

2008

# Innovators in Action

Edited by Leonard C. Gilroy



Texas Governor Rick Perry



U.S. Secretary of Transportation  
Mary Peters



Former U.S. Comptroller General  
David Walker



# Reason Foundation



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# Innovators in Action 2008 **CONTENTS**



**1**

## **Introduction: Innovators in Action 2008**

Edited by Leonard C. Gilroy

**3**

## **Time to Refocus, Reform and Renew the Federal Transportation System**

By U.S. Secretary of Transportation Mary Peters

**8**

## **Transformation Is Needed and Achievable in Government**

By The Honorable David M. Walker

**12**

## **Extensive Challenges Call For Visionary Solutions: Texas as a National Model for 21st Century Transportation**

By Governor Rick Perry

**14**

## **Getting Government Out of the Business of Business**

Interview with Utah Senator Howard Stephenson and State Representative Craig Frank

**21**

## **Bringing Urban Scholarships to New Jersey**

By New Jersey State Senator Raymond J. Lesniak

**24**

## **Reflections of a Texas Transportation Trailblazer**

Interview with former Texas Transportation Commission Chairman Ric Williamson

**32**

## **New Tools for Driving Change**

By Executive Ron Sims

**37**

## **The Business of Providing Public Transportation**

Interview with Cal Marsella, CEO of the Denver Regional Transportation District

**43**

## **Building Academic Success in Schools**

By Olga V. Block, Co-founder of BASIS Charter Schools

*“The human mind once stretched by a new idea never goes back to its original dimensions.”*  
*—Oliver Wendell Holmes*



# Innovators in Action

Edited By Leonard C. Gilroy

**Innovation lies at the nexus of creativity, leadership and action. True leadership involves moving creative, often ground-breaking, ideas from concept to implementation.**

Unfortunately, innovation is all too rare in government. On one hand, policymakers and bureaucrats have a vast array of sound policy ideas at their disposal. But many of these ideas never see the light of day due to institutional inertia or political considerations. At the same time, government officials often take policy actions without a clear sense of purpose (i.e., what are we aiming to solve?) or realistic expectations of outcomes and unintended consequences.

In a time of a record-setting federal deficit, tightening state and local budgets, over \$1 trillion in unfunded infrastructure needs, looming fiscal disasters in public pension and entitlement programs, rising congestion in our transportation systems and poor educational performance, we need innovators in government now more than ever.

*Innovators in Action 2008* showcases a set of leaders who have successfully bridged the gap between ideas and action. In the following essays

by some of the most innovative policymakers and practitioners in the public sphere, several lessons emerge:

- **Competition, markets and private sector solutions work.** From King County, Washington Executive Ron Sims's embrace of variable rate tolling for traffic congestion reduction, to the architects of the newly revamped Utah Privatization Policy Board that will regularly review state agencies for privatization opportunities, to New Jersey State Senator Raymond Lesniak's urban school scholarships proposal to offer low-income children an alternative to underperforming schools, these innovators have demonstrated that public-private partnerships and market-oriented policy change are proven policy management tools that deliver good results.
- **Challenge the status quo.** Government-as-usual will not deliver the solutions our nation, states and cities need to compete in the 21st century's global economy. These innovators understand that tinkering around the edges

is not enough; we need to be willing to dramatically overhaul existing systems and think outside the box. For example, rising traffic congestion and government's inability to deliver enough transportation capacity to meet surging demand prompted U.S Transportation Secretary Mary Peters, Texas Governor Rick Perry and Executive Sims to literally advance a transformation of transportation policy at the federal, state and local levels, respectively.

- **Goals matter.** Public service delivery suffers when agencies and officials operate without clear goals, an unfortunate tendency in many institutional structures. In any type of reform effort, it's critical to identify the desired change upfront and then craft clear goals and strategies to achieve it. When Gov. Perry and the late Texas Transportation Commission Chairman Ric Williamson began the process of revolutionizing the state's transportation system, they began by clearly identifying short-, mid- and long-range goals and then developed a suite of policy tools to achieve these very specific goals.
- **Aim high.** Difficult challenges require bold solutions. When starting the first BASIS charter school in Tucson a decade ago, founders Olga and Michael Block set out to create one of the best schools in the country and developed an innovative model for doing so. By May 2008, *Newsweek* ranked BASIS Tucson the #1 public high school in the nation. Similarly Utah State Senator Howard Stephenson and State Representative Craig Frank set out with the goal of "right-sizing" government, leading them to develop a set of new policies to streamline state government and mandate regular reviews of state and local government services and activities to ensure agencies aren't unfairly competing with private sector businesses.
- **Performance is key.** Measuring progress toward achieving goals is impossible without outcome assessment, or as Denver Regional Transportation District CEO Cal Marsella

puts it in his interview, "if you can't measure it, you can't manage it." Using outcome-based performance assessment to drive his award-winning internal agency reforms, former Comptroller General David Walker took the U.S Government Accountability Office from an "at risk" agency to one that is currently viewed as one of most effective agencies in the federal government. Similarly, Secretary Peters has worked toward a transformation of the federal transportation program in which funding is allocated not on the basis of political desires, but a set of objective performance standards.

- **Reform isn't partisan.** The innovators featured in this report represent a broad range of points along the political spectrum and their political diversity demonstrates that privatization and market-based reform are not partisan issues. Rather, these policy tools are embraced by Democrats and Republicans alike to drive internal change and improve the efficiency and effectiveness of public service delivery.

Apple co-founder and CEO Steve Jobs said, "Innovation distinguishes between a leader and a follower." Not content to merely follow in the footsteps of those before them, each of these innovators offers an example of bold leadership, a willingness to embrace change and results-oriented action. And each of these innovators has been a change agent with a direct role in improving the delivery of public services.

These reformers are not interested in working within the constraints of what is, but instead are focused on the possibilities they can create by breaking from the confines of the status quo and turning toward new policy tools and paradigms. It is my hope that the examples and experiences offered by these innovators will inspire and guide reform-minded officials at all levels of government. ■

Leonard Gilroy is the Director of Government Reform at Reason Foundation.



# Time to Refocus, Reform and Renew the Federal Transportation System

**By U.S. Secretary of Transportation Mary Peters**

**It is hard to think of a time when transportation commanded so much attention on both political and public policy agendas or was a more frequent topic of dinner table conversations around the country.**

Exploding highway congestion, lengthening daily commutes, rising fuel prices and bridges to nowhere are fueling frustration with a transportation system that simply is not working as well as it should. The American people know it and there is a growing recognition that our approach to transportation in the United States needs to change.

The good news is that next year's expiration of the current surface transportation law, SAFETEA-LU, opens an historic opportunity for the United States to move away from the failed government-centric transportation model—a model in which central planners try to determine what the market wants, levy taxes to try to meet that need and then manage design and construction.

If we get the policy right when the new bill is written, it has the potential to be as far-reaching and visionary as the legislation President Eisenhower signed in 1956 giving birth to a national Interstate Highway system, which ultimately revolutionized the American economy and way of life.

Modern technology and new approaches to financing make it possible to empower consumers—through the mechanism of the market—to set transportation priorities, instead of government planners and regulators.



Modern financing also permits states to tap into the more than \$400 billion in private-sector capital that is available right now for infrastructure. With a little forward thinking, we can unleash the greatest new wave of transportation investment this country has ever seen. Or we can sit by and let that massive amount of private-sector funding be

invested in China, Europe and South America—as it is today.

We can shift toward a more equitable user-fee system that charges drivers for when and where they drive. Or we can continue to rely on regressive “flat fee” gas taxes, a financing mechanism that continues to decline as drivers respond to higher gas prices by driving less or switching to more efficient vehicles.

We can take advantage of the powerful combination of modern technology and tolling and use dynamic road pricing to help our highways operate at peak efficiency. Or we can continue to maintain the myth that our roads are free, ignoring the high price Americans pay for congestion in terms of lost time, wasted fuel and the drain on the U.S. economy.

It is that simple. If lawmakers in Washington turn their backs on reform and content themselves with figuring out the funding formula—how to divvy up among the states what is left after the set-asides and earmarks—they will have failed.

The time has come to move beyond superficial discussions of how much money the federal government is going to spend on transportation and lay a policy foundation that fits our current circumstances. By retooling our policies for the 21st Century, we can do more to put transportation in the fast lane than Eisenhower ever dreamed possible.

The first step is to refocus our surface transportation program on a clearly defined federal role. When the government tries to be all things to all people, it fails to be coherent and risks being nothing to anyone.

The program Eisenhower created 50 years ago was well-defined and well-suited to its time. The goal was clear: build the Interstates and connect the country—and we did.

Since that mission was accomplished more than a quarter of a century ago, our federal surface transportation program has lost its sense of direction. It has become a breeding ground for earmarks and burdened by a proliferation of special-interest programs, goals and requirements.

When I began working at the Arizona Department of Transportation in the 1980s, we dealt with only a handful of such programs. Today, states must navigate more than 108 different programs with numerous requirements and often conflicting goals.

The time has come to eliminate the earmarks and set-asides and replace this slice-and-dice approach with a structure that effectively focuses the federal role on the three areas that are of greatest national interest: 1) transportation safety; 2) the Interstate Highway System and other nationally significant corridors; and 3) mobility in metropolitan areas.

We have made a real commitment to safety and have achieved measurable progress in reducing traffic fatalities. But with over 42,000 deaths on America’s roads every year, we still have unfinished business.

Using a technology- and data-driven approach, the Department of Transportation is focusing—and must continue to focus—on stubborn issues that put drivers, passengers and pedestrians at risk, including crashes involving drunk drivers, motorcycles, work zones and rural roads.

The federal government should similarly commit to improving and maintaining the condition and performance of the Interstate Highway System and other major corridors. Roughly one-quarter of all highway miles traveled in the U.S.





Secretary Peters and Minnesota Governor Tim Pawlenty announcing in June 2008 that Minnesota has met all the qualifications necessary to receive over \$133 million in Urban Partnership funding.

takes place on the Interstate system, even though it encompasses only slightly more than 1 percent of the nation's highways. Further, because these highways carry fully three-fourths of the long-haul truck traffic, they are vital to interstate commerce and global trade. States must continually improve, maintain and expand these roads to keep them in good condition and operating at peak efficiency.

Finally, the massive congestion problem in America's urban areas demands urgent and strong federal focus. Home to 65 percent of the nation's population and the source of 68 percent of all jobs, America's 100 largest metropolitan areas are its key drivers of prosperity, generating three-quarters of U.S. gross domestic product. Sadly, growing gridlock threatens to stall this economic engine.

We need to use federal dollars to encourage state and local officials to pursue more effective and sustainable congestion-relief strategies. There

are proven technologies and approaches that can deliver almost immediate relief from traffic and from high gasoline prices, if we are willing to use them.

The Urban Partnership Agreements that the Department negotiated last year with Seattle, Miami, San Francisco and Minneapolis are demonstrating how relatively small amounts of federal funding can serve as an important catalyst for strategies to fight congestion through innovative combinations of technology, pricing and transit.

A good example is Minneapolis, where Governor Tim Pawlenty and local officials are putting a plan in place that almost overnight will relieve traffic on one of the Twin Cities' busiest highways. Minneapolis is converting existing HOV and shoulder lanes along I-35 West to High Occupancy Toll (HOT) lanes. Commuters eager to use these new, dynamically priced express lanes will pay modest tolls that vary with the amount of traffic. They also will be available for Bus Rapid Transit. The concept is a simple yet proven way to use the market to keep traffic moving, commutes reliable, gas bills lower and the air cleaner.

More urban areas are eager to follow this path. I recently joined Governor Arnold Schwarzenegger in Los Angeles to announce a new congestion-relief demonstration project featuring dynamically priced HOT lanes. Similarly, in Chicago, Mayor Richard Daley has come on board with a congestion-relief initiative that combines Bus Rapid Transit and congestion pricing for the city's metered parking spaces—downtown street parkers will soon start paying more to park during peak hours. Again, this is a simple but effective market mechanism to encourage commuters to take transit or shift their schedules to drive downtown during less busy times of the day.

This is the type of innovation the new federal transportation program should support and encourage. The program also ought to be designed to ensure that the federal government makes rational and accountable investment decisions.

We can strengthen the basis of our investment decisions by insisting on benefit-cost analysis for



Secretary Peters in Los Angeles in April 2008 announcing that the city has qualified to receive funding as part of USDOT's Congestion Reduction Demonstration project. Standing with the Secretary is California Gov. Arnold Schwarzenegger, L.A. Mayor Antonio Villaraigosa, and California Transportation Secretary Dale E. Bonner.

projects receiving substantial federal support. Further, we can improve accountability by having states and metropolitan areas set meaningful performance goals and document their progress.

Flexibility must go hand-in-hand with performance management. By consolidating dozens of stove-piped highway and transit programs into multi-modal programs, we can increase state and municipal flexibility to fund their greatest transportation priorities. Much as we did with welfare reform in the 1990s, it is time for transportation reform that encourages innovation, rather than

stifling it.

Our goal is to move the federal focus away from process oversight and instead demand accountability. Process requirements that are not producing outcomes are not worth keeping. Success should be defined in terms of increased travel-time reliability, decreased delay hours and improved condition of bridges and pavement.

Finally, federal transportation dollars should be leveraged to attract new investment by states, localities and the private sector. The United States is only just beginning to follow the path that



Secretary Peters visiting the Hoover Dam Bypass bridge project with Congressman Jon Porter in March 2008.

Europe, Asia and South America have successfully pursued for more than a decade and tap into the vast amounts of private-sector capital available for infrastructure.

The money is out there. Pennsylvania just received the largest bid for private toll road investment in U.S. history—a \$12.8 billion offer to lease the Pennsylvania Turnpike and invest the proceeds in the state’s infrastructure. To put this amount into perspective, this one transaction is worth more than two-and-one-half times the Pennsylvania DOT’s entire annual budget.

Several proven strategies are available to encourage this type of leveraging, including removing federal restrictions that prevent tolling of Interstates and other major highways and encouraging the expanded use of public-private partnerships. We also can expand investment by broadening the availability of TIFIA (Transportation Infrastructure Finance and Innovation Act) credit assistance and private activity bonds and by allowing greater flexibility to create and use state infrastructure banks. The Department of Transportation recently provided TIFIA financing and authorized the use of Private Activity Bonds to help Virginia close an extremely creative transaction to widen the Capital Beltway and add HOT lanes using private financing and state-of-the-art variable electronic tolls.

