 million, and a lane mile of freeway costs about \$5 to \$10 million. Thus a route mile of San José light rail costs about one-and-a-half to four times as much as a freeway lane mile and five to ten times as much as an expressway lane mile. Since light rail carries far fewer passengers than freeways and expressways, it costs 12 to 70 times as much per passenger mile as expressways and freeways.

Light rail's poor performance is reflected in transit's tiny market share of San José-area motorized transport. The Valley Transportation Authority claims that transit has a 2.7 percent share of the market for personal transportation, but it measures market share in terms of trips. Because transit is slower, auto trips average

nearly three times the distance as transit trips, so in terms of passenger miles transit has a much smaller share.

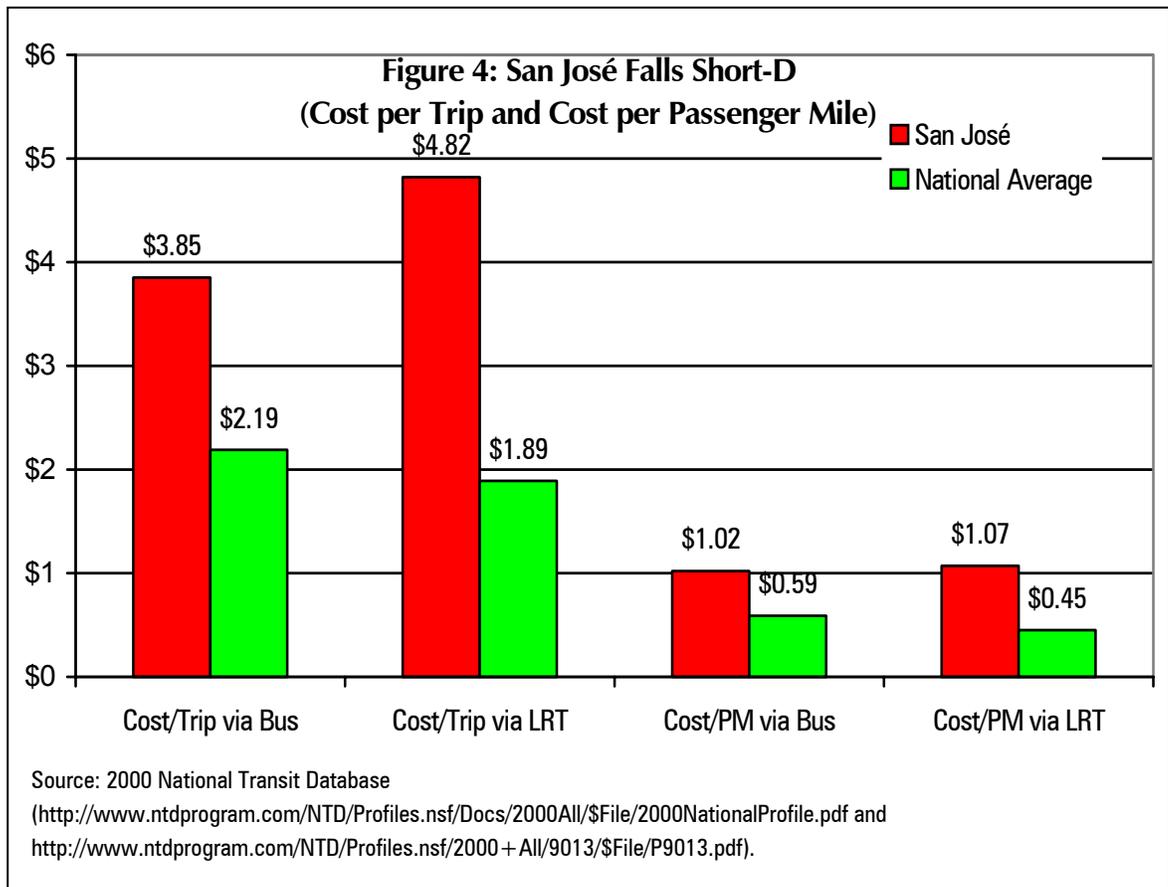


In 2000, transit carried just 1.0 percent of motorized passenger miles of travel in the San José area. Light rail carried about 17 percent of transit passenger miles, so it carried 0.17 percent of total motorized passenger miles.¹⁶

