Privatization Watch

Analyzing privatization developments since 1976

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"It's mainly just for fun"

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photo by Mike Massee

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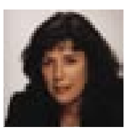

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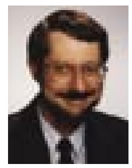
Governor Backs Private Airport for Chicago Suburbs

By Robert W. Poole, Jr.



In his State of the State speech on February 3rd, Illinois Gov. Rod Blagojevich formally endorsed the proposed third Chicago airport, located in Peotone, 35 miles south of the Chicago Loop. "I want to submit a plan to the [Federal Aviation Administration] by this spring so people can start working and planes can start flying," he said.

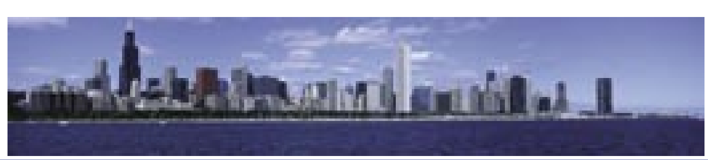
Chicago Mayor Richard Daley has long opposed the airport plan as unneeded competition for city-owned O'Hare and Midway. But because Daley's planned multi-billion-dollar expansion of O'Hare would wipe out numerous homes and businesses, leaders of nearby suburbs joined forces with communities near Peotone to support the creation of that airport. There are now 32 communities involved. And to avoid battling with Daley over FAA airport grant funds, they embraced an innovative private financing approach developed by Infrastructure Management Group (IMG), a Maryland-based consulting firm.

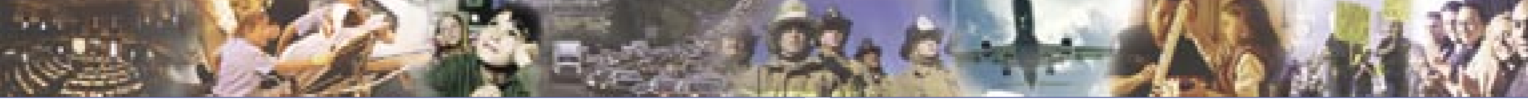
With support from the Illinois Department of Transportation, IMG developed the financing plan and held a competition to select a private-sector team to build and operate the $400 million starter airport. Last year that process led to the selection of the team of LCOR and SNC-Lavalin for the project.

Along the way, Rep. Jesse Jackson, Jr. (D, IL) became the most visible and vocal backer of the project, which has been named the Abraham Lincoln National Airport. Jackson praised Gov. Blagojevich's speech, and met privately with the governor following the speech.

Reuters reports that the state has thus far acquired 1,715 of the planned 4,000 acres needed for the airport; the legislature has appropriated enough funds to acquire the balance, according to Jackson.

"Public-private partnerships reflect the new paradigm for airport development around the world," Jackson told reporters. "This airport will combine the best of both worlds—private investment and ingenuity with public oversight and governance." ■





Privatization Briefs

Tokyo International airport

Japan Plans More Asset Sales

Prime Minister Koizumi has previously announced plans to sell Tokyo's international airport, the state postal corporation, and the highway corporation. Japan's debt-plagued government in January announced plans for further asset sales. Leading candidates include a major portion of its remaining $5 billion stake in Nippon Telegraph & Telephone, a $7 billion stake in Central Japan Railway (already partially-privatized), and possibly stakes in four other partially privatized railway companies.

Garage Sale in Jordan

According to *The Wall Street Journal*, the government of Jordan hopes to raise $600 million in 2005 via the sale of state-owned enterprises, including phosphate mining, telecommunications, electricity, and postal service. Future candidates to be sold include the kingdom's three airports and the Aqaba Railways Corp. The government has previously already sold off over $1 billion worth of state-owned enterprises, including Royal Jordanian Airlines, in a divestiture program launched in 1998.

Investing in Private Infrastructure

There are several mutual funds specializing in toll roads and airports, none has been available to retail investors in the United States. That changed in December with the initial public offering of Macquarie Infrastructure Co. Trust (MIC). The IPO raised $535 million, pricing 21.4 million shares at $25 each. MIC offers U.S. investors an opportunity to own a basket of companies in toll roads, parking, and water supply businesses. Initial dividend yield is 8 percent.

Smaller is better?

Smaller classes allow teachers to give more time to each student, and that boosts achievement, right? Maybe not.

A recent British study casts serious doubt on the commonly held notion that smaller class sizes can by themselves improve student achievement. A team of researchers from the University of London studied 21,000 British students in grades four through six to determine the effects of class size on student achievement. The study found no evidence that children in smaller classes made more progress in mathematics, English, or science, even after accounting for specific characteristics of students in small or large classrooms.

The results are similar to findings from a large-scale study of California's class-size reduction program completed last year by the RAND Corporation. The study examined the standardized test scores over five years for pupils in 2,892 schools across the state. Researchers found class size had little effect on student achievement in California.

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"It's mainly just for fun."

Space entrepreneur Burt Rutan on how private space flight policy should emphasize innovation, safety—and having a great time.

Interviewed by Ted Balaker

Lots of hard work. Big burst of publicity. Lots of hard work. That's been the pattern for Burt Rutan.

He is the model of persistent performance, averaging more than one new aircraft design per year for over 30 years. Then, last October 4th, Rutan, his team at Scaled Composites, and project sponsor Paul Allen, grabbed the world's attention. They became the first private operation to send a man into suborbital space twice within two weeks, using the same vehicle. Rutan and company nabbed the $10 million Ansari X Prize, and proved that entrepreneurial creativity could extend beyond the Earth's atmosphere. Now it'll take more hard work—both scientific and political—to make space tourism a reality.

PW Editor Ted Balaker interviewed Burt Rutan in March.

TB: After winning the X Prize you enjoyed a huge amount of media attention. Do you think this burst of positive publicity will help improve the regulatory climate in which the private space exploration industry operates?