Too often under the current program, federal dollars diminish other investments instead of

encouraging more. If we shape our programs right, however, every dollar we spend can bring three to four additional dollars to the table.

Just imagine where we would be today if the \$286.4 billion in SAFETEA-LU were leveraged three- or four-fold and those funds had been targeted to moving goods faster and more safely over our transportation network. There is no question that our Interstates and bridges would be in even better condition today and that congestion would be decreasing in our cities, rather than increasing.

Few things affect Americans in their daily lives as directly as congestion. Few things are as important to our economic vitality as the efficiency and performance of our transportation network. We have a unique opportunity to put our transportation network back in the fast lane by creating a coherent federal role, encouraging a wise investment strategy and delivering a higher level of performance for the American people. We cannot afford to squander this opportunity to give America the transportation policy it deserves. ■

The Honorable Mary E. Peters was appointed by President George W. Bush as the 15th U.S. Secretary of Transportation in 2006. In her two decades of work at the state and federal level and with the private sector, she has earned a much-deserved reputation for solving problems with common sense, innovation and vision.



# Transformation is Needed and Achievable in Government

By Former U.S. Comptroller General David M. Walker

**The federal government is the largest and most complex organization on the face of the earth. It represents over 20 percent of the U.S. economy and has wide ranging influence and impact on a range of economic, security, political, cultural and other matters, both in the U.S. and around the world.**

When I became Comptroller General of the United States (“the CG”) in November 1998 and head of the then U.S. General Accounting Office (now the U.S. Government Accountability Office, or GAO), I was very aware of the need to transform both the GAO and the federal government. At that time, the greater urgency related to the need to transform the GAO, so that’s where I started.

Throughout my 35 plus years of experience in the public and private sectors, I have been a believer in the simple but powerful concept of “leading by example.” As a result, at the outset of my tenure, I decided to put it to work at GAO in partnership with the over 100 capable and dedicated career senior executives that comprise the GAO leadership team. I also decided to rally the agency around a set of “core values” that would serve a higher calling and rallying cry for all agency actions. Ultimately, we decided on three such core values—accountability, integrity and reliability—and they were then used as a critical foundational element for GAO’s first ever formal strategic plan.

This “leading by example” approach seemed to be particularly appropriate for GAO since it is the agency that audits, investigates and evaluates other government agencies. Therefore, in my view, GAO has a responsibility to “lead by example” and practice what it preaches. This concept, coupled with a commitment to our new core values and applicable professional standards, became the foundation of a broad-based agency transformation effort that spanned several years.

GAO’s transformation effort involved a range of strategic planning, organizational alignment, performance management, human capital, information technology, knowledge management, external alliance, communications and change-management initiatives. After agreeing on a set of core values, the effort focused on developing and implementing GAO’s agency-wide strategic plan, flattening and streamlining GAO’s organizational structure, reducing the agency’s footprint outside of Washington, D.C. and focusing on outcome-based results.

The transformation effort also included initiatives to develop and implement a range of client, agency and international protocols. These protocols were part of an overall effort to enhance GAO’s transparency as a critical element to help improve the agency’s performance, enhance consistency and ensure its accountability to Congress and the American people.



Finally, the effort focused on the need for the agency to employ a constructive rather than confrontational approach in dealing with auditees, while at the same time maintaining its independence in connection with both agencies and congressional requesters. In this regard, I have always believed that it's more appropriate to be respected rather than feared in order for an accountability organization to be effective. Furthermore, while Congress as an institution is the GAO's client, all of the agency's work must be free from undue influence, including from members of Congress.

GAO's transformation effort also included a significant number of major human capital reform initiatives. This was fully appropriate since people represent the most valuable asset of any knowledge-based entity and the government is no exception. These reforms included seeking and achieving two rounds of additional legislative authority for the Comptroller General in 2001 and

2004. GAO's internal human capital reform efforts were comprehensive and, at times, controversial. They included recruiting, training/development, performance management, classification, compensation, succession planning and a range of other reform initiatives. All of GAO's human capital reform efforts were designed to be market-based and performance-oriented in nature. They were also made with due regard to the agency's current and likely future resources as well as with an awareness of and commitment to management's fiduciary obligation for today and stewardship responsibility for tomorrow.

While there were many positive results achieved from GAO's human capital reforms and GAO is now widely viewed as the leader in connection with federal human capital reform, as a result of my decision to address the over-classification of several hundred senior analysts in order to improve internal equity and budget flexibility, a portion of GAO's workforce decided to form a union during my last year in office. This is their right and it is understandable given the unparalleled authority provided to the Comptroller General and the prevalence of unions in government.

Importantly, all of GAO's major human capital reforms were implemented prior to my departure. Therefore, any prospective changes will require agreement by both labor and management in order for them to take place. Furthermore, before I left office, an agreement was reached between the GAO and key players in Congress on a way to handle future pay adjustments applicable to analysts who were receiving compensation beyond market levels at the time of the 2006 restructuring. Hopefully, this agreement will soon be enacted into law along with several other GAO reforms that I sought in my final months as CG.

Given the importance of human capital issues to the GAO's mission, budget and competitive posture, in my view, any major GAO-related human capital or other policy changes beyond those previously agreed to should be put on hold, pending confirmation and installation of a new CG. Doing otherwise would not be appropriate or fair to my



Senate confirmed successor. Hopefully, Congress will also send a list of recommended CG candidates to the next president in an expeditious manner. After all, the CG position is arguably one of the most important ones in the federal government.

The result of GAO's transformation effort is both dramatic and demonstrable. As a result of the combined efforts of many GAO executives and employees, GAO went from an "at risk" agency in 1998 to one that is currently viewed as one of the best and most effective agencies in the federal government. The facts are clear and compelling, GAO's outcome-based performance results more than doubled in most performance categories during this period, while the size of the agency was reduced. At the same time, the agency's client and employee feedback scores increased dramati-

cally. For example, GAO was ranked number 2 in the federal government in the 2007 "Best Places to Work Survey" and its client feedback scores were well over 90 percent positive. That's pretty impressive given the nature of the agency's client base and the increased partisanship and ideological divide in Congress. In addition, the agency has won a number of awards for its strategic planning, performance and accountability, human capital, information technology, communications and other transformation reform efforts during the past several years.

GAO's transformation effort proves that while change is tough, especially in government and other entities that face little competition, it is possible with committed, inspired and persistent leadership. It's true that GAO has an advantage since its Chief Executive Officer, the CG, has a 15-year term. At the same time, during GAO's recent transformation, the CG was the only political appointee in the entire agency. Therefore, as CG, I led the overall effort. However, it was facilitated and overseen by GAO's Executive Committee comprised of the CG, the Chief Operating Officer (COO), the Chief Financial Officer (CFO) and the agency's General Counsel and it was implemented with the active support and concerted efforts of GAO's career leaders.

Given the results of GAO's transformation efforts and a few others that have taken place in government, we need to explore how transformation can be implemented at other federal agencies. This is not only desirable, it is essential since, unlike at the beginning of my tenure as CG, the federal government now faces a financial position that is deteriorating over time. Current entitlement programs, tax policies and other spending practices are unsustainable in their present form. Our country faces large and growing structural deficits and mounting debt burdens that will threaten our future economy, standard of living, international standing and potentially our long-range national security if we do not change course.

In my view, the federal government must recognize the reality that many existing federal

government spending programs, tax policies and operational practices are outdated, ineffective and/or unsustainable in their present form. Tough choices must be made, hopefully sooner rather than later, because the clock is ticking and time is not working in our favor.

In order to put our country on a more prudent and sustainable path, several key reform initiatives are likely to be needed. These include:

- **Creating a capable, credible and bi-partisan commission to make policy-related recommendations** on needed statutory budget controls, comprehensive Social Security reform and round one of comprehensive tax and health care reform, at a minimum.
- **Creating a capable, credible and professional commission to review the effectiveness and appropriateness of the base of major federal programs, policies and operational practices** in order to make recommendations on how to separate the “wheat from the chaff” and modernize the federal government to reflect 21st century realities. This will help to improve government performance, ensure accountability and enhance overall sustainability. At the same time, this commission must be supported by a presidential implementation commitment probably led by the Office of Management and Budget (OMB). The current and prior Administration placed increased attention on management issues for which they deserve credit; however, much remains to be done. In addition, prior government reform commissions have not been as effective due to the lack of an adequate means to implement and assess the impact of their recommendations.
- **Having Congress and the president work together to reduce the number of political appointees in general and the number of Senate-confirmed positions in particular.** Greater attention needs to be placed on the difference between policy, operational and adjudicatory positions. In this regard, every agency needs a designated COO and some agencies that face serious transformation challenges need one

that is highly qualified with a proven track record, who is appointed to a position with a term-appointment and a performance contract. This is particularly important in connection with security-related agencies, especially the Department of Defense.

- **Creating and implementing a set of “key national indicators”** that will help to inform strategic planning, enhance legislative and executive branch decision-making and re-invigorate our democracy, preferably through a public/private partnership approach.

**“...Many existing federal government spending programs, tax policies and operational practices are outdated, ineffective and unsustainable.”**

Success in transforming the federal government will also require the commitment of the next president to support the above and other major policy and operational reform efforts. Hopefully, our next president will be committed to such an effort. If the next president is willing to lead the way and make tough choices, it will help to reduce the chances that we will experience a major economic crisis, while also ensuring that our collective future is better than our past.

All of us at the Peter G. Peterson Foundation, which I now have the privilege to lead, will do our part to help ensure that Washington quits living for today and starts to focus on how we can all work together to help create a better tomorrow. All that we ask is that all caring Americans do their part as well. We owe it to our nation’s founders and to our families to do so. ■

The Honorable David M. Walker is President and CEO of the Peter G. Peterson Foundation. In 1998, he was appointed United States Comptroller General by President Bill Clinton and served in that role until March of 2008. Mr. Walker is a certified public accountant and prior to his tenure as Comptroller General, had extensive executive experience in government and private industry.



# Extensive Challenges Call For Visionary Solutions

## Texas as a National Model for 21st Century Transportation

By Texas Governor Rick Perry

**Texas is no stranger to big challenges, especially those that accompany our state's transportation needs. When I took office, congestion on the roads within and between Texas's major cities was already taking a toll on economic productivity and quality of life. As governor of a state that grows by more than 1,000 people per day (and recently surpassed New York in the number of Fortune 500 corporate headquarters), I am committed to ensuring our state's infrastructure is maintained so that our economic success continues. If we can't find a way to effectively move goods, services and workers around this state, the companies that have relocated here will leave just as fast as they came.**

In the past 25 years, our state's population increased 57 percent and road use nearly doubled, but state road capacity grew by only 8 percent. Over the next 25 years, I have every reason to believe that Texas population growth will persist and a recent study predicted that road use will likely increase an astonishing 214 percent. However, according to plans currently on the books,

capacity is projected to grow by a mere 6 percent. These daunting facts, combined with an estimated \$86 billion transportation funding shortfall by 2030 due to inflation and an unreasonable federal gas tax structure, call for vision, innovation and a comprehensive overhaul to accommodate our state's projected growth.

Texas has made significant progress in addressing this challenge. I would argue, in fact, that we changed the ages-old paradigm of how our state addresses transportation needs. We brought local communities to the table and gave them new financing options through our regional mobility authorities. We instituted bonding so local authorities could leverage toll roads and extend the value of their tax dollars. And most importantly, we invited the private sector into the conversation for market-driven solutions to the funding challenge.

A particular innovation we have in the works is a plan to reduce traffic congestion in our urban areas, as opposed to just slowing the rate at which it worsens. Under the current system, cities are required by federal law to produce transportation





plans based on the funding they expect to receive over the short-term from gas taxes and vehicle registration fees. However, in most places there's not enough funding to build what's needed to realistically reduce mounting gridlock. To answer this challenge, I worked with the Texas Transportation Commission, the Governor's Business Council and local and regional leaders to create the Texas Metropolitan Mobility Plan.

This plan enables Texas metropolitan areas to take an innovative step beyond the federal planning requirements and create a roadmap toward solutions. The mobility plan created powerful tools like the Texas Mobility Fund, which in 2004 helped contribute \$3 billion in bond proceeds to accelerate the construction of key projects in the eight largest metro areas in Texas, which will enable 90 percent of the major metro highway projects planned for the next 12 years to be completed in half the time.

Our willingness to take creative steps like this means we aren't willing to settle for the status quo. The old pay-as-you-go system of building roads cannot keep up with the needs of one of the fastest growing states in the nation.

A decade ago, if I said there was a way to pay for all

the roads Texas needed, if I had talked about a group of people who are eager to compete for the chance to spend their money to build our roads, many probably would have thought I'd lost my mind.

But the fact of the matter is, many financial institutions are willing to pay for the roads we need but can't afford, in exchange for the opportunity to recover their investment and make a profit over time. In fact, U.S. Transportation Secretary Mary Peters recently estimated that roughly \$400 billion in private money is available worldwide for public infrastructure projects. It would be foolish for Texas to ignore such an opportunity. I am convinced that private dollars, administered through private-public partnerships, are a part of the answer to our transportation infrastructure challenge.

Such innovation can sometimes frighten those accustomed to the old way of doing things, those comfortable with the status quo. But the simple truth is: when it comes to roads, Texas needs more of them. And we need them now. We need leaders willing to think outside the box, to be innovative in their solutions, to take a chance.

I support our current direction because I believe it will work; however, I am the first to admit that it's possible we have not thought of every reasonable option. Many promising ideas have been brought to the table throughout this process and I am a strong proponent of keeping the lines of communication and negotiation open. I am willing and eager to listen to others' ideas and I am fully committed to working with state leaders to find that long-term sustainable result.

By ultimately solving this challenge, we will make a better tomorrow for our state. As governor, I am determined to help champion the cause of innovative thinking and the implementation of creative solutions. I am proud to be a part of a transportation plan that other states are looking to emulate and look forward to the day when our transportation system is no longer a roadblock to even greater economic prosperity. ■

**The Honorable Rick Perry (R) is the 47th Governor of Texas. A fifth-generation Texan, his public service includes serving four and a half years in the United States Air Force and nearly two decades in elected office as a state representative, commissioner of agriculture, lieutenant governor and governor.**



# Getting Government Out of the Business of Business

## Interview with Utah State Senator Howard Stephenson and State Representative Craig Frank

### Legislators bring the ‘Yellow Pages Test’ to Utah government

Nearly two decades ago, the Utah State Legislature established the state Privatization Policy Board (PPB) to evaluate and make recommendations to state agencies concerning effective privatization of government services and to address concerns regarding unfair government competition with the private sector. But with its membership heavily tilted towards public sector representatives and its lack of clearly defined duties in its statutory mandate, the Board’s efforts have been piecemeal at best, resulting in only two successful privatization initiatives to date.

