Privatization Watch

Analyzing privatization developments since 1976

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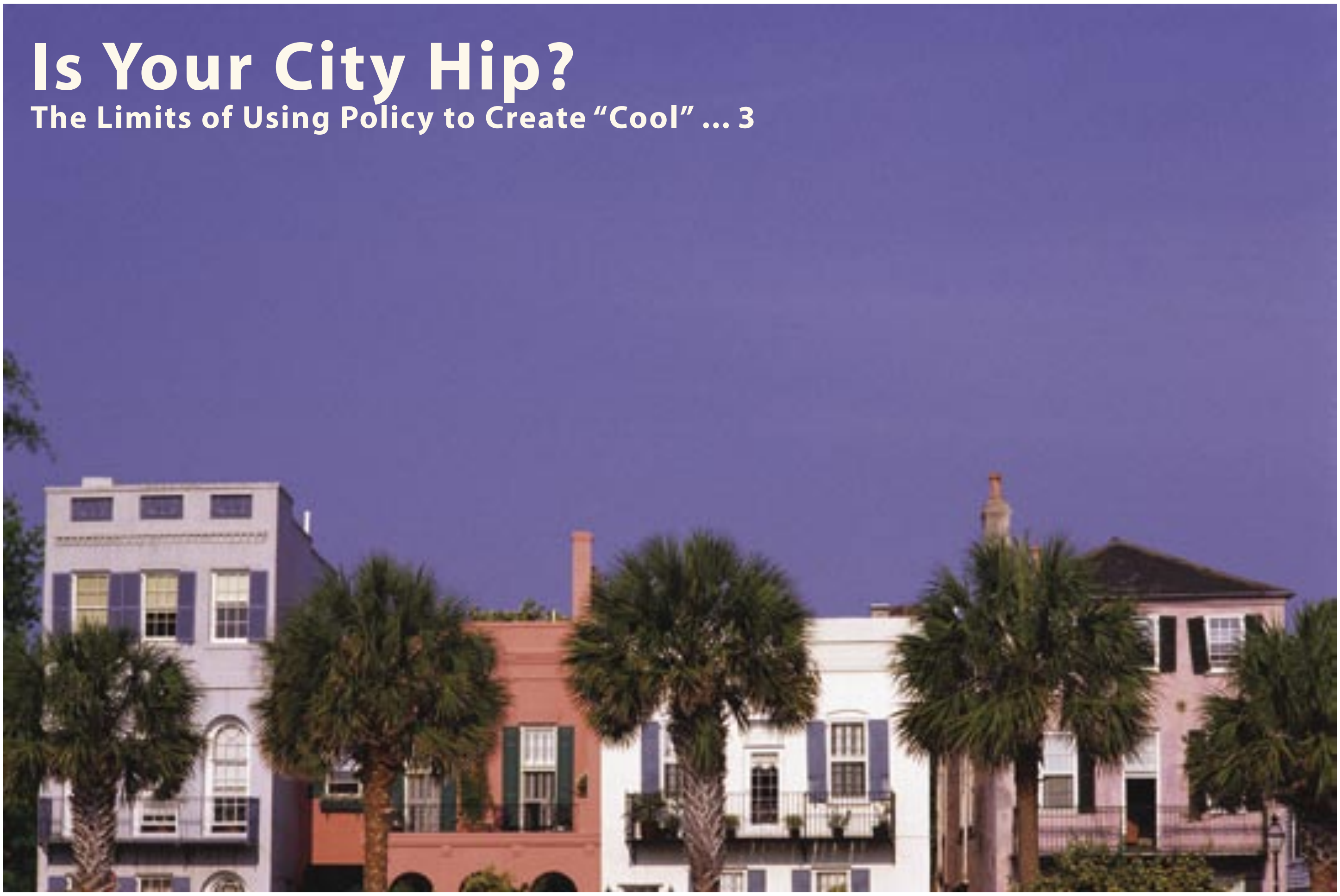

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Privatization Watch

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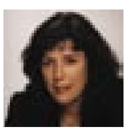

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Urban Futures Web Site Honored

I was recently made president of a community organization in my small town that is devoted to downtown revitalization. As I have once again become involved in the day-to-day community planning and land use, I am constantly reminded of the value of market-oriented planning approaches that take seriously the problems associated with suburban development, while remaining respectful of property rights.

It is easy to criticize the typical approaches of government planning, but in their place we must develop serious and viable alternatives. That is why I am proud to note that PLANetizen—a prominent national urban planning and development Web site—has named Reason's UrbanFutures.org one of the top 50 planning and development sites for two years running.