BR: Well, first of all we're working the regulatory climate very hard. We just had a two-and-a-half-hour meeting with an FAA Administrator a couple of weeks ago, and we have a very specific regulatory plan for this new industry that we call private space flight. And it's a very specific plan on what's appropriate for, not just research testing, but also for the certification of things that will fly ticket-buying passengers.

I think that it is good that the public know what's going on. For example, FAA is having difficulty staffing their airplane certification staff with their budgets now, and for them to build additional staff to certify, not just airplanes but spaceliners, that's going to need, I think, public support in order to help their funding for this. So I think in general if you look back before May of last year, even though we developed some 36 different manned airplanes, we had never invited the press and the public to a research test flight. But starting in May of last year we had CNN, and we had print media out for one of our test flights. And then of course the big one was June 21st for the first manned private space flight, where we invited the world's

After winning the X Prize

press and we had hundreds of print and broadcast media. I think we had some 90 broadcast media video cameras.

And, answering your question, it really will be positive in terms of meeting the goals that we need for regulatory [policy]. It will be very positive—the fact that the public is not only knowledgeable, but is strongly behind us.

TB: And you mentioned how you're trying to hash out a new kind of policy. What would you like that policy to look like?

BR: We've asked for a research airplane—like environment while a developer is doing his research testing, in order to allow innovation and to allow the test to be run with efficiency. And then we actually are asking for more regulation than the new legislation edicts. We do feel that the FAA needs to be accepting or proving the safety of the ship as it pertains to the passengers that get flown, whereas their focus has been on only protecting the non-involved public who live on the ground below. We think that the industry will prosper only if there is some acceptance of the safety of the ship as it pertains to the passengers.

TB: What's the best balance to strike there? Informed adults already do all sorts of risky things, from catching crabs off the Alaskan coast, to taking adventure vacations, or even just smoking three packs of cigarettes per day.

BR: Yeah, well for decades informed adults have taken treks to the top of Everest, even though more than 10 percent of those who've reached the summit have died on the mountain.

Now, I don't object to that. I think that's fine. There should be freedoms. That people know that they have a one in ten chance of dying by doing this and they still want to do it anyway, I'm the first one to say, hey, let them. However, I don't feel that that's the right thing to develop and sustain a private


SpaceShipOne

space flight industry. Our goals are much more aggressive than that. Our goals are to have the same level of safety that the early airliners enjoyed, and a lot of people don't realize, but those early airliners in 1927, 1928, 1929, 1930, 1931, and so on, those were the first regularly scheduled commercial airliners. They were dangerous as hell compared to airlines today, however they were a hundred times safer than all of manned space flight. Not ten times, a hundred times safer.

TB: Do you see the Commercial Space Launch Amendments Act as a step in the right direction?

BR: Well, it didn't address the problem that I'm discussing, getting an FAA acceptance of the safety of passengers. It doesn't address that. However, everything else in it is positive; there's nothing negative in it. It does address asking FAA to develop an experimental research category for launch licenses; however it's not specific and we think it needs to be more specific to force FAA to regulate these tests more like airplane research rather than like they did our program.

The license process for our program actually decreased safety and it involved an enormous amount of monitoring. It forced our people to defend the product, where our safety policy is to never defend it, but always question the safety. We have to get that changed.

TB: How did the process compromise safety?

BR: We have, I think the count now is 39 new types—new airplanes from scratch—in 30 years. We have yet to injure a pilot. We've had things like landing gear failure, but we've never had a real accident. That's a record that no one has come close to, and we maintain that a major reason we have a superb record is our safety policy that we always require of not just people building it, but those designing, flying, and testing the aircraft, and so on. We require that they never, ever put themselves in a position where they defend the safety. Once they do, you're screwed.

We always want them in a mode in which they question the safety. If you're always questioning it, you can turn around and find something better and immediately incorporate it. For example, last week if you had turned in a report to a government agency in which you've told them the product, as it is, is safe; if you discover something better next week, you have two choices.

One, you can go and write an addendum to that report and essentially tell the government, "gee, I was wrong last week; it wasn't the safest that it can be, but now it is because I've discovered this new thing." And then you'll find yourself debating with them and losing your credibility with them. We make changes almost every day when we're in research mode. So you can see you get into this big back and forth in which they see you making changes after you defend the safety to them. Now, the solution there is to never tell anybody that it's safe, but to always question it, which then allows you to immediately incorporate safety features and go on. And, instead of firing somebody who designed something unsafe, you reward him, or whoever found a better way, and congratulate him and reward him on finding something better. And you develop a very positive process for the research team rather than a process that you have to do when you've been defending the safety.

The other choice that people have is to see something safer and realize they just told the government that it was safe last week. And then they make the decision that, well, you know, last week's configuration—it's safe enough. Another thing is that we're a small company. We don't have a big safety department that works with the government regulators. We have the people that are there testing the product and we can only afford to have the team that's there. And now we get our team, instead of focusing on the job of making it as safe as possible, they're distracted by having to write reports and provide data for the government.

Another thing too is that FAA policy forced us into flying trajectories and glide paths back over the airport that weren't the safest ones to fly because they—the government—were only interested in the safety of people on the ground. Now if you look at it, for many decades, you go back to the 40s and you find that all the research flight testing done up here in this desert, there's been hundreds of accidents with research airplanes, but nobody's ever been hurt on the ground. So why would you compromise the safety of the test pilot in order to make it more safe for people on the ground?

TB: Let's talk about the possible job creation effect of the private space flight industry. Look at, for example, the Wright brothers. They couldn't have anticipated professions

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Fly the Frugal Skies

How deregulation and low-cost airlines transformed Europe

By Matt Welch

Every Friday afternoon at a Heathrow Airport bar, there is an informal gathering of the "Pojkvän Club"—a group of London men who jet off every weekend to visit their far-flung girlfriends. (Pojkvän is Swedish for "boyfriend.") "Of my six closest friends from Glasgow University, four of us now have European partners," Pojkvän Club member Fraser Nelson wrote in *The Scotsman* last April. "The low-cost airline revolution has changed lives."