In the 2008 legislative session, two privatization champions in the Utah legislature—Sen. Howard Stephenson and Rep. Craig Frank—sponsored bills designed to give the PPB powerful new tools

to advance privatization and in the process elevate Utah to the upper echelon of state privatization leaders. Rep. Frank’s House Bill 75 expands the membership of the PPB to include more private sector members and requires:

- The Board to develop a biannual inventory of “inherently governmental” and “commercial” activities and services performed by state agencies;
- The Board to develop an accounting method to facilitate accurate cost comparisons between public sector and private sector service providers;
- The Board to investigate complaints of unfair government competition with a private enterprise; and
- The governor to examine at least three potential services or activities for potential privatization every two fiscal years.

Senate Bill 45, sponsored by Sen. Stephenson, goes even further by requiring Utah’s largest cities

and counties to submit biannual government activity inventories to the Board, similar to those to be prepared at the state level.

In all, the revamped PPB will offer Utah taxpayers and policymakers new tools to understand what their governments are doing and the government activity inventories will help allow agencies to concentrate on their core functions of providing “inherently governmental” services while partnering with the private sector for “commercial” activities. Applying competition to non-core activities could free up valuable resources for agencies to complete their missions and provide the greatest value to taxpayers.

Reason’s Director of Government Reform, Leonard Gilroy, sat down with Senator Stephenson and Representative Frank on May 12, 2008—the same day that Utah Governor Jon Huntsman, Jr. signed House Bill 75 and Senate Bill 45 into law—to discuss the concept and history of their privatization bills and what they envision moving forward with implementation.

*Gilroy: Today, Governor Huntsman signed into law two privatization bills you sponsored—House Bill 75 (HB 75) and Senate Bill 45 (SB 45)—that revamp and strengthen Utah’s Privatization Policy Board and require both the state and most local governments to conduct regular inventories of the activities and services public agencies currently provide, with an eye towards seeking opportunities for privatization. Can you explain the genesis and evolution of these bills?*

**Stephenson:** The Utah Taxpayers Association has for the last eight or 10 years been pursuing privatization legislation in the Utah legislature with very little success. We’ve had some modification to the Privatization Policy Board (PPB), which is an advisory board without any real power. But other than that we haven’t been able to make any headway.

It’s just been baffling that a state that’s the reddest of the red states would have such difficulty in understanding that free markets are the best way to provide services. Somehow we like the idea that free markets bring us the highest quality of food

anywhere in the world at low prices, that we get quality cars and appliances, you name it...the free market works just great. But when it comes to the education of our children, socialism is good enough. When it comes to golf courses, socialism is preferable. When it comes to fitness centers, socialism is great.

So we’ve been struggling with that and trying to focus legislators’ minds on the value of having free markets determine what people want and how they’re willing to pay for those things. And this year we finally had a task force created—the Government Competition and Privatization Subcommittee, which is actually a subcommittee of two legislative committees—that was charged with studying how to get to privatization in Utah. And Rep. Frank and I co-chaired that committee. We came up with legislation that was the two bills you just mentioned. We didn’t get the bills passed in their original form, we had to make some compromises, but we’re really pleased with the outcome.

**Frank:** During the 2007 Interim, the Utah Legislative Management Committee authorized a subcommittee to study government competition and privatization. Senator Stephenson and I co-chaired that committee. We were charged to study privatization, government competition and transparency issues.

A number of bills were drafted during the 2007 Interim and recommended by the subcommittee for consideration during the upcoming General Session. Senator Wayne Neiderhauser and Representative Kevin Garn (members of the subcommittee) introduced bills related to government transparency. With successful passage of their bills during the 2008 General Session, Utah had made significant headway toward a “total” privatization package. Senator Stephenson and I focused on privatization and competition in our bills.

During the 2008 General Legislative Session, all of these proposals were brought forward and refined before Senate and House standing committees and floor debates. Although these bills experienced some revision, the concept of privatizing non-essential government activities and eliminating

competition between government and the private sector remained the same.

Government by its very nature is inefficient in its approach to providing services and you can flip through the Yellow Pages and find companies that are providing exactly the same service or good that the government is providing. And so there was a feeling that we should be spinning off or divesting ourselves of these activities that are better performed and provided by the private sector.

Today, you have government competing with business and putting business out of business. It's my belief that government shouldn't be in the business of business. For example, you've got some of our local governments that are providing rec centers, pools and other facilities that are going head-to-head with local, private gyms and we've got examples of where a couple of those were put out of business in our state because government was competing with them at that level.

And we also have a couple of excellent examples of the benefits of competition. Such as when Xerox came in with an RFP after it was found that they could provide state copying services.

According to our Chief Procurement Officer, we're saving nearly a half million dollars a year by privatizing state printing operations. We're also saving nearly a half-million dollars a year with Staples providing inventory for our state offices. Instead of having closets full of paper clips, Post-It notes, pencils and paper—they'll deliver that. So we cut down the cost of carrying inventory also, which is a big deal for a small state like ours running on a shoestring, basically.

These are two great examples of things that have happened over a 20-year period as a result of the PPB's work, but if you look at that as a reasonable businessman you recognize that two

activities over a 20-year period probably could be stepped up considerably. It probably isn't as aggressive as we should be approaching this issue of privatization. We need to have the Board provide two or three solid privatization recommendations to the governor every year or two and then have him seriously consider them and have him work them into his budget recommendations. This is what HB 75 does.

*Gilroy: What did you aim to tackle in the two bills?*

**Stephenson:** The two bills have two approaches.

SB 45 is a focus on local government and HB 75 is a focus on the state and the PPB, giving a greater balance to the weight of the private sector as opposed to government representation. Until now, the Board has been highly weighted in the favor of bureaucrats and unions. So we were able to change that and get the balance back with the private vs. the public sector. It still is a balanced committee though, so hopefully that will bring about a good result.

**Frank:** We really wanted to create a more functional, equitable PPB. Not only that, we wanted the newly overhauled

board to feel as though they had some bona fide authority, to make significant recommendations to the governor. We wanted the board to be balanced and functional.

After carefully reviewing the existing statute, we came to the realization that this current PPB doesn't possess some of the significant tools necessary to craft considerable policy to make a difference in helping divest the state of some of the non-essential services it is currently providing. We gave it some powerful new tools, such as a comprehensive inventory of "essential" and "non-essential" government services and a set of generally accepted accounting principles that will help facilitate accurate, apples-



Utah Governor Jon Huntsman, Jr.



to-apples government and private sector activity cost comparisons.

*Gilroy: Is it the balance of the PPB that's been the major obstacle to accomplishing more privatization? Is that why we've only seen two large state privatization initiatives coming out of the Board over its first two decades?*

**Stephenson:** Yes, I think that has a lot to do with it. There was an amendment a few years ago that gave greater union and local government representation to the PPB, which took it out of balance. The Board also looked more at outsourcing internal services as opposed to privatizing major services. For example, now we have the state's office supplies provided by a national office supply chain with a 24-hour turnaround on delivering inventory—which is a good thing—but it doesn't really address government competition with the private sector. It's just that now the state doesn't provide an internal bureaucracy to warehouse these products and then deliver them to the different offices within the bureaucracy. Instead they now order it directly from Staples and have it delivered that way. And this is a good thing, but to date the Board has tried to keep its focus on these areas of outsourcing internal services as opposed to privatizing major services.

**Frank:** The composition of the PPB has been

a major factor in pushing forward—or, in this case, not pushing forward—worthwhile measures. Bureaucrats don't typically look for ways to get themselves replaced. In my experience, inefficiency in government equals job security. Where the PPB was previously skewed toward the bureaucracy 67 percent, with the passage of HB 75, we have nearly a 50/50 split.

Where the former, highly bureaucratized PPB had no incentive to provide any more than a couple privatization recommendations every decade or so, they now have a reason to set a conservative agenda and work toward greater and more productive proposals and results.

*Gilroy: HB 75 goes beyond just the composition of the PPB and the requirement for regular activity inventories. Can you describe some of the other elements of the new law?*

**Frank:** For starters, HB 75 requires the PPB to develop balanced, equitable accounting methods. Because government traditionally provides competitive services on the taxpayer's dime, it will be necessary to evaluate government-provided activities competing with the private sector on a more equitable basis to ensure that we're accurately capturing costs. Government regularly subsidizes facilities, employees and cross-departmental resources when competing with private sector businesses. The line-item accounting principles established in HB 75 will help to level the playing field—no more playing favorites. We'll be able to do apples-to-apples cost comparisons.

There's also the governor's bi-annual review. Using the basic premise that government shouldn't be in the business of business, the PPB will make at least three recommendations every two years to the governor for potential program divestiture.

And because Utah has a part-time legislature, it was necessary—if we were to make this inventory truly workable—to give the PPB additional full-time staff resources. So, a high-level analyst was budgeted for the PPB, as well as, the Governor's Office of Planning and Budget. These two analysts will assure an accurate, detailed inventory and accounting system as defined in the new statute.



Once the “bones” of the system have been established, the analysts will maintain and strengthen the newly constructed system.

*Gilroy: What do you see as the value of the inventory, of categorizing all of government’s activities and services as being either “inherently governmental” or “commercial in nature”?*

**Stephenson:** What it really does is shine a bright light for elected officials to be aware—on a regular basis—of the kinds of opportunities for privatization that exist. And then for the public too to look at those areas and start to suggest to their elected officials, “hey, here are some areas that we want you to privatize.” Without having the discussion, without doing the inventory, the idea is not before anyone. But by bringing the idea before policymakers and the public, there’s a real opportunity for there to be pressure both from the public as well as from inside a legislative body.

**Frank:** The value? Getting government out of the business of business. Government repeatedly breaches its constitutional mandate to stay out of the private sector. Perhaps government is just unaware as to how to go about backing itself out of some of the activities it’s gotten itself into over the years. These bills (HB 75 & SB 45) ask state and local governments to step back and ask themselves a very simple question: Can the good or service we are providing be better or more efficiently provided by someone we can find in the Yellow Pages?

With this periodic query and heightened awareness (and a little fiscal constraint), governments will find themselves focusing on their “core” activities and responsibilities. Before deciding to provide or expand a service better suited to the private sector, government should be routinely asking itself: What is the proper role of government in regard to this activity?

By creating a line-by-line, department-by-department, division-by-division inventory of activities, we are asking state divisions and departments to actually look at non-essential services. Some of them have found that there are non-essential services and they have taken steps within their own departments to outsource or privatize them. We’ve seen some success there even without HB 75. But what HB 75 does allow for is a mandate, for department heads to actually look at their day-by-day, budget line-by-budget line activities and determine whether or not those are core governmental or a proper role of government.

We’re anxious to see how the inventory is developed at this point because we were relatively “specifically non-specific” so that we could allow for the creativity of the PPB to determine what level of minutia they wanted to scrounge around in. This could be done on a very general basis and then refined over the years to look at very detailed aspects of state government.

*Gilroy: You mentioned being “specifically non-specific” regarding what’s defined as inherently governmental. State and local governments will be creating inventories but will be defining essential services and activities as each sees fit. You did that purposefully. Why was that and do you see the potential for a set of commonly identified “inherently governmental” activities?*

**Frank:** Each department and division of state government has a different function and each one of them has different characteristics. As you suggest, there will probably be some commonalities that come out of this, but there are so many differences in these departments that each department will have to determine individually what it is that they do and because of their individuality and their



different characteristics they will in fact be able to create different inventories specific to their own functions. So that's why we made that specifically non-specific. We didn't want them to feel constrained by having, for example, the Department of Workforce Services having to work off the same criteria list as the Department of Corrections or any other department.

We'll probably find some commonalities, but my guess is we'll find some distinct differences so we'll work with each department individually on that basis.

*Gilroy: What were some of the challenges you faced advancing the bills to passage? What lessons learned would you pass along to legislators in other states who may be interested in replicating the Utah model?*

**Stephenson:** First, we spent a lot of time laying the foundation for these bills. Rep. Frank and I co-chaired a series of committee hearings examining what Utah has done with government competition and privatization and where state and local governments are getting into the business of business. Those hearings built a concrete foundation, from which our legislation flowed.

Second, we developed strong working relationships with national groups like Reason Foundation and representatives from private business. Those relationships helped us demonstrate how other states cope with similar problems and helped us demonstrate the very real costs government competition imposes on private business.

**Frank:** The first draft of HB 75 looked very different from the version the governor signed. Although it contained many of the same concepts as the bill we started with, this bill was truly a "consensus" bill.

Refining this bill took a large one-on-one effort with members of both the House and Senate standing committees during the 2008 General Legislative Session. Three separate committee meetings in the House were held before this bill was ready to move to a House floor debate. Patiently listening to the concerns and suggestions of each committee member facilitated gaining acceptance for this bill.

Addressing the concerns of a number of division and department directors helped to smooth out the process. Many of the state's departments felt their statutory missions would be compromised by HB 75. Department directors, upon careful review of the bill, saw the wisdom in periodic review of their activities. HB 75 did nothing more or less than provide them with additional tools to create greater efficiencies under their watch.

Reason Foundation's several testimonies in front of standing committees were critical to the successful passage of this bill. Statistics introduced regarding many of the concepts included in this bill were indispensable for many legislators to feel comfortable with moving forward.

Bipartisan support was secured early on in the process. Several members of the minority saw the value of this bill and became advocates for the passage of HB 75. How can you argue for inefficiency?!

Also, we had a list of "influential" co-sponsors for the bill. Key legislators' names prominently displayed at the top of the bill were vital to its success. Positive testimony was also introduced by several members of the PPB.

*Gilroy: You were obviously successful at explaining these bills to your colleagues in the legislature, because both bills passed with overwhelming majorities. What went into building such a strong base of support?*

**Stephenson:** Probably our most effective

legislative strategy was taking the time to lay a solid foundation. The interim committee hearings focused solely on government competition and privatization allowed us to understand the nuances of all sides of this issue. Those preparations allowed us to avoid the surprises that too often stymie pathbreaking legislation like Utah's privatization package.

In addition, these hearings allowed us to discuss for months what our subcommittee was learning about the issue. These conversations with legislative colleagues exposed us to potential concerns and opened our eyes to other opportunities.