TOP 50 WEBSITES 2003

UrbanFutures is the only market-oriented policy Web site included in the top 50. The site is devoted to being the premier Web resource for information on market-oriented urban planning, growth management, and economic development. It includes an extensive state-by-state database of planning and growth management information, market-oriented planning research, commentary, and news.

The next time you are looking for a new approach to an old planning or land-use issue, give Urbanfutures.org a visit.

—Adrian Moore
Executive Director
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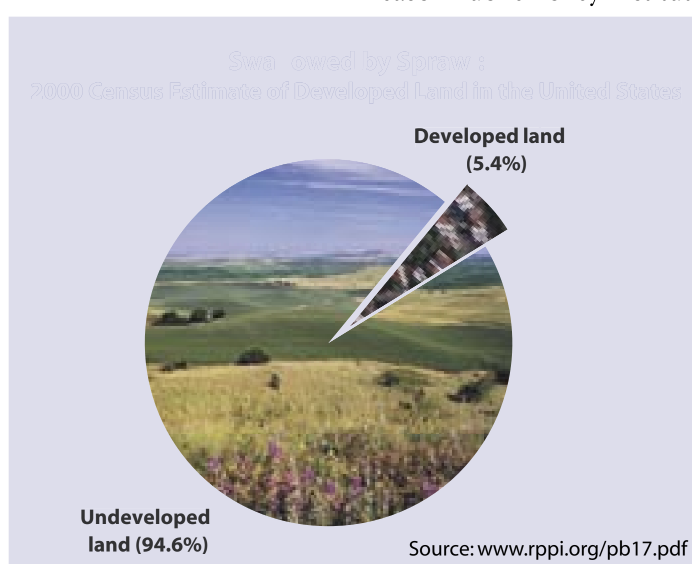
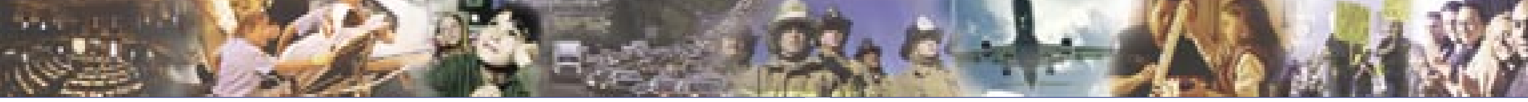




Is Your City Hip?

The limits of using policy to create "cool"

By Chris Fiscelli

Can public funding of entertainment districts, arts districts, downtown development, suburban redesign, and rail transit systems entice society's best and brightest to relocate to your city? That's what many cities are banking on. The desire to be hip has cities across the nation rethinking how they will add jobs, raise incomes, and increase tax bases—the utopian trifecta of local economic development.

The latest push has been spurred by Richard Florida of Carnegie Mellon University. In his new book *The Rise of the Creative Class,* Florida posits that the "creative class" drives the new economy. The creative class includes young, talented people in a wide variety of professions ranging from software programmers to artists.

Cities and states have tried nearly every en vogue strategy to spur job and economic growth: tax incentives and abatements, enterprise and empowerment zones, large public works projects, sports stadium development, downtown redevelopment, and now creating "hip" cities. The strategy of creating cool cities is a reversal of an old model where cities and states thought the thing to do was to attract industry first, then residents would follow seeking jobs, and of course, retailers would follow them.

Young, talented professionals have flipped conventional logic on its head by forcing innovative growth companies to chase them instead of the other way around. Growth industries of the recent past—and it seems, the future—such as information technology, biotechnology, new media, and creative services are based on entrepreneurial spirit and highly sought-after labor talent. Attract them, says Florida, and you will go a long way toward local economic development.

Hunting hipsters

Sounds great, but how do you get these folks to move to your town? The overwhelming response has been to develop more hip cities, primarily by embracing the principles of "smart growth." Smart growth, the self-proclaimed antidote to urban sprawl, seeks a strong, vibrant downtown, mixed land uses, high-density housing, urban growth boundaries, subsidized housing for lower-income households, and prefers walking and transit use to driving. And advocates of smart growth are certainly not shy about using aggressive government regulations and public money to implement their strategies.

Economic developers touting smart growth make two questionable assumptions:

1) Cities can create "hip" places.
2) Smart-growth cities will attract creative class members.

However, society defines cool in cultural—not geographic—terms. Switch the people in your local arts district with the average suburbanites and see if you still think the local arts district will be cool in a few years. When Florida speaks of tolerance of other races, lifestyles, gays, and immigrants, I am quite sure he is speaking of the people in the place, not the arrangement of buildings in the place. The perception of hip grows over time as an area begins to reflect its unique population. Ultimately, people create hip, buildings don't.