In Prague, where just about the only foreign languages spoken 15 years ago were German and bad Russian, there are English-language signs in the windows of bars all over town warning: "No stag parties." In Bratislava, where traveling to next-door Vienna was verboten until 1989, Slovaks who still can't afford the 200-mile train trip to Salzburg are now excitedly comparing notes on their recent weekend forays to Venice and Mallorca. In the lovely southwest France region of Dordogne, locals now refer to the area as "the Dordogne-shire," due to all the Brits buying up local vacation homes. Every summer, Spanish golfers swarm the Welsh countryside to enjoy their sport away from the hometown heat. Dreary industrialized corners of Europe—Stansted, England; St. Etienne, France; Hahn, Germany—have become improbable boomtowns, while secondary travel destinations such as Edinburgh and Cardiff have been transformed into sizzling tourist magnets, with boutique hotels, Irish pubs, and youthful commerce galore.

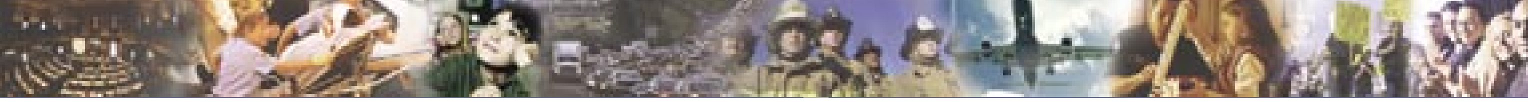
In less than a decade, the Southwest Airlines revolution has swept through sclerotic Europe like a capitalist hurricane, leaving a fundamentally altered continent in its wake. Low-cost airlines have grown from zero to 60 since 1994 by taking Southwest's no-frills, short-haul business model and grafting on infinitely variable pricing, aggressive savings from the contemporaneous Internet revolution, and the ripe, Wild West opportunities of a rapidly deregulating and expanding market. Europeans, fed up with costly train tickets, annoying motorway tolls, and Concorde-style prices from national "flag carriers" such as Air France and Lufthansa, have defected to the short-hoppers in droves—200 million, nearly 45 percent of the entire E.U. population, took a low-cost flight in 2003 alone.

Set My Prices Free

The U.S. airline market was deregulated in 1978. The virtues of the move, though long debated, had become more than self-evident by the mid-1990s: With the government no longer dictating ticket prices and in-flight menus, airfares dropped 40 percent in real terms between 1978 and 1997, saving travelers an estimated $20 billion a year and more than doubling the total number of passengers. (Accident rates, meanwhile, were cut in half.) Hundreds of new entrants flooded the market, and though most eventually failed (or were bought out), one folksy little Texas operation called Southwest Airlines became emblematic of the deregulation era.

Southwest—which actually jumped the gun on deregulation by seven years, taking advantage of Texas' enormous size to avoid onerous interstate commerce regulations—ushered in the low-cost revolution with four revolutionary insights:

1) Flying just one type of aircraft will save a company mil-



lions on maintenance and bulk purchasing.

2) Point-to-point flights between smaller airports, rather than hub-and-spoke operations centered on a single large airport, allow each airplane to be used for several more flights a day, and more cheaply.

3) Passengers will appreciate the elimination of perks such as business lounges and free meals if the savings are passed on directly to them (and with a smile).

4) Air travelers will flock to the lowest prices, period.

By the late 1990s, Southwest was the world's richest and most profitable major airline, inspiring successful copycats (such as JetBlue) and even forcing money-bleeding behemoths like United Airlines to launch low-cost hopefuls like TED.

Despite these two decades of happy evidence, it took Europe until 1997 to deregulate its own air travel. Countries much smaller than the United States, with single, dominant, state-owned airlines (not to mention a more statist version of capitalism), had a much harder time visualizing the benefits of exposing their National Champions to the cruel winds of competition. As in just about every other major European industry, it took the creation of the European Union in November 1993 to pry loose the stranglehold of government interference and introduce the radical new concept that National Champions can, and sometimes should, fail.

Like most decisions in Brussels, airline deregulation was telegraphed years in advance. The pre-E.U. European Commission laid out a three-stage liberalization process in 1993, with the final step—opening up domestic routes to foreign competitors—coming on April 1, 1997. So entrepreneurs had plenty of time to prepare, which is precisely what Haji-Ioannou (known on the continent as "Stelios") did. The son of a Greek shipping magnate, the London School of Economics–educated Stelios vowed to out-cheapskate even Southwest (by, for instance, charging money for peanuts and water) and add a strong dose of Richard Branson–style flamboyance to build his bright orange brand "Easy Jet." With an initial investment of just $7.5 million, Stelios engineered a series of publicity stunts: convincing British television network ITV to launch a reality show called "Airline," wearing a comical orange jumpsuit and handing out free easyJet tickets on the inaugural flight of the British Airways–backed low-cost competitor Go (since swallowed by easyJet), offering free flights to anyone who would come down to a Greek courthouse to support his legal fight with local travel agents, and so on.

Stelios' showmanship, combined with a few of his low-cost

See FOREIGN SKIES on Page 12

FAA Outsources Flight Service Stations, Saves Billions

By Robert W. Poole, Jr.

Thanks to one of the largest competitive services procurements in the federal government, the Federal Aviation Administration will cut the cost of its Automated Flight Service Station (AFSS) program by more than half. The winning bid from Lockheed Martin was for $1.9 billion over 10 years, saving the taxpayers $2.2 billion over that time period.

Unless you're a private pilot, you've probably never heard of flight service stations. This set of 58 facilities provides weather briefings, flight plan filing services, and other assistance to such pilots. In recent years, the cost of this program has been running over $500 million per year, paid for as part of the overall budget of the Federal Aviation Administration. Though most of the FAA is paid for via user taxes (e.g., the 7.5 percent tax on airline tickets), private pilots pay a total of $60 million per year in fuel taxes. The glaring discrepancy between taxes paid and program cost led the Aircraft Owners and Pilots Association (AOPA) to enthusiastically support the competition to modernize the AFSS program.