**Frank:** As Senator Stephenson mentioned earlier, laying a solid foundation for these bills began during the Government Competition and Privatization Subcommittee during the 2007 Interim.

I would just reiterate what I have previously said, with a special thanks to Reason Foundation for assisting in the successful passage of these two bills and the other transparency bills we passed during the 2008 General Session. I don't know how many times we had committee members that came to me and said that Reason's testimony—the message, the statistics, the hard facts—was the key to their support. We wouldn't have gotten this done without Reason's help. The same thing goes for the Utah Taxpayers Association.

Also, there were several representatives from Governor Huntsman's office without whose vision this bill would never have become law.

**“...let's let government do what it does best and let the private sector do the rest.”**

*Gilroy: Looking into future, what do you expect to see from the revamped PPB?*

**Stephenson:** I think that legislators, having seen these inventories, may want to give greater teeth to the law to have the PPB actually set in motion processes for converting to privatization. I think it's the transparency that will drive improvement. If things are hidden in a black box, people are not likely to even think of privatizing a service. But when it's in the light of day, I think that public offi-

cial will start to think twice about moving toward government ownership of new services and will also have an opportunity to consider cost-cutting measures for existing services.

**Frank:** The tools are available to the PPB now to create an extraordinary inventory and accounting system designed to assist our state government in evaluating areas where it can promote smaller, more efficient government. Tools like these are specifically provided to help government bureaucrats ask themselves what the proper role of government is. Government over the years has clearly stepped outside of its mission to provide a safe and secure environment in which private business can flourish.

As the inventory and accounting systems are further developed in the future, I'd like to see some of those “taboo” entities that were excluded through this process, reintroduced for further investigation—independent entities, public and high education, etc. If an entity is financed by taxpayer dollars, it should be on the block like any other division or department.

Perhaps it's too early to envision what this bill will do. However, I'd like to think the future is brighter for smaller, more responsible government because of the passage of HB 75 and SB 45.

The vision here is this: let's let government do what it does best and let the private sector do the rest. It all comes down to less taxes, less burden on our individuals and families, less government intrusion into our lives. Every time we say “less,” we increase freedom. If we don't do these things, we do just the opposite—take away someone's freedom. Because I'm part of the process, I know that for a fact. So let's create more freedom for individuals, families and business owners and let's create smaller, more efficient government. ■

**The Honorable Howard A. Stephenson (R)** represents District 11 in the Utah State Senate and has served in the Utah legislature since 1993. **The Honorable Craig A. Frank (R)** represents District 57 in the Utah House of Representatives and has served in the legislature since 2003.





# Bringing Urban Scholarships to New Jersey

**By New Jersey State Senator  
Raymond J. Lesniak**

**In 2008 New Jersey State Senator Raymond J. Lesniak sponsored the “Urban Enterprise Zone Jobs Scholarship Act,” which will establish a pilot program to provide tax credits for companies that provide tuition scholarships to 4,000 kids from seven poor communities and give them a chance to escape their low-performing schools.**

It is often difficult to push school choice legislation through legislative education committees that represent the existing education establishment. Lesniak’s legislation is unique because it is designed to move through the economic and commerce committees. It is an economic plan designed to improve the economy by improving education policy and student performance. As Senator Lesniak recently told Lisa Snell, “the most difficult process is to get the bill out for a vote.”

Senator Lesniak’s school choice remarks are based on his June 19, 2008 interview with Reason Foundation’s Lisa Snell and his July 11, 2008 speech before the annual retreat of the Alliance for School Choice in Jackson Hole, Wyoming. In his own words, Senator Lesniak describes why he supports more school choice for New Jersey students:

This is a difficult fight in New Jersey. It shouldn’t be. No one can argue that the urban scholarships

will take away money from our public schools. We already provide more dollars per pupil for public education than anywhere else on this planet and urban scholarships do not take one dime from funding for public schools. But opponents of justice and opportunities for children from low income families will argue that it does.

I have sponsored S-1607, with Republican Minority Leader Tom Kean Jr. as prime co-sponsor, to ease the burden on our taxpayers and our public education system. This bill establishes a five-year pilot program in seven of the 32 Urban Economic Zones (UEZ) throughout the state: Newark, Elizabeth, Orange, Paterson, Camden, Trenton and Lakewood with the potential expansion to other UEZ municipalities after the second year of the program.

The legislation targets low income children who will be eligible to receive scholarships if their family income is less than 2.5 times the Federal Poverty Level which would be \$51,000 for a family of four and live in one of the pilot communities.

The scholarships would be based on 40 percent of the average cost of a public school education in the pilot communities for K-8 students (apx. \$6,000) and 59 percent for grades 9-12 (apx. \$9,000) and must be accepted as payment in full for all costs of attending the non-public schools.

So that the scholarships are not given exclusively to children already attending non-public schools,



Senator Lesniak addresses reporters in 2007 about his plan to evaluate a potential lease of New Jersey toll roads to reduce state debt.

75 percent must be awarded to current public school students. The remaining 25 percent will be used to help those low income families which already have students in non-public schools.

The scholarships may be used at participating out-of-district public schools or any qualifying non-public school. The participating non-public schools must test scholarship students under the same standards as public school students.

The program will be administered by the New Jersey Urban Enterprise Authority. The UEZ Board would choose scholarship organizations from among applicants in the pilot school districts. Applicants would be existing non-profits with appropriate experience and credentials.

Under this legislation—the Urban Enterprise Zone Jobs Scholarship Act—any New Jersey corporation would receive a full 100 percent credit against its New Jersey state corporate tax obligation for its contribution to designated private school scholarship funds. New Jersey corporations could contribute an aggregate \$24 million in the first year to fund about 4,000 scholarships. Over the next four years, the amount would rise \$24 million per year until it reached \$120 million in the fifth year.

My legislation, which will provide private

school scholarships to 4,000 kids from low income families in its first year and increases to 20,000 over the next five years, was released from committee with the support of its two Republican members: Senators Kryillos and Ohroho. Republican Senate Minority leader Tom Kean Jr. is its co-prime sponsor. In the other house, Joe Cryan, New Jersey Democratic State Chairman and Assembly Education Chairman is its sponsor.

The goals of my school scholarship legislation are four-fold:

First and most importantly, to give poor children in urban areas an opportunity to attend a private school that others who are more fortunate can afford to attend.

My second goal is to stop the closure of non-public schools and save the taxpayers in the state of New Jersey money. We've had over the last ten years, 100 Catholic school closures which brought 80,000 additional students into our public education system.

Without this legislation faith-based schools will almost certainly enter a period of irreversible decline. Should this occur, the sure losers are the most economically vulnerable of New Jersey's children, as well as the badly battered taxpayers of our state.

The cost to the taxpayers of educating children from previous closings went from virtually nothing to almost \$700 million annually and far worse lies ahead. The rate of parochial school closings and student transfers to public schools is accelerating. Indeed, one can envision that, at the ever-increasing rate of closure, Catholic schools could become an endangered species over the next decade.

At present, there are approximately 200,000 students still attending faith-based schools in our state. It's important to recognize the life-saving role of faith-based schools in inner-city New Jersey. This is particularly true for disadvantaged children and children attempting to assimilate into our language and culture.

While never able to take in all who sought their refuge, the faith-based schools nonetheless served, for generations of aspiring Americans, as

a haven of academic excellence, scholastic calm and physical safety. In and around my own city of Elizabeth, Catholic and Jewish schools significantly outperform the public school system that has vastly higher per pupil costs.

Just a few stats serve to describe the taxation sword of Damocles hanging over our heads. New Jersey has the highest public school per-pupil spending in the U.S.: more than double that of parochial schools. More teachers would have to be hired, at the highest average salaries in the nation. Our unfunded liability for teacher pensions and retirement healthcare—already the highest per capita in the United States—would rise again. And new schools would have to be built to accommodate the additional students—while existing parochial schools were left empty and unused.

**“The ingredients are all there for success in New Jersey. It’s just a matter of time. And the time is now.”**

The third objective of my proposal is to improve education opportunities for everyone in the state by encouraging a competitive education system. I have seen the positive effects of competition for students in other states. I just came back from Milwaukee yesterday and it was obvious to me that their voucher system, which is much more extensive than my proposal, has promoted innovation not only in the private school system but in the public system as well.

The final objective of my legislation is to save on school construction costs.

New Jersey has a school construction requirement that has been estimated to exceed \$20 billion. New Jersey’s urban schools are already bursting at their seams. My proposal will help ease demand for new construction by utilizing existing capacity in non-public schools.

I think the prospects for my school choice proposal are surprisingly good. The education employee union is fighting as hard as it possibly can to keep or to expand its monopoly on public education. However, the legislation has already

been released from my committee, the Economic Development Committee. It is the first time a bill of this sort has ever been released from committee.

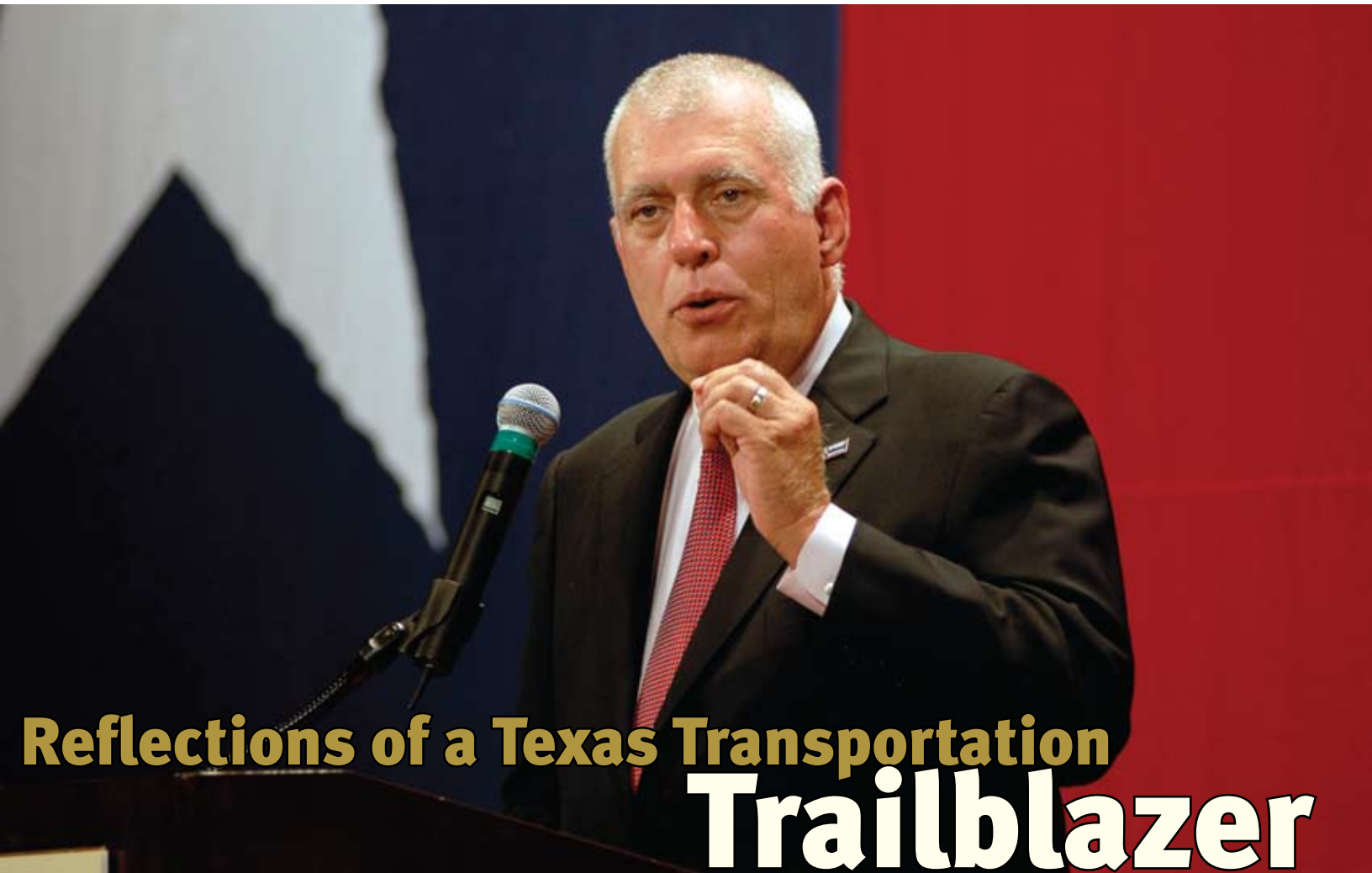
Support for Urban Scholarships for low income families is growing in the African American and Latino communities and political leadership, including Newark Mayor Cory Booker, Black Minister’s Council Executive Director Rev. Reginald Jackson, Latino Leadership Alliance of NJ President Martin Perez, Newark Council Member and Educational Chair Dana Rone and many other African-American and Latino community leaders.

And there’s hope with the Black and Latino caucus members in New Jersey’s State Senate and General Assembly. Assemblywoman [Nilsa] Cruz-Perez is a co-prime sponsor in her house. Senator [Sandra] Cunningham from Jersey City recently took the time to visit leaders of school choice and choice schools in Milwaukee. Newark Senator [M. Teresa] Ruiz is always asking for additional information to help her make the right decision. And Camden City Senator Dana Redd gives credit to a scholarship she received to a faith-based school for saving her life and giving her the opportunity to become a Senator of the State of New Jersey.

The ingredients are all there for success in New Jersey. It’s just a matter of time. And the time is now.

I am hopeful that the compelling logic of this argument will prevail and that the faith-based private schools of New Jersey will be rescued, restored and rejuvenated to serve the children of this State as a positive supplement to our public school system. ■

**The Honorable Raymond J. Lesniak (D) has been serving in the New Jersey State Senate since 1983, where he represents the 20th Legislative District. Before becoming a New Jersey Senator, Lesniak served in the General Assembly from 1978 to 1983. Currently, Lesniak serves on the Economic Growth Committee (as Chair), Commerce Committee (as Vice-Chair), the Legislative Services Commission, the Judiciary Committee and the Legislative Oversight Committee.**



# Reflections of a Texas Transportation Trailblazer

## Interview with former Texas Transportation Commission Chairman Ric Williamson

On December 30, 2007, the State of Texas lost a visionary leader on transportation with the passing of Ric Williamson, Chairman of the Texas Transportation Commission. After serving seven terms in the Texas legislature from 1985 to 1998, Williamson was appointed to the Commission by Governor Rick Perry in 2001 (becoming chairman in 2004) and became the key architect of the state's bold embrace of tolling and public-private partnerships as the primary means of addressing its growing urban congestion and staggering transportation infrastructure needs.