When the built environment is a factor, it is typically not something that can be intentionally created through public policy. Consider artsy, eclectic, districts like SoHo in New York or Adams Morgan in Washington, D.C. They were not contrived as a grand experiment of a city, but rather evolved organically to become the hip places they are today. SoHo was a rundown, old manufacturing district before artists moved in and eventually changed the way people thought of the area. Adams Morgan avoided much of the urban renewal axe and was a popular area for Latin American immigrants in the 1950s and 1960s. But its history, proximity to downtown, and ethnic restaurants attracted yuppies who then thought of the district as hip and eclectic. Not only would this be difficult to duplicate, it would be hard to imagine how a city could manufacture some derivation of these places that would attract creative class members such as techies, gays, and artists, all members of Florida's creative class.

Not only is hip difficult to create, it's not clear that the creative class is necessarily drawn to or created in places void of urban sprawl. Granted, most everyone likes to have a historical downtown or central social place to gather or for entertainment, but the creative class' lifestyle choices are not always consistent with downtown-style, higher-density living. In his book *Edge Cities*, Joel Garreau theorizes that people look to downtown areas as antiques. They may love and cherish them, but that does not mean they seek to replicate their design and density across the entire metropolitan area.

Suburban chic?

Consider a few of the top large metro areas for creative class members: San Francisco, Boston, Washington, D.C.,

See COOL on Page 12

Do Affordable Housing Mandates Work?

By Benjamin Powell, Ph.D and Edward Stringham, Ph.D

When confronted with the housing affordability crisis, many local governments have turned to "inclusionary zoning" ordinances, which mandate that developers sell a certain percentage of homes at below-market prices. But does inclusionary zoning work? To help answer that question we examined communities where the practice is particularly prevalent—the San Francisco Bay Area.

These are the effects of inclusionary zoning:

Few units produced

The 50 Bay Area cities with inclusionary zoning have produced fewer than 7,000 affordable units. Since 1973, the average is only 228 units per year. After passing an ordinance, the average city produces fewer than 15 affordable units per year. At current rates, inclusionary zoning will produce only 4 percent of the Association of Bay Area Governments' estimated affordable housing need. This means that inclusionary zoning will require 100 years to meet the current five-year housing need.

High costs

Inclusionary zoning imposes large burdens on the housing market. For example, if a home could be sold for $500,000 but must be sold for $200,000, the revenue from the sale is $300,000 less. In half the Bay Area jurisdictions this cost associated with selling each inclusionary unit exceeds $346,000. In one-fourth of the jurisdictions the cost is greater than $500,000 per unit, and the cost of inclusionary zoning in the average jurisdiction is $45 million, bringing the total cost for all inclusionary units in the Bay Area to date to $2.2 billion.

More expensive market-priced homes

Who bears the cost of inclusionary zoning? The effective tax will be borne by some combination of market-rate homebuyers, landowners and builders. But most of the burden is likely to fall to the market-price homebuyer. As contractors seek to recoup their losses for having to sell some homes for below-market prices, they will have to sell the remaining, unregulated units for higher prices to remain solvent.

We estimate that inclusionary zoning causes the price of new homes in the median city to increase by $22,000 to

$44,000. In high market-rate cities such as Cupertino, Los Altos, Palo Alto, Portola Valley and Tiburon, we estimate that inclusionary zoning adds more than $100,000 to the price of each new home.

Fewer new homes

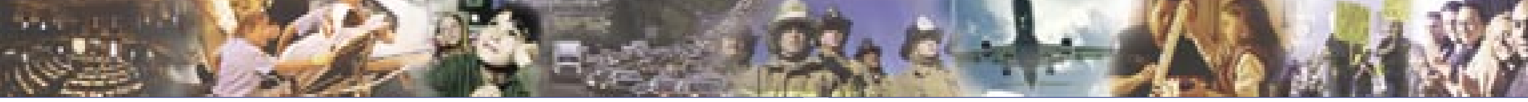
Inclusionary zoning drives away builders, makes landowners supply less land for residential use and leads to less housing for homebuyers—the very problem it was instituted to address. In the 45 cities where data is available we find that new housing production drastically decreases the year after cities adopt inclusionary zoning. The average city produced 214 units the year before inclusionary zoning, but only 147 units the year after. Thus, new construction decreases by 31 percent the year following the adoption of inclusionary zoning.