As is usual in such competitions, the existing workforce put in a bid (in this case teaming with frequent FAA contractor Harris Corp.). Other bidders, besides winner Lockheed, were Computer Sciences Corp., Northrop Grumman, and Raytheon.

There are two keys to the huge cost savings entailed by the winning proposal: advanced technology and facility consolidation. Instead of 58 geographically dispersed facilities, there will be just 20. And they will be equipped with far more advanced technology enabling each flight specialist to be more productive (and costing far less to maintain). Pilots will no longer be able to obtain walk-in briefings, but only about 2 percent of pilots availed themselves of that service in any case.

See FAA on Page 15

Will All Airport Screening Be Outsourced?

By Robert W. Poole, Jr.

The chairman of the House Aviation Subcommittee has proposed that the Transportation Security Administration (TSA) no longer provide passenger and baggage screening at airports. Instead, TSA-certified companies would be hired to provide these services, under TSA supervision. Rep. John Mica (R, FL) announced the proposal at the end of January, saying that he and his staff would offer legislation to that effect later in the session.

Something close to Mica's concept actually passed the House in October 2001, shortly after the Senate had voted 100-0 for a complete federal takeover of airport screening in the wake of the 9/11 attack. While acknowledging the inadequacies of the pre-9/11 screening system, which was run by contractors hired by individual airlines but with no federal requirements for selection, training, or performance, House Republicans argued that tough federal standards would permit high-performance contracting of airport security, which is common at major European airports. That concept was enacted by the House, but when the two bills were merged in the subsequent conference committee, the Senate's federalized workforce approach prevailed, with the proviso that all airports would be able to opt out after two years of TSA-run screening.

Mica has repeatedly criticized TSA's performance, citing its inability to hire and train screeners in response to changing airport needs, which leads to understaffing and hence to long and unpredictable lines for passengers. Experience at five airports that were allowed to use TSA-selected private companies during 2003 and 2004 showed that screening performance was at least as good, while flexibility was somewhat better. However, reports by outside auditors found that TSA gave too little flexibility to the contractors at the pilot-program airports.

Mica's proposal was immediately (and falsely) attacked as "a return to pre-9/11 aviation security" by several leading Democrats, including Rep. Peter DeFazio (D, OR) and Sen. Jay Rockefeller (D, WV), the ranking Democrats on the House and Senate Aviation Subcommittees.

Under the TSA's guidelines that permit all airports to opt out of TSA-provided screening, the opting-out process remains highly centralized. For example, instead of the TSA creating a list of certified companies that airports can ask to bid, the TSA selects and certifies companies and assigns them to airports that

See AIRPORT SCREENING on Page 14

Airport Privatization Still Flying High, Overseas

By Robert W. Poole, Jr.

Though the idea that running airports is not inherently governmental has still not caught on in the land of free enterprise, it continues to be a major global trend. With more than 100 medium and large airports already owned by investors or operated by private firms under long-term lease or build-operate-transfer agreements, the momentum has continued in recent months.

The largest recent sale was that of Brussels International Airport. Last fall the Belgian government accepted the winning bid of $955 million for the 70 percent stake that was offered. The Belgian government will retain 30 percent ownership. The winning bidder was Macquarie Airports, which already owns stakes in the Rome, Birmingham, and Bristol airports in Europe as well as others in Australia and elsewhere.

The largest upcoming sale was announced in late January by the Greek government. It will sell its 55 percent stake in the new Athens airport that opened in 2001, having been built as a public-private partnership with German firm Hochtief (which owns 40 percent of the airport). The sale is expected to yield a bit over $2 billion, which the government will use to pay down its national debt. The airport will be listed on the Athens stock exchange later this year.

Still in the works is India's first airport privatization, in which the government is selling 74 percent stakes in the New Delhi and Mumbai (Bombay) airports to private firms. Ten consortia have qualified to submit bids, and the winners are supposed to be announced before summer 2005. The Air-

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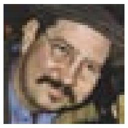
Private Para-transit Helps the Disabled

By Don A. Wright



Fresno, California is located in the heart of the San Joaquin Valley and the metropolitan area is home to about 500,000 people. Privatization is a buzzword often heard spoken by elected officials in response to the wild business and economic swings the state has gone through. The Fresno City Council has taken steps beyond just talk and has ushered in a public/private venture that is paying off.

Fresno Area Express (FAX) is the area transit agency, and it serves the needs of the citizens by providing bus service on city streets. Under federal law all constituents must be served, including those who fall under the Americans with Disabilities Act.

The most expensive facet of public transportation is caring for riders who, due to disabilities, can't make their way to traditional bus stops and need curb-to-curb service, known as "para-transit." In an effort to cut costs, the city, FAX, and Laidlaw Transportation entered into an agreement in 1993 to privatize the para-transit portion of the public transportation service, known locally as Handy Ride.

Laidlaw is a nation-wide provider of transportation with headquarters in Shawnee Mission, Kansas. Manager Doug Thomson oversees a fleet of 39 vehicles specially equipped for people needing assistance. Thirty of the mini-buses and shuttles are owned by the city and Laidlaw provided the remaining nine to help during peak hours. The Handy Ride service accommodates almost 700 passengers on weekdays and an additional 350 on weekends.

There are times when demand exceeds the ability to provide transportation on a moment's notice, and while Laidlaw's contribution of nine additional vehicles does help, back up taxi service is also available to help out during exceptionally busy times.

Anyone who has worked in government knows it's often not the most efficient entity at shepherding public funds, which is another way of saying the taxpayers' investment in the community isn't always well spent. The goal of privatization is to assist in bringing fiscal responsibility to the public arena. In this case, the goal is ensuring that riders with special needs get where they need to go.

A recent customer service survey (see Sidebar on page 11) gave the private provider high marks, and the city seems to

Para-transit client Brent Bethell is assisted by driver Steve Sharkey

be happy with the partnership. Tom Boyajian, a second-term council member, said the council is taking notice of Handy Ride's success.