Reason's Director of Government Reform,

Leonard Gilroy, had the opportunity to interview Williamson in September 2007 about the genesis and implementation of Texas's groundbreaking transportation policy innovations.

*Gilroy: You've presided over a major paradigm shift in the Texas Department of Transportation (TxDOT), a major change in the way the Department does business. TxDOT embraced public-private partnerships and tolling as major components of the state's strategy to fill the funding gap. Can you describe that shift and how it came about?*

**Ric Williamson:** Shortly after Governor Perry ascended from lieutenant governor to governor following the president's election, he called me. We talk frequently. And he was in the process of thinking through where he wanted to leave his

print on the future of Texas. And he had decided that transportation, utilities, water and the tort liability system were the major challenges facing the economic development of our state. And he wanted to be known 20 years from now principally as a governor who recognized the relationship between economic maturity and social progress.

I think he feels like most politicians begin with an understanding of this relationship, but as they move through their career they forget that economic maturity does in fact drive social progress. If you really want more money for your schools, then the way you do that is you mature your economy so that more people are making more money themselves, paying more taxes with which to pay for education. If you really want good health care for your citizens, you mature your economy to the point that people can afford the health care that they select for themselves.

One component of that economic maturity was obviously a transportation system that could deal with the population growth that was already occurring in Texas and that most of us who live here realized was going to continue. There are lots of reasons why that population growth is going to continue in our state. But most of us who work for Governor Perry tend to point to three things.

We are a very low tax state, we're a very low regulation state and we have a very limited welfare system in our state. What that means is, individual entrepreneurs want to live in Texas because they don't pay any income tax. Businesses want to locate in Texas because they're not overly regulated. And people don't come to Texas for welfare because none exists. So people who show up in Texas show up to work, generate wealth and contribute to the overall economy.

Based upon his belief that the transportation grid had not been managed—and was not projected to be managed—to deal with our population growth, he tasked me with quantifying the problem on a dollars basis and then identifying a range of solutions and a range of strategies that would address the dollar cost and when fully implemented would result in a modern transportation system. I

spent the first couple of years trying to quantify the true costs of what we needed to do and I reached a certain point where I thought that I knew that. I estimated it was somewhere in the \$60–\$80 billion range—I think we finally settled on \$86 billion of revenue—that we couldn't see was going to come from anyplace—to address our needs.

I determined from my years in politics—and just observing, just common sense, listening to people—that there was a reason why, all across our country, citizens less and less support general taxes into a common pool to be distributed by political decision-makers. There's a reason why people vote for Republicans and Democrats who claim that they won't raise those common taxes and the reason is, our citizens, whether we like it or not, have decided that it's not in their best interest to permit themselves to be taxed in common and the money put into a common pool to be distributed based on political will. They have rightfully, I think, ascertained that when that occurs, the investment of the tax revenue is not made in the best interest of their welfare, but rather in the best interest of the welfare of the elected class.

So that's how I concluded that we would have to go to a toll-based system because gasoline taxes at the local, state and federal level weren't going to be raised to generate that \$86 billion. And then beyond that, a toll-based system tends to put some market pressures on decision-making that is beneficial to the society as a whole because you're not going to build a toll road where you can't collect tolls.

The problems of the state actually were easily divisible into three categories. There were short-term problems that were driving congestion and air quality issues. There were mid-term problems that were driving economic opportunity and air quality issues. And then there were long-term problems that were going to drive congestion, economic opportunity and safety in the future, if not addressed immediately.

We created several strategies and several tactics that he [Gov. Perry] could choose from to address one, two, or three of those strategies. And after



going through all the choices, it was his decision to go ahead and attack all three. He said, “I want to put in place the law necessary to address the short-term problems, the mid-term problems and the long-term problems.”

The short-term problems were characterized by bottlenecks in existing urban and suburban transportation grids. Not big projects, not loops, not new roads, not major thoroughfare overhauls, but rather grade-separations, short lengths of roads and footprint expansions for a whole series of bottlenecks that were creating congestion locally, but worse were adding to the air quality problem inside of urban airsheds. And the tactics we selected to address the short-term problems were the pass-through toll process and the Texas Metropolitan Mobility Plan (TMMP). One of our overarching strategies was to rely upon local and regional government to tell us which projects needed to be fixed, as opposed to us telling them which projects we wanted to fix.

To address the mid-term problems—which were more loops, Interstate expansion through the urban environment and a few new footprints, but primarily within the urban airshed, not even the suburban airshed—we used almost exclusively the Mobility Fund invested according to the TMMP. We focused on urban toll roads controlled by local or county toll authorities in which we would invest

state tax money.

That then left the long-term problem and the solution of the Trans-Texas Corridor, which was entirely financed privately on a pay-as-traffic-suggests-they’re-ready-to-pay basis.

So we had short-term problems, mid-term problems and long-term problems and we developed a set of strategies to deal with all of them. The strategies were to rely on regional government to plan, local government to execute and rely on the private sector to invest money, take risk and enjoy profits if they made a good decision. Use competition to drive down the costs of the construction projects and drive up the value-added of toll projects. And regionalize—just use a regional approach.

Our strategies fit all three timeframes and then the tactics were selected through the legislation—pass through tolls, mobility bond program, Texas Mobility Fund, Trans-Texas Corridor. When he made all those selections and decided how he wanted to proceed, it was simply my job and the job of the other commissioners just to apply the strategies to the situation and then select the tactic that makes the most sense. And that’s what we’ve done.

Our overwhelming reliance on private sector financing was based upon our belief that there are two kinds of toll roads: there are toll roads of necessity and there are toll roads of convenience.

Toll roads of necessity should be financed with the public trust. Toll roads of convenience should be financed with the private trust. They still operate to reduce congestion, improve air quality, improve safety and in particular, bring economic opportunity to your community. But you characterize them as toll roads of convenience because they are the roads not chosen by the public. If we did the regional plan and the local execution correctly, then if we have five roads out here proposed and the regional planners selected the first three, by definition those must be the roads of necessity because they wouldn't have selected those three over the other two if those three weren't absolutely necessary, in their view, to their regional development.

That was one of the reasons that the strategy of regional planning and local execution was so important. Because we were, for the first time at the state level, doing something that I think hasn't been done in the rest of the country. We were basically turning to regional planners—as the federal highway bill envisioned 18 years ago—and we were saying, you know better how to solve your problems than we do. We know better how to solve the connection between the two—the connectivity between Dallas and San Antonio we know about. But within Dallas, Texas, you as city councilpersons, county commissioners, you know better which choices need to be made in the region. You tell us what your choices are and you tell us if this is a short-term, mid-term, or a long-term solution and then we'll help you frame the financing for it, either through Mobility Fund bonds, through direct gas tax investment, or through the public/private sector.

Toll roads, in our view, fall into those two categories: roads of convenience and roads of necessity. It is the roads of necessity that you want to finance with the public dollar. In fact, the truth is—whether it's a tax road or a toll road—if it's a road of necessity, that's the road that you want to finance with the public trust. If it's a road of convenience, that's a road that you want to finance with the private trust. Because a road of convenience will carry with it an element of risk or an element

of delay in its cash rate of return. And the public trust isn't geared toward taking that risk.

I'll just give you an example. Between Austin and San Antonio, parallel to [Interstate] 35, is State Highway 130 which some day might be part of the Trans-Texas Corridor. The public trust could not afford to build the piece from Lockhart to Seguin. It could only afford to build the piece from Lockhart to Georgetown. So for three years we'd been using the public trust to build from Georgetown down to Lockhart. And the portion from Lockhart to Seguin, it just sat there—until all the laws were passed and we started asking for proposals from the private sector. And we got the Trans-Texas Corridor proposal and signed it, which permits roads that tie directly into the corridor footprint to fall under the public-private partnership.

The public trust didn't have the money to put into that same amount of road. We gave San Antonio and Austin—the two areas that are affected by it—the opportunity to take their gas tax money and their Mobility Fund money and call that a toll road of necessity and they passed. It became a toll road of convenience. The cost of it was \$1 billion, and by everyone's calculation it will be 21 years before it throws off free cash flow. Yet, Cintra was willing to bank that the money they made in the 22nd through the 50th year would overcome the loss they would sustain in the zero to 21st year and they were willing to move forward with it. So we signed an agreement with them.

That is a road of convenience, being built by the private trust. If Cintra is even a little bit off on their estimates, it will go from 21 to 30 years before they make any money. If they're a little bit off to the overload, it will only go from 21 to 18 years before they start making money.

So they've got a whole lot to lose and not much to gain. So by reverse, the public has a got a whole lot to gain and not a whole lot to lose from the traffic pattern on this road of convenience. That is the asset you want to build using private money and permitting the private sector to take the risk and take the rewards. If the road ends up being in less demand than you thought, they take the



hit. If it ends up being in more demand than you thought, they take the gain. You cap the toll rate at something reasonable and you permit the private company to raise or lower that toll rate below that cap to incent people to use the road.

In the process of doing that, you know somebody's going to use that road—you don't know if enough people will use it for Cintra to make money—but you see, that's not the public's problem. The public doesn't have to worry about that. Once the public has decided that this is a road of convenience, then the public need not be concerned about how many people do or do not use that road, because it doesn't matter to the public. Except to the extent that it takes cars off of the road of necessity with which it competes—in this case, Interstate 35 sits right next to Highway 130. Interstate 35 is bumper-to-bumper congested. To the extent that you and I decide to take our car off of [Interstate] 35—the road of necessity—and to State Highway 130—the road of convenience—we've made every other driver on [Interstate] 35 more efficient in the

use of the public road.

*Gilroy: So in the worst case scenario, the state gets a free road.*

**Williamson:** Yes. Now people have said, well what about the money that Cintra makes? I've had more than one of my former colleagues tell me I've gone politically tone-deaf since I'm no longer in the legislature. I do understand the argument that says people do get concerned that you're giving away some kind of profits. And my response is, if you set up a framework like what we have—where you identify short-, mid- and long-term problems and you differentiate between assets of necessity and assets of convenience and you allocate your tax resources to assets of necessity, then this is a road you never would have built anyway. The profits that the private sector earns should not be your focal point because you couldn't build this asset anyway. Without making this decision, the road wouldn't exist.

If you cap the toll rates at something reasonable and if you provide for a rational repurchase of the



asset at some point in the future—which we do—then the public’s benefit to this road is the traffic diverted from the public-owned road of necessity. That’s the public benefit. It’s worth much more than whatever profits Cintra’s going to gain.

*Gilroy: And there is some revenue sharing above a certain point.*

**Williamson:** Yes. We negotiated revenue-sharing in addition to the buyout. And in fact, revenue-sharing begins on day one. There’s a certain amount of it that occurs upon the collection of the first dollar. And then there’s more of it that occurs if the private trust starts making too much money above a pre-set rate of return.

But for us, creating the private component was never about setting up the private sector. It was always about solving congestion, economic opportunity, safety, asset value and air quality issues.

*Gilroy: The five goals of TxDOT.*

**Williamson:** Yes. We set five goals and then said, how do we reach these goals? And the use of private money was one way that we were going to reach those goals. Just one, not the only one.

*Gilroy: What would you point to in terms of the demonstrable benefits of competition, public private partnerships and tolling?*

**Williamson:** It’s kind of interesting because no one—except, I think, the governor—thought this would happen. But as it turned out, because the tax revenues of the nation related to transportation have started to stagnate, the private sector’s investment in labor, management and equipment to build roads has started stagnating as well. Because as anyone in the private world knows, organizations invest today in preparation for the markets they see tomorrow. If they see a stagnant market—which is a reflection of a stagnant revenue stream—they quit buying a new Caterpillar Dozer every year. They quit training three new asphalt layers every year. They quit hiring a new road cost estimator and training her up. They just live with what they have.

As a consequence, the number of organizations competing to build your projects dwindles. The

bids go up and thus the cost-per-unit goes up. The minute the world perceives that every year—in our case, for the next 25 years—you are going to be building more projects than the year before, suddenly organizations start moving to Texas and old organizations start expanding. That puts competitive pressure on the marketplace and drives the cost-per-unit down. And we started seeing that almost instantly. We’ve started seeing companies from Nebraska and Iowa and Australia and Portugal and Tennessee showing up in Texas to design and build and finance roads, which drives the unit costs down. That was one benefit.

We have a couple of other examples of the pressure of competition at work. We had a public-private effort on State Highway 121 in North Texas. We ultimately had to give that to a regional toll authority, although they took it at a slightly higher value than the private sector had associated with it. We began with an asset that would have been built for \$600 million and would have instantly become as congested as the other assets in the area. We ended up with an asset that was full-valued at \$3.3 billion, which permitted us to spend \$2.7 billion on other congestion-relieving projects in the area and let just those who choose to use that piece of road pay for it. Which suggests higher tolls, which suggests more limited congestion. That would be an example of our approach working.

We’ve got pass-through toll projects all across the state, where communities that otherwise would not have gone to the bond market and borrowed against their property tax base, but because they know that we’ll reimburse them have come forward and said, this is a choke-point right now. It’s causing congestion right now. It’s polluting the air right now. We’ll go borrow the money and we’ll fix this if you’ll just pay us on a pass-through toll over the next 15 or 20 years. We’ve got probably 10 of those projects right now and they’re all \$10 – \$30 million projects—they’re not small projects.

Of course, the Mobility Fund is fully operational. And the Metropolitan Mobility Plan is fully operational—that’s what the Austin area is putting the finishing touches on this week.



My guess is that there will probably be 50 local and regional toll roads on the ground and operating within 10 years. All of them will help to solve the state's problems.

*Gilroy: When you were putting together your package of solutions and you were breaking down short-, mid- and long-term priorities, how much did you look to other states and countries and how much was just homegrown innovation?*

**Williamson:** We got the pass-through toll concept from Europe. They do it slightly differently and we just took it and changed it to put a Texas twist on it. But I would have to say that the rest of it is homegrown. When it started out, we hired a group of professionals, we sent them to Europe to visit all the big public-private partnership companies there. We sent them all across the United States to visit what little privatization was going on here. Paid for by the state—we wouldn't let the industry pay for it. We hired what we think is the best lawyer in the nation—the Nossaman firm out of California—to represent us. We hired what we thought were the best financial advisors; we got all of them away from the private sector first. The legislature let us put them on contract at a high

enough rate to keep them with us and then they helped us build our body of law and our whole approach to the problem.