C. High Operating Costs

Light rail's low ridership is also reflected in high operating costs. According to the Federal Transit Administration (FTA), most transit agencies spend less on operations and maintenance of light rail than on buses, whether measured per trip or per passenger mile. (The FTA formula leaves out significant maintenance costs, but we'll ignore that for now.)

But, as shown in Figure 4, however, operating San José light rail costs more per trip and per passenger mile than San José buses. The figure also shows that both bus and rail operating costs are significantly higher than the national averages. This is simply a reflection of low overall transit ridership in San José.



D. San José Congestion Increasing

The Texas Transportation Institute, which has tracked urban congestion since 1982, says the amount of time the average San José commuter wastes sitting in traffic has more than tripled in the last two decades. The Institute estimates this congestion costs commuters a billion dollars a year, or more than \$1,400 per commuter, and burns up nearly 90 million gallons of fuel per year.

There is a good reason for the increase in congestion. Since 1982, the number of miles driven in the San José urban area has increased by more than 68 percent, but the number of road lane miles has increased by only 15 percent. The miles of freeway driving have increased by 50 percent, but freeway lane miles have increased by only 18 percent.

Light rail, which carries less than 0.2 percent of passenger miles of travel and virtually no freight, obviously does nothing to reduce this congestion. Yet the Valley Transportation Authority wants to devote 80 percent of the region's capital transportation funding to mass transit, most of which will go to build new light-rail lines and an extension of BART heavy rail to San José. Despite the obvious conflict of interest, the Valley Transportation Authority not only runs transit but does all transportation planning for Santa Clara County, so this is the direction San José is heading.

Despite the agency's pretense at comprehensive transportation planning, it does not seriously consider road alternatives. The environmental impact report for a light-rail line currently under construction didn't bother to consider road expansion as an alternative because, it said, it "would not meet the goal of providing a

viable alternative to the automobile." The fact that light rail has proven to be a non-viable alternative to the automobile didn't dissuade the agency from building the new line.

The plan to spend 80 percent of capital funds on transit is supported by the Metropolitan Transportation Commission, which is the metropolitan planning organization for the San Francisco-Oakland-San José metropolitan areas. The commission admits that spending 80 percent of its funds on transit will not boost transit's market share, which is about 4 percent in the region as a whole.¹⁷

The Valley Transportation Authority claims that its plans, if fully funded, will increase transit's share of Santa Clara County trips from 2.7 percent to 4.3 percent by 2020. Since auto trips are longer, this would be an increase from 1.0 to 1.6 percent of passenger miles of motorized travel.

Automobile travel in the San José urbanized area has been growing at about 1.75 percent per year, and Valley Transportation conservatively predicts it will continue to grow by 1.2 percent per year over the next 20 years. This means that the congestion relief provided by increasing transit's share from 1.0 to 1.6 percent over 20 years would be exhausted by just four to six months' growth in auto traffic.

E. Transit Funding Crisis

The transit agency's assumption of full funding is currently in jeopardy. The agency's long dependence on sales taxes leaves it highly vulnerable to recessions. The current recession has also caused a severe drop in ridership, particularly in light rail. Bus ridership in 2002 was 7 percent lower than in 2001 and light-rail ridership has fallen by 29 percent.

As a result, the agency fears it will run out of cash by mid-2003. Even though voters approved a new sales tax in 2000, the agency estimates it will fall \$6 billion short of its funding needs over the next 20 years.