"We've heard Laidlaw has been doing a great job," said Boyajian. "During public sessions riders have been coming to city hall and telling us to keep this partnership going."

Councilman Jerry Duncan agreed with Boyajian, "It [privatization] has worked out very well. One measure of success has been the riders served. There haven't been any complaints. That's clearly positive."

Thomson has been in charge of Laidlaw's portion of the public/private agreement. "It's a different world in the private sector than the public," said Thomson. "On one side we have to make a profit and on the other we have to make sure FAX is able to carry out its mission while saving the city money."

Duncan has been a champion of privatizing city functions when the results prove beneficial. "The city has outsourced the management of our convention center and saved half a million dollars," said Duncan. "There's an RFP [request for proposal] for the commercial solid waste collection. The contract for para-transit is coming up for a bid again and the city's transportation department wants to submit an offer. That will have to be a very competitive bid because experience shows privatization almost always provides the best benefits to the taxpayer."

Yet the road to privatization was not without bumps. Union members, for example, worried that they would be marginalized during the transition process. But Laidlaw uses union drivers and the company has actually provided additional

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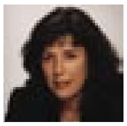
Break Up Violent Schools

Commentary by Lisa Snell



The following draws on the Reason study, School Violence and No Child Left Behind: Best Practices to Keep Kids Safe. *Available online: rppi.org/ps330.pdf*

A 14-year-old ninth-grader was arrested for having a loaded handgun on campus at Sylmar Senior High in February. A 15-year-old student suffered a broken jaw in a gang fight in front of Crenshaw High in December.

According to Los Angeles Police Department statistics, there were three sex offenses, 17 robberies, 25 batteries, and 11 assaults with a deadly weapon at Locke Senior High School last year. Similarly, Jordan Senior High School students suffered five sex offenses, 16 assaults with a deadly weapon, 25 batteries, and 65 property crimes. Seven campuses across Los Angeles had racially motivated brawls in the 2003-2004 school year.

Most Los Angeles schools are safe. But imagine sending your kids to one of the several large high schools that continue to buck the national trend of less violence in public schools. A new plan by the Small Schools Alliance would reduce the violence that plagues these schools by creating several smaller schools with 500 or fewer students in Los Angeles.

It's important to note that overall, school violence is down. The National Center for Education Statistics found the nationwide crime victimization rate at schools decreased from 48 violent victimizations per 1,000 students in 1992 to 24 victimizations in 2002. And just 2 percent of schools accounted for approximately 50 percent of the serious violent incidents.

We do know that violent crimes are more likely to occur in large schools. Thirty-three percent of schools with 1,000 or more students experienced a serious violent crime, while just 4 percent to 9 percent of small- and medium-sized schools had a similar occurrence.

Smaller schools experience fewer incidents because school funding and decision-making are concentrated at the school level rather than upstream at the school district. Small-school principals have more control and less red tape, which allows them to execute policies that actually reduce school conflict and violence on their campuses.

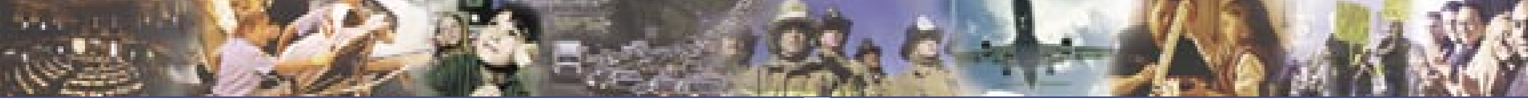
A growing body of evidence suggests that reducing school size also improves student learning. Data collected by researchers at the Universities of Michigan, Wisconsin, and Illinois show that smaller school sizes improve student performance (grades and test scores) and produce lower drop-out rates.

In recognition of this trend, two urban districts in California—San Francisco and Oakland—have moved their school budgeting practices to the school level. San Francisco, with 116 schools and 60,000 students, is in its fourth year of using a weighted student formula for funding and giving more decision-making power to principals and their school site councils, made up of parents and school staff. Since implementing the plan, San Francisco's test scores have improved every year.

In light of the relationship between large schools, school violence, and student achievement, the national small schools movement is receiving great financial support. In the past decade, the Bill and Melinda Gates Foundation provided $745 million in grant money to promote small schools, including a $51.2 million gift to New York City public schools to fund 67 small, theme-based high schools, each of which will limit enrollment to 500 students. Chicago has also announced that about 60 of its worst schools will be closed and replaced by 100 smaller schools with new staff and new programs.

Los Angeles should do the same. The mayor should work with, push, and cajole the Los Angeles Unified School District to replace the area's most dangerous schools with smaller schools to ensure our students are given the best possible learning environment and don't have to worry about being a crime victim on campus.

A version of this piece appeared in the Los Angeles Daily News. ■



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PARA-TRANSIT

jobs that wouldn't have been created under a public-only operation.

Thomson said, "If you treat your employees well, you'll have a stronger business. We want to partner with the union to stay competitive and to give back to the community since we all live here."

Of course cooperation with its main client is important to Laidlaw. Thomson now sits in on management meetings with FAX to compare notes and see how service and efficiency can be improved.

Bill Hyatt is an employee of the Central Valley Regional Center for the Disabled and sits on FAX's Handy Ride Advisory Committee. Hyatt said providing the best possible service is an ongoing concern.

"Handy Ride does a good job," said Hyatt. "There are some things that need work on, but I feel the staff and the drivers do the best that can be done. They're careful and courteous. Like any organization worth its salt, it continues to improve."

Don A. Wright is a freelance journalist whose work has appeared in the Los Angeles Times *and other publications.* ■

What do customers have to say?

In November 2004 AIS Market Research of Fresno, California conducted a customer satisfaction survey of the Fresno Area Express Handy Ride. A total of 201 interviews were compiled from riders and Handy Ride earned high marks in driver's customer service, driving skills, and safety consciousness. A large majority of riders felt very safe using the Handy Ride. Cleanliness of the Handy Ride vans also scored high in the survey.