In effect, the governor decided to put his print on this and make it a priority for him, lobbying the legislature with us. He empowered us to do this exactly right from the start. Even with the retrenchment of the last session—that was to have been expected. You can't go as far, as fast and as hard as we did without having some pushback from some of your citizens and from some of your policymakers. What we went through was entirely understandable and entirely expected. And it really is good for the system—it washes out the anger and lets it get to the side of the road, so to speak, where you can move on down the road. But I would say it's mostly homegrown.

*Gilroy: Can you describe what the transition was like from an institutional perspective? You were taking a government agency that had been doing things a certain way for many years and then embarked on an entirely new course. What was the learning curve like and what lessons would you offer to another state DOT going on a similar journey?*

**Williamson:** We approached it a different way. Normally, when government is going to change, it stops and spends some time trying to figure out how it's going to get the institution to change with it. We made the conscious decision that in our state, we had 15,000 employees who would adapt, who knew how to adapt and we didn't need to spend any time training them. We just leapfrogged that whole process. We went straight to the top with our administrative employees—the 25 leaders out of 15,000—and we said this is what we're going to do and the rest of the employee base will follow us and they will adapt. That's a key decision we made early in the process and it turned out to be correct. Most of our employees adapted very, very well. Now a few still would like to go back to the old days, but we know the old days will never be here again and they will adapt eventually. But for the most part, the largest percentage of our employees—they just fell right in.

Whereas if we would have started from the start with that, it might have taken us years. Because the problem is, the private sector doesn't do it that way. In the private sector, you get up every morning and you adapt to the competitive pressures that are there. And so you learn to change quickly and to change in a positive way in order to persevere and move on. We just applied private sector principles to the public sector.

We just said, the equity owners—or in this case, the legislature—decided to change the law and we're changing and here we go.

*Gilroy: You mentioned the pushback. Obviously, this last legislative session saw not only a moratorium on some public-private partnerships but also legislative intervention that allowed a public toll authority take over a project for which a private concessionaire had already been selected in a competitive procurement process. What would you say to those in the private sector that are wondering if Texas is still a good place to do business? Or asked differently, what do you see as the role of the private sector in helping the Department address Texas's mobility needs in the future?*

**Williamson:** Well, it's important to note that the legislature did not do away with private-sector financing and a certain level of risk-taking. They suspended the concession model, except for 11 identified projects. I truly believe that the legislature is going spend the next 18 months absorbing the good and bad of all this and we will have a CDA [comprehensive development agreement] process come out of the next session. It might look different, but it will essentially be the same financing model. Meanwhile, we're still able to privately finance all of our toll roads and we're doing that. We've notified local toll authorities of 87 toll projects and we're negotiating the market value of those 87 projects starting next week. And the private sector, we hope, is right here making proposals to design, build and finance those projects.

*Gilroy: And you've mentioned shifting some of the responsibilities from the state to local and regional governments. You see it in multiple different ways. You see it in the market valuation process you just mentioned. You see it in the creation of regional mobility authorities as a local funding solution to match up with a metropolitan planning organization—which is a planning body, so you have complementary skills there. In a certain sense, you see a devolution of authority from the state to local and regional government.*

**Williamson:** Well, Governor Perry believes that the closer you can get decisions to the taxpayers who pay the bills, the better the decisions that will be made. And he practices what he believes. And to the extent that we are devolving power from TxDOT to local and regional governments, that's reflective of his philosophy. To the extent that that's a good or bad decision, we've thought local school districts were the best model for years. I don't know why local transportation districts would be any different.

The Honorable Richard ("Ric") Williamson was appointed to the Texas Transportation Commission by Governor Rick Perry in 2001 and served as its chairman from 2004 to 2007. Prior to his appointment to the Commission, he served seven terms in the Texas legislature from 1985 to 1998 and founded his own natural-gas production company.



# New Tools for Driving Change

## By Executive Ron Sims

**Few issues are as important to public leaders as transportation. It is entwined with every aspect of our lives—our economy, environment, health, security and quality of life. When transportation systems fail, we suffer in all those areas. If we get transportation right, we will make progress on many fronts.**

That is why I am committed to transforming our approach to transportation in King County, Washington, where I am serving my third term as elected county executive. I am working with other federal, state and local leaders to promote transportation investments with broad social and environmental goals in mind. Together we are moving toward the use of innovative transportation management tools—especially variable tolling in combination with robust transit services.

## It's time for a new approach

An accumulation of transportation challenges has convinced me that it's time to do things differently. Today, my county—and the larger Puget Sound region—is a wonderful place to live. With

a stunning natural environment, the attractions of Seattle and other vibrant cities and a strong economy led by Microsoft, Amazon.com, Starbucks, Boeing and international trade, it is thriving and growing.

But traffic congestion threatens to undermine our economy and our quality of life and congestion could worsen as our population grows. The Puget Sound area today has more than 3.2 million residents; we expect to add 1.7 million more over the next three decades.

Our car-centered transportation system is damaging our environment. Half the greenhouse-gas emissions in my region come from the transportation sector. Stormwater runoff from roadways, fouled with motor oil, is a major pollutant of Puget Sound, a precious body of water that is in peril.

Our heavy reliance on automobiles has an impact on public health as well. Many of our communities were designed for driving rather than walking, contributing to an upward trend in obesity. And fatal and injury-causing vehicle accidents cost my region \$3.4 billion annually, according to the AAA travel club; in urban areas nationally the cost is \$164 billion.



Add aging infrastructure to the list of woes. I am mindful, too, of our economic and national-security vulnerability stemming from our dependence on oil from unreliable foreign sources.

In King County and other metropolitan regions with similar challenges, any of these problems alone would be compelling; together they demand our most creative thinking and our most determined, courageous action. Old ways of thinking will not create solutions for 21st-century problems. Half-measures to improve transportation will not be enough.

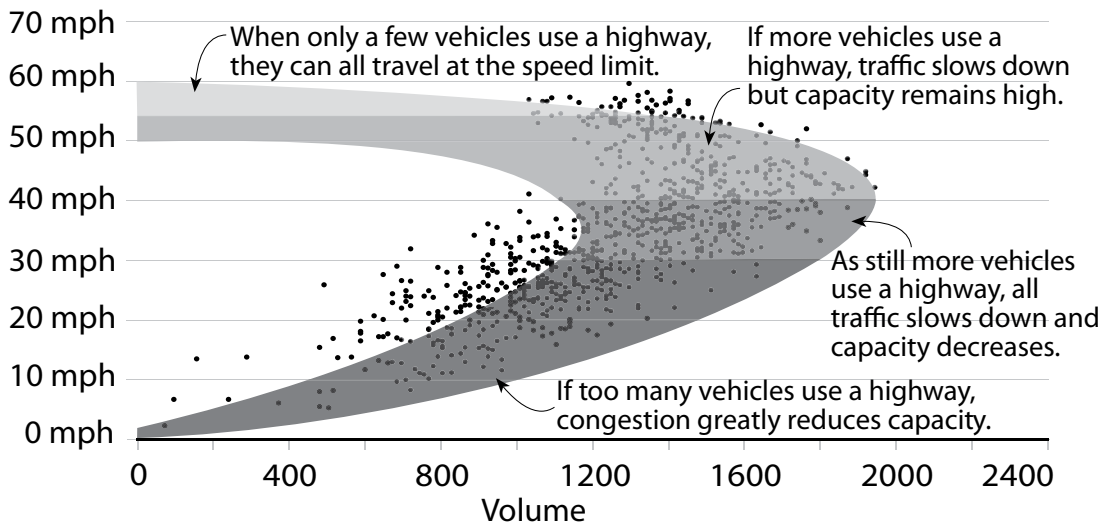
### **Taking a broad view**

The solution begins, I believe, with aligning our transportation planning with our broader goals. Instead of viewing congestion or infrastructure projects narrowly as road capacity issues, we must look at whole transportation systems in the context of the economy, climate change, national security, equity and social justice, health and mobility for people and goods.

An example of how we're taking this new kind of approach is our Alaskan Way Viaduct project. The viaduct is an elevated state highway, built in 1953, that runs along Seattle's waterfront. An earthquake damaged the viaduct in 2001, making its replacement imperative. Although the Washington governor and legislature allocated \$2.8 billion towards this effort, Seattle citizens voted against replacing the viaduct with either a new elevated structure or a less-intrusive but more expensive tunnel—sending a message that they wanted fresh thinking about a solution.

In response, Governor Christine Gregoire, Seattle Mayor Greg Nickels and I began collaborating on an innovative approach. We redefined the purpose and need of the project. Initially, the planners' goal had been to move the same number of vehicles on the same alignment as the existing viaduct. They largely ignored the importance of the central waterfront as a community asset and gave little thought to alternative ways to move people and freight.

## THE SPEED-VOLUME CURVE



Dots represent hourly vehicle volume per lane, measured at I-405 northbound at 24th NE, 6-11 AM weekdays in May 2001.

Source: Washington State Department of Transportation

We changed that by adopting a set of guiding principles that better reflect our community's economic, social and environmental values as well as our transportation needs. We have also involved citizens in the process of evaluating options. Now we are looking more broadly at how modifications of surface streets and parallel Interstate 5, increased use of transit and changes in traffic management could help solve the viaduct replacement puzzle.

When this process is completed later this year, the governor, mayor and I will announce our solution. I believe we will have a plan to invest in transit and in strategic improvements in the broader corridor, enabling us to maintain mobility with a less intrusive and less polluting roadway solution for the central waterfront.

### The "Four Ts" toolkit

Another part of the solution is the use of an innovative set of transportation management tools. King County, the Washington State Department

of Transportation and the Puget Sound Regional Council—our metropolitan planning organization—are leading our region toward employing such tools.

Last spring, we joined together to address the problems of traffic congestion in the State Route 520 corridor. We were particularly concerned about the bridge across Lake Washington that connects Seattle and growing suburban communities that are part of a vital economic center which includes Microsoft's headquarters. This bridge is more than 40 years old and carries far more vehicles than it was designed to support. It also is vulnerable to failure in a severe storm or earthquake and must be replaced.

Our team developed a proposal for the United States Department of Transportation's Urban Partnership program. Our strategy incorporates "Four Ts"—tolling (in particular variable tolling), transit, technology and telecommuting.

Variable tolling is the centerpiece of our plan.

It's a market-driven approach to reducing congestion: Tolls will be higher during peak travel hours and lower when fewer vehicles are on the road. Because half the people driving during peak times today are not commuting to work, some will choose to travel at less expensive times. Some will make fewer trips. Others will switch to buses, bicycles, carpools, or vanpools, or may choose not to make a trip at all.

Our plan will add 45 buses in the SR 520 corridor, providing 1 million new bus passenger trips each year for people who will choose not to pay the peak-hour tolls. Our county transit agency, Metro Transit, also offers ridesharing services that will continue to give people more options and serve low-density areas that cannot be efficiently served by buses. Metro has more than 1,000 commuter vans, driven by customers, on the road today.

The third "T" in our plan refers to traffic management technologies. An example is electronic roadway signs that give drivers information about upcoming traffic conditions and optimal driving speeds so they can adjust accordingly. Idling in stop-and-go traffic wastes time and fuel and results in the worst mileage possible. Combined with tolling and transit, traffic management technologies will maximize the efficiency of the corridor and the vehicles using it.

We will promote telecommuting as well. Creation of remote work centers is one way to enable people to work closer to home.

Our goal is to manage traffic so that vehicles move at a steady 45 MPH during peak travel times. For those of us who didn't major in physics, it may be surprising to learn that highways operate at their maximum efficiency—moving the most cars and trucks through a lane in a given period of time—when vehicles are traveling between 42 and 51 MPH. As vehicles travel faster than that, they have to be spaced farther apart for safety, so the highway would carry fewer total vehicles per time period. We're aiming for 45 MPH because we want to move the most people as fast and as safely as possible.

Our use of an integrated package of tools

should make travel on the SR 520 bridge faster, more reliable, safer and economically efficient—and we'll get these results quickly. We expect a reduction in vehicle-miles traveled and greenhouse-gas emissions. In addition, revenue generated by variable tolling, along with state and federal gas-tax revenue, will pay about half the estimated \$4 billion cost of replacing the bridge.

In August 2007, King County and its partners in the Lake Washington Urban Partnership were awarded \$127 million to implement this strategy. The Washington legislature took the next step in its 2008 session, passing a policy bill that will enable variable tolling on the bridge. Lawmakers passed another bill that sets policy guidelines for tolling of other transportation projects in our state. Studies by the Puget Sound Regional Council strongly suggest that more widespread adoption of variable tolling may be the key to keeping our transportation system manageable as the region grows over the next 30 years.

## Guiding principles

As we take a new, holistic approach to transportation, I believe we should be guided by the following principles:

**Use an integrated set of tools.** The bipartisan National Surface Transportation Policy Commission endorsed this approach, calling for a comprehensive, coordinated set of strategies—including variable tolling—to reduce congestion in major metropolitan areas.

In addition to variable tolling, transit, technology and telecommuting, other tools include bicycle and pedestrian trails and lanes. We can also employ land-use policies that encourage development of compact communities that support walking and transit service.

**Consider entire corridors, not just the tolled facility.** Tolling could affect roadways near a tolled facility if drivers change routes to avoid tolls. Policymakers must consider how the tolled facility would be operated in conjunction with other roads and how toll revenue could be invested to improve mobility in the whole corridor.

**Make reduction of greenhouse-gas emissions a goal.** We need to develop better tools to predict and measure the effect of variable tolling on vehicle-miles traveled and on greenhouse-gas emissions, so we can ensure progress toward the goal King County and many governments have adopted: reduce greenhouse-gas emissions 80 percent below current levels by 2050.

**Be mindful of social equity.** Questions about the fairness of tolling have been raised—notably in New York City, where a different tolling model, cordon tolling, has been considered. I believe variable tolling is less burdensome to low-income residents than sales, property, gas or car-tab taxes as a way to raise revenues for transportation improvements, because it gives people a choice whether to pay or not. Variable tolling works because most everyone has the opportunity to travel during off-peak hours or take slower roads to reduce costs—or they can choose to pay a fee for those important trips. Variable tolling can reduce average round-trip travel times on a five-mile highway segment by 30 minutes a day or 120 hours a year. This results in more reliable travel times for all users who choose to pay. Bus riders also benefit from faster and more reliable bus trips after tolling reduces congestion.