By an amazing coincidence, \$6 billion is approximately the amount Valley Transportation wants to spend building BART and new light-rail lines. But rather than halt construction, the agency is cutting back on bus service. Service cuts are planned even as the agency continues to build two new light-rail lines. If history is a guide, opening service on these two new lines will simply put the agency's operating budget further into the red.

A December 6, 2002, memo from the agency's general manager to its board reveals that the agency is considering three alternatives, one of which would reduce bus service by 70 percent, eliminate weekend light-rail service, and cut weekday light-rail service by 10 percent.¹⁸ But none of the alternatives considered would halt or even slow construction of any light-rail lines.

On top of that, Valley Transportation has proposed to sell several pieces of land that it had purchased for park-and-ride stations. It already sold one five-acre parcel to the city of San José for \$8.5 million, which a San José city councilor says was necessary "to meet payroll."¹⁹ The city plans to build subsidized housing on these parcels.

Part 4

Conclusions and Recommendations

San José's land-use and transportation plans were written by the sorts of urban visionaries who are now writing so-called smart-growth plans for the Twin Cities, Salt Lake City, Denver, and many other cities. These plans attempt to impose the personal preferences of the planners for rail transit over buses and autos and for dense housing over low-density suburbs on entire urban areas. The planners persuade the public to support these plans based on claims that they will reduce congestion and air pollution, provide affordable housing, reduce taxes, and protect open space. In fact, they do the opposite of all these things.

San José's urban-growth boundary and other land-use rules are the main reasons why San José is one of the least affordable housing markets in the nation. Plans to spend hundreds of millions of dollars over the next decade to subsidize housing will have little effect. Far more would be accomplished by easing land-use restrictions so that more affordable homes can be built.

Far from saving San José from turning into Los Angeles, the increasing densities and congestion of San José via its land-use policies and restrictions on developments push San José to look more and more like Los Angeles. Allowing development will decrease density and congestion and allow residents more choices in homes and travel.

Light rail is an obsolete technology that doesn't really work anywhere. But it is especially unsuitable in post-automobile urban areas such as San José, where jobs are spread throughout the area rather than concentrated in a downtown. San José residents benefit far more from the road network than they do from the transit system.

San José made a major mistake in committing itself to such an inappropriate form of transit. It is compounding that mistake by continuing to build light rail even as congestion increases and funds run short to operate its transit services.

The biggest losers of these policies are the low-income people who are striving to join the middle class. Affordable housing helps these people because they can use the equity in their homes to start new businesses. Forcing them to remain renters for most or all of their lives will help keep them in poverty. Mobility helps these people by giving them access to more and better jobs. Forcing them to endure congestion or to ride slow-moving transit lines that serve limited destinations keeps them from those jobs.

About the Author

Randal O'Toole has worked as an economist for the Thoreau Institute for more than twenty years. His work has focused on understanding how environmental agencies, such as the U.S. Forest Service or Portland's Metro, work and how they can be made to work better.

During the 1980s, O'Toole reviewed forest plans for more than half the national forests. His 1988 book, *Reforming the Forest Service* (Island Press), is based on his findings from those reviews. The book shows that nearly all national forest controversies stem from budgetary processes that reward forest managers for losing money on environmentally harmful activities. O'Toole recommended that the Forest Service be reformed through more user fees and funding of the forests out of its own receipts rather than tax dollars.

O'Toole has particularly scrutinized the Forest Service's use of the Knutson-Vandenberg fund. In 1992, O'Toole coauthored *Good Intentions: The Case for Repealing the Knutson-Vandenberg Act* with Thoreau Institute researcher Karen Knudson. The report documented the many perverse incentives created by this law. In 1997, O'Toole updated an analysis of the K-V fund for the Forest Service Employees for Environmental Ethics.

Since 1990, O'Toole has looked at a wide variety of other agencies, including the Park Service, Bureau of Land Management, animal damage control, 150 state resource agencies, and Portland's Metro. In 1996, he wrote *The Vanishing Automobile and Other Urban Myths*, a critique of Metro and the New Urbanism. In 1997, he wrote *ISTEA: A Poisonous Brew for American Cities*, analyzing the federal transportation funding system, for the Cato Institute. He has also written numerous op-ed pieces and other articles on environmental issues for a variety of publications.