Ninety-five percent of those surveyed stated they were satisfied or very satisfied with the value provided for price paid for the Handy Ride service. Likewise more than 90 percent responded satisfied or very satisfied when asked about the comfort of a Handy Ride van.

Riders questioned in the survey were given a report card to rate 17 categories. FAX's Handy Ride scored 12 A's. The report stated, "It appears that Handy Ride drivers are delivering great service and generating great customer satisfaction."

Sixty-seven percent of trips were for medical appointments and only 3 percent of users are employed full or part-time. Medium users (one to four trips per week) accounted for 64 percent of riders, light users (one or less trips per week) 13 percent, and heavy users (five or more trips per week) 11 percent. The survey indicated about 60 percent of riders intend to increase the number of trips in the first quarter of 2005.

Good job!

Privatization Aids Rwanda's Rebirth

By James Shikwati

In 1994, nearly a million of Rwanda's eight million citizens were slaughtered in ethnic violence between the Tutsi and Hutu tribes. Perhaps many people wondered if anything good ever happens in this poor and benighted place.

Touring the genocide memorial site leaves one both angry and humbled. It illustrates the danger of a people surrendering their minds to their leaders. It depicts the extent to which politicians can go to attain their objectives. But behind this heavy cloud of sorrow, a peaceful Rwanda is emerging; it will certainly take years for the wounds to heal. A new Rwanda, with clean and safe cities is emerging from the ashes.

Rwanda, in the heart of Africa, is engaged in the continent's most ambitious privatization campaign. It may be the most ambitious and systematic of any country anywhere. After experiencing the kind of stifling, socialist rule that consigned virtually all of Africa to grinding deprivation for ages, this is a country that is now embracing the private sector with deliberate policy and enormous enthusiasm. Private businesses, schools, and universities are competing with state-owned facilities.

Tea is a top Rwandan export and it too is going private. Ten tea factories exist in Rwanda—nine owned by the government and one, Sorwathé, in private hands. With only 10 percent of the national tea plantation acreage, Sorwathé produced 17 percent of the nation's black tea in 1999 and boasted a yield that was more than double the national average per acre. In 2003 the government began a program that will soon culminate in the sale of all nine of its tea factories and most, if not eventually all, of its tea plantations.

Since the privatization drive started in 1996, other assets sold by the Rwandan government include its hotels, a fruit-juice factory, a printing firm, and companies that make insecticides, tobacco products, sugar, dairy products, processed fish, and coffee. Among many others slated for the auction block over the next couple of years are chicken hatcheries, paper mills, rice producers, the national telecommunications companies, and even all water distribution and electricity generation. Robert Bayigamba heads the government's Privatization Secretariat. He says Rwanda will remain on this path until it creates a genuine free market economy complete with something else it has never had before—a stock market.

Africa earned the moniker "Dark Continent" because of its reputation for tyranny, isolation, and deprivation. To outside observers, Africans seemed incapable of or uninterested in the improvement of their situation through enterprise and private property. But the Rwandan case illustrates the fact that, despite the past traumatic experience, individuals are rising up to change their economic circumstances for the better.

James Shikwati is the Director of the Inter Region Economic Network and Coordinator of the Africa Resource Bank. ■

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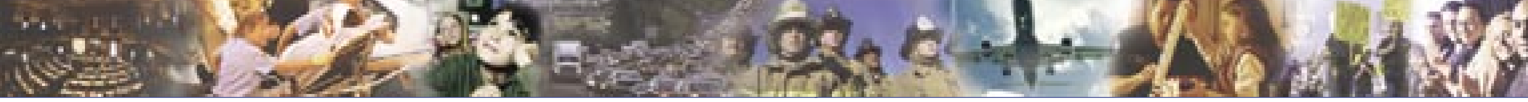
FOREIGN SKIES

maxims ("Consumers behave in a rational way when confronted with a value judgment; give them a product at the right price and they will take it"; "Think how can we transfer the workload to the customers"), helped turn easyJet into the fastest growing of the top 150 airlines in the world, according to *Airline Business* magazine, and even introduced a new word into the lexicon, *easyJetter.* "On 28 April, Ljubljana joins easyJet's destination list for an irresistible £80 return," London's *New Statesman* noted in April 2004. (Travel features on new airline destinations have become a staple of British newspapers.) "All over the capital, Slovenes are bracing themselves for the onslaught of British weekenders. The easyJetters, it is acknowledged, will drink too much and talk loudly about how cheap everything is."

Stelios has stepped back from the day-to-day management of the airline, and now the self-styled "serial entrepreneur" is taking his low-cost "easy" brand and online purchasing model into car rentals, Internet cafés, cruise ships, and even pizza delivery. "I think easyJet was instrumental in convincing people it was worthwhile to understand how the Internet works," he told *The Independent* in April. "It's been a watershed decade, an amazing period," he told the *Times* of London in May.

If Stelios and easyJet were the John the Baptist of European low-cost air travel, RyanAir and Michael O'Leary are Jesus himself—or perhaps the Antichrist. O'Leary, a foul-mouthed, jeans-wearing college dropout of an Irishman, took over RyanAir a decade ago, when it was a minor if profitable Irish airline serving 700,000 passengers a year, mostly between Dublin and London.

In business since 1985, RyanAir got the low-cost religion in 1991 and started aggressively hitting the newly liberalizing European market soon after Stelios popularized the no-frills concept to the masses. Unlike easyJet, however, RyanAir refused to take



on popular routes at congested and expensive airports, sticking to a strict diet of cheaper regional flights to keep its prices the lowest in Europe. And unlike Stelios, who projects a friendly, go-getting cosmopolitanism, the 44-year-old O'Leary is a street brawler who has alienated swaths of the United Kingdom by brashly banning unions, hounding the Irish government to break up its state airport monopoly Aer Rianta, cadging subsidies from desperate airport towns, routinely referring to the European Commission as "the Evil Empire," and responding to his critics with a blanket "bollocks."