Communicate with constituents about new traffic management strategies. Use of variable tolling and other new tools represents a major shift in transportation management. Leaders must actively educate and engage in dialogue with the public—and be responsive to what we hear—to win public acceptance.

One challenge is to make it clear that variable tolling will not work as a traffic management tool unless robust transit options are available, so it makes sense to invest toll revenue in transit.

Keep tolling of public roadways under public management. Public-private partnerships can enhance government services and benefit citizens in many realms. King County has increasingly partnered with private entities over the past few years, most recently by entering into partnerships

to expand transit service in major employment centers. We know of no other public transit agency in the nation that is collaborating with private entities in this way.

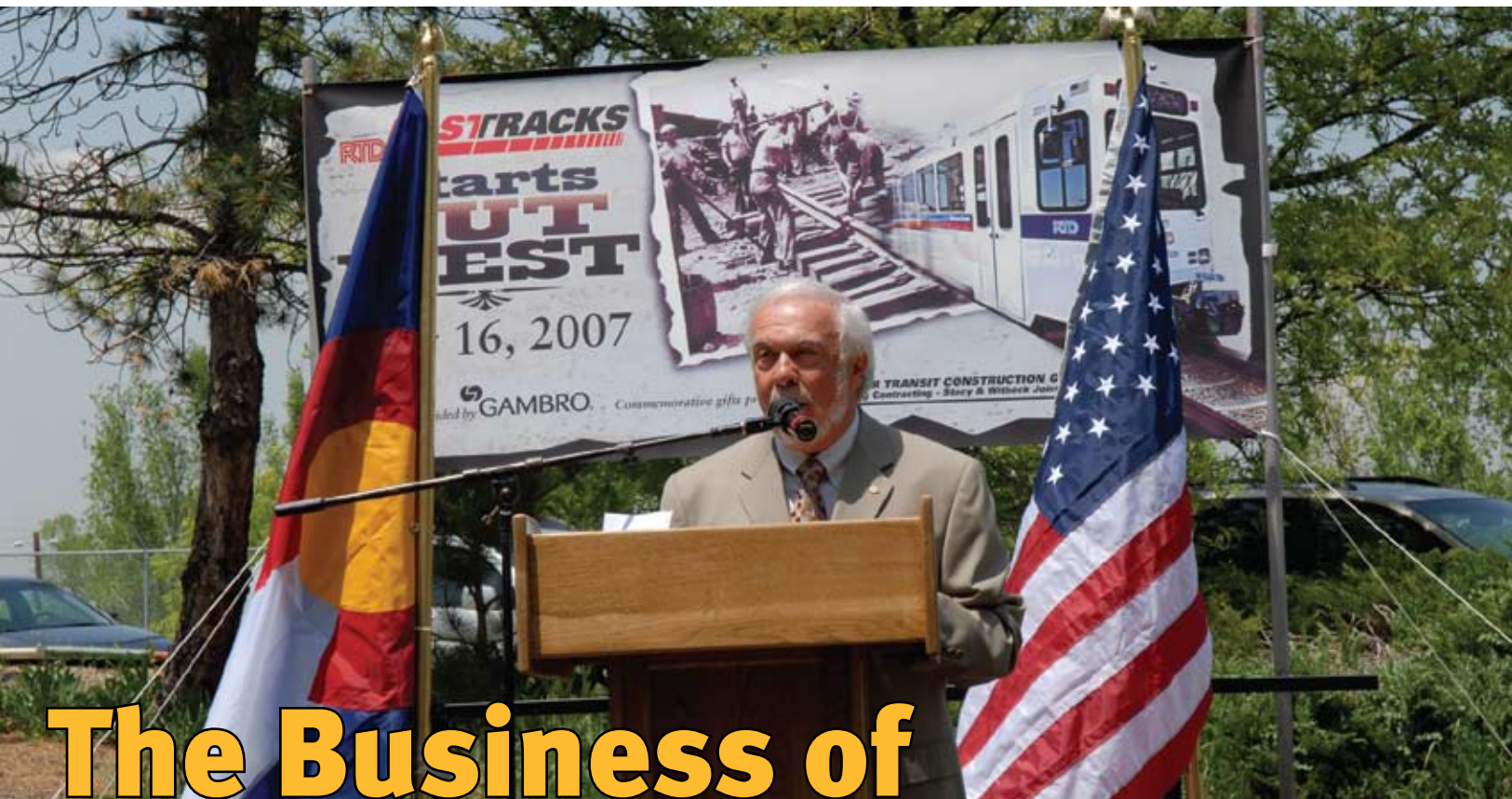
Regarding variable tolling, however, I respectfully disagree with my friends at Reason Foundation concerning the leasing of toll roads to private companies. I believe that responsibility for managing public roadways using variable tolling should remain with government and not be turned over to private lessees. Publicly financed infrastructure assets should be managed to meet the public's transportation needs and government, with its transparency and accountability, is the best entity to accomplish this and gain public acceptance.

At the same time, governments must not yield to any temptation to divert tolling revenue for general government purposes. The public cares how toll revenue is used and believes tolls are transportation fees that should be reinvested in transportation projects and programs.

Although we face a host of transportation challenges, we can overcome them. We have tools available to us that will make our roadways operate more efficiently, will offer more choices for travelers and will provide fair and sustainable funding. I am optimistic that we can keep people and products moving, make our air and water cleaner and create safe, secure, healthy and connected communities. ■

**The Honorable Ron Sims (D) is the Executive of King County, WA. Serving as King County Executive since 1996, he is charged with overseeing the 14th largest county in the nation, which includes the city of Seattle and an overall population of 1.8 million. Sims is also the former chairman of the Sound Transit Board of Directors, a member of the advisory board of the Brookings Center on Urban and Metropolitan Policy and the Puget Sound Clean Air Agency, Co-Chair of the Committee to End Homelessness, founding Chair of the Puget Sound Health Alliance and on the board of trustees for Rainier Scholars.**





# The Business of

## Providing Public Transportation

### Interview with Cal Marsella, CEO of Denver Regional Transportation District

Reason's Director of Policy Development, Amanda Kathryn Hydro, had the opportunity to interview Denver Regional Transportation District (RTD) General Manager and CEO Cal Marsella in June 2008 on his management of the RTD, the agency's use of public-private partnerships and other innovative approaches to improving the efficiency and effectiveness of public transit service delivery.

*Hydro: Congratulations on your recent recognition as the Best Transit Agency in North America for 2008 by American Public Transportation Association. I have heard you talk about "the business of providing public*

*transportation." Can you tell us where your fiscal conservatism has shone through in your management decisions and why you believe RTD has benefitted from that approach?*

**Marsella:** I have always approached my job as a public transportation manager as a business enterprise. My focus has always been on providing the most amount of transit product within the resources allocated. Too often the mission of public transportation providers has been to grow and protect the transit organization as opposed to maximizing the product we provide. The organization is not the thing. Mobility is what people vote for and expect.

*Hydro: What would you say is the number one goal of RTD?*

**Marsella:** The number one goal of the Denver RTD is to provide as much quality transportation



mobility as possible at the best price.

*Hydro: Speaking of mobility, can you tell us about your recent improvements to the transit system? Has its implementation helped improve mobility in the Denver metro area? Have you seen it help reduce traffic congestion?*

**Marsella:** We have had a number of very notable mobility improvements realized

in the past several years. We built four new light rail lines on time and within budget that are all performing at higher than projected ridership levels. We have kept our bus fleet average to the industry goal of 12-year full depreciation and then we retire those vehicles and replace them with new vehicles.

We built the TREX project with the State of Colorado DOT as a multi-modal transportation program. The state financed the reconstruction of over 19 miles of highway adding capacity and safety improvements while we simultaneously built over 19 miles of light rail. We built the project using a Design/Build contracting methodology and completed over 22 months early and substantially under our projected budget.

Most importantly, we optimized the carrying capacity of a key urban mobility corridor. Unlike many areas where highways and transit compete for projects and resources, we joined forces to optimize both of our resources and the public was the huge beneficiary. The corridor now operates much more efficiently with significantly reduced travel times.

*Hydro: You were a member of President Reagan's public-private group. It appears that the principles you believed in then have continued to influence the way you manage now. How have*

*you utilized public-private partnerships at RTD?*

**Marsella:** I am a strong believer and practitioner of the use of public/private partnerships. Many public transportation organizations operate as monopolies and provide all service through the use of public employees with strong unions, burdensome labor contracts and heavy overhead expenses. There is no barometer in the competitive marketplace through which these properties can measure and calibrate the cost effectiveness of their internal operations.

At the RTD we have 46 percent of our fixed route service operated through competitive contracting and all of our door-to-door service for the disabled. At present we have two major private sector companies that provide the contracted services. Interestingly, both have recently become unionized and are members of the same union as our internal operations.

Our private contractors provide the same service as we do internally at a cost that is approximately \$17.20 per hour less than our fairly compared internal costs when we do not consider the cost of savings on transit-maintenance facilities. When we add in the costs the RTD avoids by not having to build and maintain additional facilities the cost differential is approximately \$29.50 less per hour. Exacerbating this very sizable cost differential is the fact that the private carriers pay state sales tax on fuel which RTD does not, they pay sales tax on parts and supplies which RTD does not, they pay vehicle registration fees which RTD does not and they pay property taxes on facilities which RTD does not. Also RTD has state established liability limits and is self-insured while private carriers have no limits and must pay for and carry full liability coverage. We currently contract approximately 1.2 million hours of service per year. Much of these savings have gone into expanding our fixed guideway rail systems, our ADA service to the disabled and into providing more service to the citizenry.

*Hydro: Today, the environment and the global climate are part of every major policy discussion. How do environmental factors play a role in your decision making? How would you describe your*

*approach?*

**Marsella:** Every transit trip taken saves significant amounts of emissions and fuel consumption. Individuals who use public transit save substantial amount on fuel, vehicle repairs and individual out-of-pocket expense.

That acknowledged I remain a pragmatic environmentalist. I take the bus to work almost every day. I do, however, drive my personal car (a 1995 model with 60,000 miles) about 1.5 miles to a park and ride lot where I board my bus for the next 20-mile trip to work. I fill my personal car with gas every four to six weeks. It is then that it really hits home how much I save by using public transit on a daily basis. I say pragmatic because some of my environmentalist friends suggest that I eliminate the car trip and ride my bike to the park and ride. The area I live is hilly and, while manageable, I am not disposed to getting sweaty in the morning; chancing weather conditions and many times riding back home on a bike in the dark. I very much admire and support the use of bicycles to access public transit or for overall commuting. For me, at this time with the job I have the short drive to the park and ride works best.

*Hydro: Reason often talks about performance-based reviews and transparency within government agencies so that the taxpayers can see how their tax dollars are being spent. In Innovators in Action 2007, Mayor Giuliani specifically talked about how he felt that management requires measurement. Do you think that you been able to effectively measure the performance of your system?*

**Marsella:** I believe and practice the adage that “If you can’t measure it, you can’t manage it.” At RTD we use a Management By Objectives management strategy where we establish in priority order our mission, goals, objectives and performance measures. Our Board of Directors establishes our annual budget based upon its establishment of these factors. For instance our current “on time performance” goal for local bus service is 88 percent.

I report quarterly on where we are as relates to

that goal. If we are below that goal for any reason, we immediately analyze where we are having problems, implement corrective actions and review the performance in the next quarter. If the Board chooses to improve on time performance to say 90 percent I work with my staff to put together a budget and work plan to get there. If the Board approves the plan, I accept the goal and go forward. We have over 25 performance measures for operations, financial performance, project performance and other key operational factors.

*Hydro: You often speak of the necessity to reintroduce the marketplace to the provision of mass transit services. For example, RTD competitively contracts a significant percentage of private contractors, and many of them happen to belong to the same union as your public employees. Can you explain the genesis of RTD’s competitive contracting program?*

**Marsella:** In Denver we started with a state mandate to competitively contract 20 percent of our bus service. The state wanted a cost and service perspective upon which it could evaluate the agency’s performance. The experiment was somewhat rocky due to unclear contract provisions for vehicle requirements and some uneven cost comparisons prepared by the RTD staff. For instance, when I arrived I was given a report to present to the state legislature comparing internal RTD operating costs to the privately contracted services. I noted that the cost of the buses in the private contract seemed quite high. The contractors had to provide the buses at the time. It was explained to me that the contract required the contractor to buy the bus, depreciate the bus in six years (as opposed to the federally prescribed 12 years) and then the agency could buy the bus at the end of the five-year contract at one-sixth of its original value.

I noted that this could be a good model if the agency was using contracting to both operate the service and to provide needed capital investments. I then asked where the cost of the bus was on the public operation. I was informed that there was no provision for the cost of the vehicle on the

public side because the agency was using federal money to, in part, purchase the bus. In effect, the private contract model was being charged at an accelerated cost of the vehicle and the public side was not being charged at all. I then observed that the private contractors were required to list the cost of their operating facilities to rent or buy and maintain and there was no such provision on the public side.

When I asked why this appeared that way it was explained to me that the public side already owned its facilities hence no charge was required. I then asked if we had additional capacity to house and maintain the contracted operations were they to be operated in house and I was told that we could not. I was then informed that if we brought those services in house we would have to build a new facility at a cost of approximately \$30 million and then operate and maintain that facility. I immediately required the comparison model to be restructured to fairly compare both types of operations and the report to the Legislature moved from a characterization of both public and private operations costing “about the same” to the private operations being very significantly less expensive.

*Hydro: While your responsibility is obviously the transit agency for the Denver metro area, can you tell us about the multi-modal approach that the city appears to be taking and how successful you think that approach is?*

**Marsella:** Unfortunately, in the United States, the mobility debate often pits highways versus mass transit. I take serious issue with this characterization for several reasons. First, the mission is mobility and not a modal competition. In some cases the expansion of highway capacity is the most cost-effective and appropriate investment needed to improve the mobility challenge.

Mass transit and highways are really quite synergistic in most urban settings. Highways do worst during peak periods and special events when the 1,800 vehicle per hour capacity is reached or exceeded which is precisely when mass transit performs best. The days of destroying neighborhoods and businesses in wholesale fashion to expand

highways (and mass transit) are over. Our attention needs to turn to optimizing mobility opportunities within existing rights of way.

Partnerships need to be formed between highway and transit elements to best construct and reconstruct investments in major corridors to serve all mobility needs. In our case, the building of TREX on I-25 as a multi-modal project increased capacity severalfold largely within the existing highway footprint.