Yale University has named O'Toole its McCluskey Conservation Fellow for 1998. Beginning in September, O'Toole will spend four to nine months at Yale doing research and teaching a class in incentive-based conservation. O'Toole is also an adjunct scholar with the Cato Institute.

Related Reason Foundation Studies

William Fulton, Chris Williamson, Kathleen Mallory, and Jeff Jones, *Smart Growth in Action: Housing Capacity and Development in Ventura County*, Reason Foundation Policy Study No.288, December 2001.

Samuel Staley, *Line in the Land: Urban-Growth Boundaries, Smart Growth, and Housing Affordability*, Reason Foundation Policy Study No.263, November 1999.

Randal O'Toole, *Urban Transit Myths*, Reason Foundation Policy Study No.345, September 1998.

James V. DeLong, *Myths of Light Rail Transit*, Reason Foundation Policy Study No.244, September 1998.

Endnotes

- ¹ Paul Rogers, "Hamann: San José's Growth Guru," *San José Mercury News*, February 28, 2002, www.siliconvalley.com/mld/siliconvalley/living/2765036.htm
- ² Wendell Cox, *US Urbanized Areas 1950-1990 Urbanized Area Rankings*, www.demographia.com/dm-uadr.htm
- ³ Office of Federal Housing Enterprise Oversight, www.ofheo.gov/house/
- ⁴ Rogers, "Hamann."
- ⁵ Office of Federal Housing Enterprise Oversight, House Price Index, www.ofheo.gov/house/3q02hpi_msa.txt.
- ⁶ Coldwell Banker Home Price Comparison Index, www.coldwellbanker.com/html
- ⁷ Randall O'Toole, *Housing Affordability and Land Use Regulations*, www.ti.org/vaupdate29.html
- ⁸ San José Housing Department, "List of Projects," www.sjhousing.org/project/listproj.html
- ⁹ San José Housing Department, "Income Eligibility," February 2002, www.sjhousing.org/data/eligible.html
- ¹⁰ Ibid.
- ¹¹ Both quotes from Santa Clara Valley Audubon Society, "Former South Bay Public Officials Criticize Cisco's Expansion Plan; Unite with Environmentalists in Call for Major Revisions," www.savecoyotevalley.org/press_conf2.html
- ¹² San José Housing Department, "Income Eligibility," February 2002, www.sjhousing.org/data/eligible.html
- ¹³ Ibid, p.2-50.
- ¹⁴ Federal Transit Administration, *National Transit Data Base 2000*, table 406, www.fta.dot.gov/ntl/database.html
- ¹⁵ Light Rail Central, *Status of North American Light Rail Projects*, August 20, 2002, <http://www.lightrail.com/projects.htm>
- ¹⁶ Federal Transit Administration, *National Transit Data Base 2000*, table 406, www.fta.dot.gov/ntl/database.html, and Federal Highway Administration, *Highway Statistics 2000*, table HM-72, www.fhwa.dot.gov/ohim/ohimstat.htm
- ¹⁷ Metropolitan Transportation Commission, *Bay Area Transportation Blueprint for the 21st Century* (Oakland, CA: MTC, 2000).

- ¹⁸ Scott Buhrer, Chief Financial Officer, Memo to Santa Clara Valley Transportation Authority Board, "Obtaining Sustainable Financial Stability," December 6, 2002, p. 2.
- ¹⁹ Timothy Roberts and Andrew Hamm, "VTA selling land to meet payroll," *San José Mercury News*, November 22, 2002, p. 1.



Reason

Reason Public Policy Institute
3415 S. Sepulveda Blvd., Suite 400
Los Angeles, CA 90034
310/391-2245
310/391-4395 (fax)
www.rppi.org