RyanAir is notorious for finding inventive ways of "penalizing" its passengers, such as setting absurdly low 15-kilogram (33-pound) baggage limits and charging four euros (nearly $5) for each additional kilo. (I once observed—and suffered heavily from—this practice at sleepy St. Etienne airport in France, where every penalized passenger I talked to said the limit had not been enforced on the flight out from London, where they could have easily switched airlines.) Even wheelchair users were charged an extra £18 ($33) fee, until a British court ruled the practice discriminatory in February. (RyanAir, which says it was simply passing along the standard British Airports Authority surcharge, announced that all tickets would be raised a half-pound to cover the difference.)

Still, the company makes up for customer grumbling by leading Europe in flight punctuality and keeping prices at absurd lows, which it (unlike most of the new low-cost competitors) can afford because of its massive cash reserve. Since O'Leary has taken over, RyanAir has become the most profitable major airline in the world (it had a 19 percent margin in 2003) and has the fourth-largest market capitalization ($4.7 billion as of June 3, just behind British Airways' $5 billion and Lufthansa's $5.5 billion).

From 1998 to 2003, thanks in part to RyanAir and easyJet, low-cost air traffic grew by 600 percent in Europe, compared to just 10 percent growth for full-service airlines, according to *Tourism News*. Forty new airlines have debuted since the September 11th massacre alone. (More than 100 have been launched in the last decade, but many of those have disappeared.) Europeans who not long ago used airplanes only to cross the ocean are now taking them to visit girlfriends, scope out real estate, and turn the European Union's theoretical freedom of movement into a reality.

Reason's *Associate Editor Matt Welch writes for* Canada's National Post. *The preceding was excerpted from a longer article, which is available online: reason.com/0501/fe.mw.fly.shtml* ■

Whose "public benefit"?
Examining eminent domain

By Samuel R. Staley

The following is an excerpt from the Reason study, Eminent Domain, Private Property, and Redevelopment, *available online: rppi.org/ps331.pdf*

Eminent domain is the power governments have to confiscate, or take, private property as long as it is for a legitimate "public use" and property owners receive "just compensation." Whereas eminent domain was initially intended to ensure that public services, such as roads and highways, were available to the public, local and state governments often use eminent domain for any project that is considered economically beneficial. Public use, as a practical matter, has morphed into a more ambiguous concept: "public benefit." An estimated 10,000 cases between 1998 and 2002 involved projects where private parties benefited substantially from government seizures of property under the banner of economic development or urban redevelopment.

The result of this broadening discretion may be exemplified in Kelo v. City of New London, a case before the U.S. Supreme Court in which property owners are challenging the decision of New London, Connecticut to seize their homes because the city decided redevelopment for commercial purposes would generate higher property values and taxes.

Eminent domain in urban development projects tends to be:

1. **Arbitrary**, driven by local politics rather than standards and objective criteria;
2. **Inequitable**, giving large and well-connected property developers an advantage over existing homeowners and businesses;
3. **Serving private purposes**, effectively becoming a legal way private developers can circumvent the conventional real estate market and force other property owners to sell their property to developers while reaping substantial financial gains; and
4. **Without substantive limits**, because statutory criteria for blight determination are so broad they fail to constrain eminent domain's use for redevelopment purposes.

Economic development planners and city officials claim that redevelopment could not happen without an ability to consolidate property and comprehensively redevelop it. They also claim that eminent domain is only used as a last resort after less intrusive approaches have failed.

The two case studies here—Mesa, Arizona and Lakewood, Ohio—show that eminent domain is not treated as a last resort, but as just another strategy in the redevelopment tool box.■

Pondering Core Functions in Colorado

By Geoffrey F. Segal

The following is one of the eight "Savings Tools" outlined in the Reason study, Priority Colorado: Balancing the Budget While Preserving TABOR and Colorado's Quality of Life, *available online: rppi.org/Priority_Colorado.pdf*

Over time, government inevitably expands. New agencies, programs, boards, and commissions are formed, often with duplicative, overlapping, or even contradictory missions. Lack of oversight or accountability only adds to this government sprawl and inefficiency.

In order to make the most of taxpayer dollars, public officials must always monitor the effectiveness of and need for various programs and services. It is particularly important for government to stick to core functions during difficult fiscal climates. There is simply no room in the budget for low-priority programs.

A program may be deemed non-essential or low priority for many reasons:

1. The program is simply unnecessary for performing the core functions of government or is inconsistent with the proper role of government.
2. The program duplicates other government programs.
3. The program performs services that are already adequately provided in the private sector.
4. The program's past or current budgetary growth is not justified.
5. The program performs functions that are better suited to local governments.

We have chosen to focus primarily on the first three reasons.

Colorado's budget can be balanced if focus is returned to the core functions of government. Many programs came into being as the result of legislative "generosity" during better economic times as the result of lobbying by special interest. In the years ahead, it is likely that this reevaluation of priorities will be seen as a natural and healthy part of the political cycle. The below action items show how Colorado, and indeed other states, can develop a means to evaluate the efficiency of programs and to shrink government when appropriate:

Action Items

- Create a Colorado Performance Review, modeled after the Texas review, to conduct an immediate and limited-term review of government functions and priorities.
- Establish a permanent Colorado State Programs Sunset Commission to review systematically the continued relevance and performance achievements of 20 percent of all state programs annually, on a five-year cycle.
- Eliminate all ineffective programs and eliminate or suspend low-priority programs.
- Adopt performance-based budgeting to tie appropriations to agency performance.
- Adopt the South Carolina budget model of establishing priorities and funding the highest-priority government functions with available revenues. ■

Candidates for Suspension or Elimination

Description	Action	Savings
Agricultural Services Division	Eliminate/ Suspend	$2,183,149
Economic Development Programs (including International Trade Office, Colorado Tourism Office)	Eliminate	$11,733,519
Office of Information and Technology	Eliminate	$899,560
Colorado Council on the Arts	Eliminate	$500,000
State Historical Society	Eliminate/ Privatize/	$10,000
Division of Occupational Education	Privatize	$8,992,333