*Hydro: You have written a white paper entitled, Reinvestment in America, in which you affirm that automobiles are the best option for some people and that they are “embedded in the fabric of American culture, a cornerstone of the economy... and here to stay.” You go on to talk about the need to “recognize the presence and value of autos while developing effective alternatives to automobile utilization where it makes sense.” Can you tell us more about your theory on funding this reinvestment program and your multi-modal vision?*

**Marsella:** Automobiles and the development of America are inseparable. Older eastern cities were originally built around transit stops because automobiles had not yet become universally available nor had the complex system of roads and highways been constructed. Southern, Midwestern and Western cities grew largely after the advent of the automobile age and are characterized by the presence of many suburban and exurban developments which are, in many cases overwhelmingly dependent on private automobiles for access and mobility. Developments of eastern cities after the advent of the automobile largely replicate the suburban and exurban sprawling trend. We should not agonize over this reality but rather focus our attention on the landscape as it is and develop cost-effective solutions to meet our mobility, environmental and economic needs in the coming years.

Automobiles are wonderful inventions. They provide unbridled access to almost unlimited locations in the privacy and comfort of a well-engineered coach. Automobiles are owned and operated in staggering and universal numbers and



cannot be replaced cost effectively in many areas by any type of mass transit. Our relatively low population densities in many areas and the need to provide relatively frequent service to make such service attractive are just not economically feasible.

That is not to say, however, that there is no appropriate role for mass transit in such areas. Feeder buses to park and ride lots and the construction of park and ride intercept lots at strategic locations can provide all segments of the population with public transit access from those lots. In my case, I drive 1.5 miles, park my car and take the bus the next congested 20 miles to work and reverse the trip in the evening. I do not contribute to the worst congested portions of the highway system that demand relief.

Given the geography and development realities of 21st Century America, it is likely that a meaningful shift to reduced energy consumption and higher use of mass transit will embody the private

auto as the first leg of a significant percentage of work, school and special events trips. Mass transit advocates should not fight automobiles, we should join them.

*Hydro: Looking to the future, what do you see as the biggest challenge for RTD?*

**Marsella:** The biggest challenge for the Denver RTD in the future will be to cope with ever-increasing fuel prices and the unprecedented increases in the cost of commodities such as steel, copper, concrete as well as increases in the cost of labor and benefits. Paradoxically, just as demand for transit has sharply increased due to high fuel prices, the cost of providing those transit services has also increased dramatically. Just when we should be increasing the amount of transit service available to the public, many of us are required to reduce service due to the fuel cost factor. The Denver RTD is currently making over \$6 billion in fixed guideway rail investments that will provide all seg-



ments of the Denver region with superior, predictable, fast and cost-effective mobility alternatives. The global spike in the cost of needed materials is hampering our ability to build these investments at costs that were established and inflated to year of construction using trends that had held steady until 2004 when they rapidly escalated and continue to escalate at unprecedented rates.

*Hydro: What recommendations do you have for others who want to improve the efficiency and effectiveness of their public transit systems?*

**Marsella:** My recommendations for other transit properties that seek to improve the efficiency and effectiveness of their transit operations is to introduce or reintroduce the private marketplace where they can to gain a perspective of what such services could and should cost when exposed to the light of the private sector.

Here in Denver we have such a perspective and, as reported herein, the benefits are extremely significant and beneficial. It is ironic that in many areas of the U.S. where the public is most supportive of

public transit for its mobility and environmental potential, the costs of providing such services in entirely public and monopoly-dominated service settings is not a serious consideration. It is often represented that there are no effective alternative service delivery mechanisms that could provide desired service in a more cost-effective manner. This is patently untrue as evidenced by our experience here in Denver.

I have personally witnessed several purposeful staff and political attempts to disingenuously misrepresent cost and service comparative data to protect a publicly dominated monopolistic service environment. In these cases the transit organization becomes the mission and not the provision of the highest quantity and highest quality mobility service. For competitive contracting to really work the policy Board and the transit staff must be committed and capable of writing good contracts and capable of providing excellent contract service monitoring to ensure excellent service quality.

The transit industry must refocus its attention and mission to providing the largest quantity of quality mobility service to its tax-paying constituents. The first answer to improved quantities of quality mobility service is not always the provision of more federal, state and/or local money but rather looking inward to existing operations to determine if more cost-effective means are available to provide existing and expanded mobility service within existing resource availabilities. When that question is asked and answered then a genuine case can be made for increased funding, which, in our case, I believe, is warranted. ■

**Clarence W. “Cal” Marsella**, a 30-year transit veteran, is the CEO and General Manager of the Denver Regional Transportation District (RTD). Prior to joining RTD, he served as the Director of Transportation Services for the City of Hartford, Connecticut (1976-1979) and Chief of Contracted Services for Miami’s Metro Dade Transit Agency (1979-1992), where he developed and managed all transit and paratransit services operated under contract with private sector service providers.



# Building Academic

# Success in Schools

By Olga V. Block

When my husband Michael and I opened our first charter school in 1998 our ambition was to create one of the best educational institutions in the country. We sought to reach this goal by offering an education that combines the best practices of education systems around the world. In May of 2008, *Newsweek* designated BASIS Tucson “the best public high school in the United States.” While our decade-long journey from non-existence to “the best” was not free of difficulties, it is, I believe, a true testament to what American Education can be.

*Newsweek* bases its ranking of schools on the academic rigor of the program measured by the number of Advanced Placement (AP) exams students take. At BASIS, the curriculum is centered on the College Board’s AP program in all core subjects. Students are not just offered random collections of AP courses but an AP program that starts in fifth grade and culminates in 11th grade.

A score of a three or higher on an AP exam generally earns students credit in an introductory course at state universities or, at the very least, serves as a verification of a student’s expertise and knowledge of a subject at an

elite institution. In the 2006-07 school year, BASIS Tucson High School students scored an average of 4.9 out of a possible five on the AP Calculus BC exam and an average of 4.8 on the AP Physics exam. Nationwide the average scores were 3.6 and 2.8 respectively. In the 2006-07 school year 89 BASIS students in grades 9-11 took 202 AP exams; 75 percent of those students scored above 3.0. Moreover, most students taking AP exams are juniors or seniors while BASIS students must begin taking exams in the ninth grade.

For many these results are hard to believe. My colleagues and I are confronted with the typical demurs. The most prominent among education professionals is “well you give entry examinations, right?” In fact, we do not. The most memorable may be a local newspaper, which, after collecting (incorrect) ethnicity data from the Arizona Department of Education website, claimed “only ten percent of its students are minorities.” In fact, the student population at BASIS Tucson that year was 36 percent minority.

The reality is that BASIS, like all charter schools in



Arizona, must accept all students regardless of race, class, sexual orientation, language, religion or disability. The success of BASIS can be attributed to a rigorous curriculum, the work of dedicated teachers who are experts in their disciplines, the trust of hundreds of families who have put their children’s education in our hands and the freedom allowed to charter school operators in the state of Arizona.

### **The “New American School”**

BASIS School, Inc., a nonprofit corporation, has contracts with the state of Arizona to operate two charter schools: BASIS Tucson, founded in 1998 and BASIS Scottsdale, founded in 2003. Charter schools generally aim to provide options that are not available at traditional public schools with offerings ranging from college prep programs to dropout prevention centers. There is a constant incentive for charter schools to attract and retain students since they receive funding based on student counts. As a result, charter schools generally focus on underserved student populations.

The charter law in Arizona grants school leaders a large amount of flexibility and control over school-level management and curriculum decisions. Because of the freedom allowed under the law we were able to come up with a vision for a “New American School” which would combine the rigorous curriculum and accelerated pace of European and Asian schools with the openness of

the American classroom and the questioning nature of American students.

As a native of the Czech Republic, I had experienced European education as a student, as a professor at Prague Economics University and, after the revolution, as the Vice Dean of the School of Social Sciences at Charles University. When I placed my daughter in the sixth grade at a local suburban middle school after moving to the United States, she was still learning English. I was fascinated by what the school did to make her feel accepted and also by the students’ participation, discussion and spirit within the classroom. At the same time I was stunned by the lack of structure and discipline within the school. There seemed to be no thought behind the curriculum; students were simply assigned to classes that were available. Homework was an option for the students, not a requirement. There was no consequence for a late or missing assignment.

When we founded BASIS we knew we wanted a school that would be guided by high academic standards, freedom among teachers to guide the program and curriculum in their field of mastery, student responsibility, parental choice, outcome-based measurables and constant collaboration and improvement in delivery, strategy and school policy. BASIS Middle School requires high levels of accountability through a “must pass” comprehensive exam system and a curriculum which involves teaching biology, chemistry and physics as





separate sciences starting in sixth grade as well as college-level economics in eighth grade. Students take Algebra I in seventh grade, Latin in both fifth and then sixth grade, a modern foreign language beginning in seventh grade, along with English language and literature and U.S. and world history courses. Physical education and fine arts complement the rigorous academic curriculum.

The curriculum at BASIS Upper School is centered on the College Board's AP program in all core subjects. Students take at least six AP exams during their high school tenure, with these exams counting as final exams in the course. All students complete calculus, physics, biology, chemistry, U.S., European and world history, English literature, critical writing and analysis and a modern foreign language—and they do all this by the end of their junior year. Most students also take AP calculus and a good proportion take AP micro and macro economics. While BASIS students have enough credits to graduate after their 11th grade year, many choose to attend their senior year in hopes of gaining “high honors” after passing advanced capstone courses and a senior research project off campus.

### **Running a School Like a Business**

Perhaps more important for the schools' success than control over curriculum is the control the charter law grants school leaders over school-level management decisions. In Arizona, charter school

leaders can hire who they want, fire who they want, pay teachers what they want and create a pay structure using whatever incentives they wish to incorporate.

Teachers at BASIS are expected to be creative, independent and diverse in their teaching styles and methods and influential in shaping the BASIS curriculum. It doesn't matter how well thought-out or challenging the curriculum, if a teacher can't convey the information to the students then the students won't understand and build knowledge. With teachers playing such a pivotal role in the success or failure of a school, control over staffing decisions is critical.

BASIS does not have a starting base salary or set pay increases for teachers who have worked at the school for a certain number of years. Instead, we negotiate salaries on a case by case basis and offer teachers performance bonuses based on their performance on agreed upon tasks, student test scores and other measures of academic progress. Thanks to a generous founding contribution from Barbara and Craig Barrett (chairman of the Board of the Intel Corporation), we also implemented a “Master Teacher Program” at our Scottsdale campus which rewards teachers for the results they produce in the classroom and their efforts and success in mentoring other teachers. The program, which raised over \$350,000 in the 2007-08 school year is funded entirely by private contributions, a large proportion of which were made by BASIS parents.

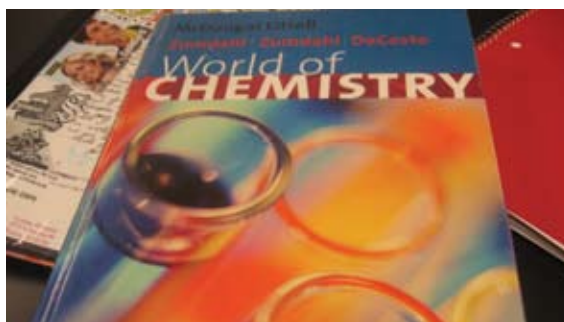
Another benefit under existing state law is that Arizona charter school teachers are not required to have teacher certification. While this may seem like a minor distinction, it allows us to recruit from a much more diverse group of individuals whose backgrounds are not necessarily in education. The BASIS faculty consists of everything from fresh graduates of Ivy League schools to former university professors, investment bankers and scientific researchers. Among the teaching faculty, 56 percent hold Masters Degrees and 10 percent hold Ph.D.s. Only 15 percent hold current teaching certificates in any state in the country.

## The Bottom Line

The Department of Education holds charter schools accountable to the same standards as traditional district schools, but because charter schools must attract and retain students in order to receive funding they are also directly accountable to their consumers: parents and students. As an immigrant, one of my biggest challenges in running a school was understanding how the parents view education in the U.S., which was an essential element in retaining students and running a successful school. There were dynamics of this society I simply didn't understand.

I was completely unaware of the importance placed on extracurricular activities. Parents came to me wanting their students to have a band and I thought "okay, but what does that have to do with our school?" Eventually the students got their band along with a number of other extracurricular activities. Because extracurricular activities are very costly and divert resources away from academic education, we offer extracurricular activities on a fee basis allowing us to reserve our resources for the academic program and, at the same time, offer the students the more "well rounded" experience they desire. Whenever we must determine whether or not to support a program with our state funding we first ask whether or not it is vital in fulfilling the mission of the school.

While we will make arrangements to offer the extracurricular activities and school dances the parents and students desire, we are unwilling to budge on issues that are critical to the mission of the school. When we opened the first middle school we implemented comprehensive exams in the sixth, seventh and eighth grades and required students to pass the exams in order to advance to the next grade level. Several years ago a sixth grade student who failed her comprehensive exam came to my office to ask me, quite annoyed, if I had the legal right to fail her. I told her "yes baby, I do." Allowing students to progress to the next grade level before they have mastered the skills and material necessary to move on harms the failing students as well as those who have mastered the material. Our job is to get the



students up to the required level of mastery, not to get them through the grades.

## A Model for Reform?

In 2005, an *Arizona Republic* headline asserted "Basis charter schools may offer the best free education in the U.S. But applying the formula to public schools may not work." We cropped the quote and put it on the back of our business cards which now read, quite simply and deliberately, "BASIS may offer the best public education in the U.S." We didn't include the second portion of the quote because its author had completely missed the point.

The curriculum and policies specific to BASIS are not formulaic. They cannot simply be applied, like fertilizer, to any system and 'watch the students learn.' The formula that makes this sort of success possible is the freedom to innovate and reform at the school level. Entrepreneurial freedom gives the United States the chance to fight the gloomy predictions about the future of its education. The Arizona charter law is an example of this entrepreneurial freedom which we need to guard. Too often the laws that protect these freedoms are truncated by experts who believe they know what is best for all people in all situations. No other industrialized nation has a population as diverse as that of the United States. Centralizing a whole system on federal, state or even the monstrous district level simply doesn't make sense. America's comparative advantage is the creativity and freedom to develop within small educational units to serve the needs of a diverse population. ■

**Olga V. Block is the co-founder, CEO and Executive Director of BASIS Schools.**



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