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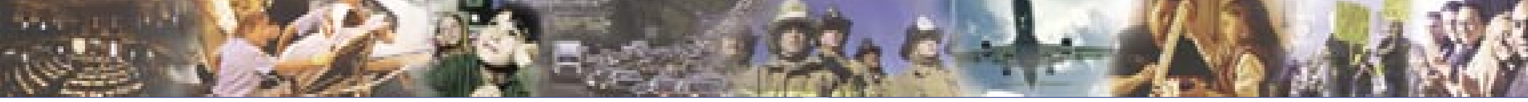
AIRPORT SCREENING

ask to opt out. The contractual relationship is then between the TSA and the screening services provider, rather than between the airport and the company. As of January, only one airport had applied for the opt-out program (Elko, Nevada).

Critics also point out two more fundamental problems with the TSA opt-out model. First, it continues to leave airport security fragmented, with the TSA responsible for screening of passengers and baggage and the airport responsible for all other aspects (such as perimeter protection and access control). If the airport hired and supervised the screening contractor, airport security could be unified, with cross-trained personnel and single-point accountability. Second, because TSA is both a provider of screening services and the regulator of airport security, it has a built-in conflict of interest. This can only be resolved by eliminating the agency's service-provider role, as Mica's bill would do. ■



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BURT RUTAN

like airport manager or flight attendant, and yet today the aviation industry employs millions of Americans.

BR: When people think of the Wright brothers they think of 1903. I think a more important thing to look at when you make the point you're making is 1908 to 1911, early 1912. We're talking about only a three-and-a-half-year time period that started when only 10 people had flown, and ended three and a half years later when thousands of pilots flew hundreds of airplanes in 39 countries.

Those people were doing it just for fun because they weren't developing airliners yet, developing the World War I airplanes yet, or even the mail planes yet. What happened later were the applications, but people wanted to fly. People the world around wanted to fly with a barnstormer, people wanted to go to air shows and see them do loop-the-loop. You know, this is all kind of fun.

Go back to 1977 when you could first buy an Apple computer. This was a big deal that people could have computers, but the personal computer was mainly for fun. Most people used them for games, and balancing our checkbook with a personal computer really wasn't why we bought personal computers. I mean, people said, well that's why we need them, but if you think about it, until we had the Internet, we didn't know what computers were really for. Now it's our communication, it's our commerce, it's our—everything.

I like to think of what this suborbital space tourism is; it's going to be a big industry. Just like personal computers. But it's mainly just for fun.

You've got to have thousands, tens of thousands, of people enjoying it in order to figure out what to do with it. We never would have invented the use of the Internet, and the communication, and the commerce, and everything if you had just a few dozen people with computers. So I look at this suborbital phase that we'll go through, and I think we'll always have suborbital space flight, but I think the main thing is, is that people are going to flat enjoy it. And it's going to be absolutely thrilling. They're going to be floating their bodies around big cabins. It's not going to be just like the SpaceShipOne flights, there's going to be a lot more things you can do for the experience.

To answer your question, I think it's going to be a huge industry. And it's going to be competitive very early in the game, and ticket sales will come down to the point where hundreds of thousands of people will fly.

A longer version of this interview is available here: rppi.org/interview_burt_rutan.shtml ■

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FAA

Of the 2,500 current AFSS employees, Lockheed will offer jobs to all of them, with no loss in salary and at comparable benefits. The company will take over in October 2005, with the consolidation of facilities beginning in April 2006 and ending a year later. During that time period, about half the 2,500 employees will become eligible to retire, which will facilitate a reduction in AFSS workforce without layoffs. In addition, about 400 of the existing staff have been certified as air traffic controllers and will be able to apply for transfer to the FAA's Air Traffic Organization.

AOPA has welcomed the contract announcement as bringing the FSS system into the 21st century. This looks like a big win for the President's competitive sourcing program. ■

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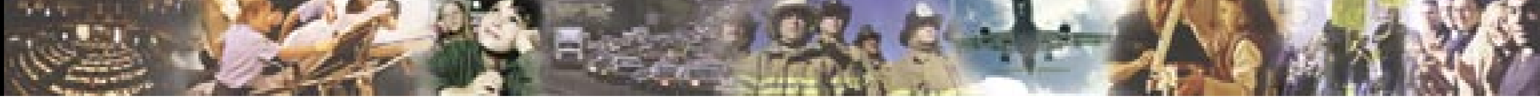
PRIVATIZATION

ports Authority of India, which operates 125 airports in the country, will hold the remaining 26 percent of the two largely privatized airports.

A whole raft of previously announced privatizations are still in the works, including Aeroports de Paris, Amsterdam Schiphol, Tokyo's Narita, and Hong Kong International, but firm dates have not been announced. Other airports likely to have share offerings in the next several years include Prague, Moscow's Sheremetyevo, Venice, Milan, and Ireland's Aer Rianta.

In developing countries, the privatization model is usually a build-operate-transfer franchise, with the aim of allowing private capital and expertise to upgrade and expand an existing airport. Recent months have witnessed Hochtief winning a 20-year BOT deal to modernize the Tirana, Albania airport, the Hermes consortium winning a 25-year BOT deal for the two main airports of Cyprus, and the Airport Company of South Africa winning a 25-year concession for the Maputo International Airport in Mozambique. Competitive processes are under way for Bulgaria's two Black Sea airports, and for the Nassau airport in the Bahamas.

For those professionally interested in airport privatization, the Centre for Asia Pacific Aviation has recently launched a newsletter called *Airport Investor Monthly* (www.centreforaviation.com). It carries worldwide news on privatization developments, and includes a table of the latest share prices of the 22 airport companies traded on various stock exchanges. ■



Who, What, Where

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ALEC's 32nd Annual Meeting, American Legislative Exchange Council, Grapevine, TX, August 2-7: alec.org

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