In the 33 cities with data for seven years prior and seven years following inclusionary zoning, 10,662 fewer homes were produced during the seven years after the adoption of incusionary zoning. By artificially lowering the value of homes in those 33 cities, $6.5 billion worth of housing was essentially destroyed.

Lost government revenue

Price controls on new development lower assessed values, thereby costing state and local governments lost tax revenue each year. Because inclusionary zoning restricts resale values for a number of years, the loss in annual tax revenue can become substantial. The total present value of lost government revenue due to Bay Area inclusionary zoning ordinances is upwards of $553 million.

Benjamin Powell and Edward Stringham are the authors of the Reason Foundation study Housing Supply and Affordability: Do Affordable Housing Mandates Work?, *from which the preceding was excerpted. The entire study is available at: rppi.org/ps318.pdf* ■



Dealing with Statewide Growth Challenges

By Adrian T. Moore

A number of states will see legislation to limit growth and development at the local level introduced this year. As you consider these pieces of legislation, here are some points to consider and some potentially helpful resources:

1. Limits on growth and zoning change restrictions sometimes work, but often do not.

Success depends a great deal on local circumstance and a delicate balancing of many complex forces that are hard to predict. For example, in San José, California, long running policies of strict limits on growth and heavy investment in light rail transit rather than roads have led to mounting congestion and rising housing prices.

San José Demonstrates the Limits of Urban Growth Boundaries and Urban Rail: rppi.org/ps309.pdf

2. Statewide approaches to growth problems rarely work, again, because so much depends on local circumstances and rapid change in complex markets.

A Reason study of statewide planning laws in Oregon, Washington, and Florida found that statewide growth restrictions impose a "smart growth tax" that accounts for 26 percent of the increase in housing prices in those states.

Smart Growth and Housing Affordability: Evidence from Statewide Planning Laws: rppi.org/ps287.html

3. States have two connected growth-related problems: accommodating new residents each year and the vanishing of affordable housing.

Affordable housing is usually not new housing, but older units that enter the affordable housing stock when original owners trade up. When growth restrictions limit the number and location of new housing, fewer middle-class homeowners are able to trade up, and that reduces the flow of older housing into the affordable housing stock. And the one unequivocal effect of state and local growth management laws is less affordable housing.

Smart Growth in Action: Housing Capacity and Development in Ventura County: rppi.org/ps288.html

Line in the Land: Urban-Growth Boundaries, Smart Growth, and Housing Affordability: rppi.org/urban/ps263.html

Housing Supply and Affordability: Do Affordable Housing Mandates Work?: rppi.org/ps318.pdf

4. Suburban development can lead to some farmlands being developed, and that is often seen as a big problem.

However, only a small percentage of farmland conversion is caused by urban growth, and there are many simple, local ways to deal with the problem. Farmland preservation measures hurt farmers, reduce affordable housing, and have no real effect on agricultural productivity.

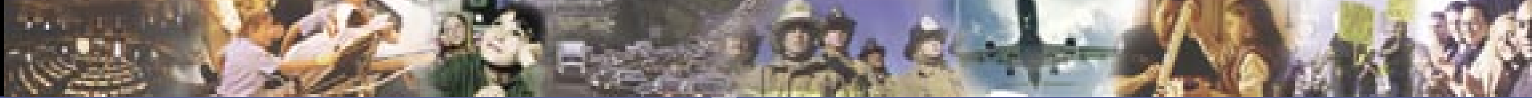
The Vanishing Farmland Myth and the Smart-growth Agenda: rppi.org/urban/pb12.pdf

5. There are ways to manage the problems of growth locally and without the unintended problems created by statewide growth controls.

"Smart growth" isn't always so smart. If housing reflects how public officials want people to live rather than how the people themselves want to live, unintended problems often arise. When growth controls and other "smart growth" measures are not the answer, we must develop alternatives to address problems like congestion, and affordable housing-shortages in a way that respects property rights, and avoids causing new problems.

Market-Oriented Approaches to Growth: Outsmarting Sprawl's Impacts: rppi.org/pbrief20.html

The simple message from all of this research and the experiences of communities and states attempting to manage growth is that many "smart growth" policies are ineffective and broad, and statewide growth management doesn't work. Often it creates more problems than it solves. Problems with growth are best managed at the local level with local knowledge of the problems, land markets, and potential local solutions. ■



Selling Smarter

How private marketing gets the most out of public property

Interview by Ted Balaker

As governments continue to discover they have plenty of property they don't need—and perhaps some they didn't even know they had—more and more are opting to sell off public assets. However, in order to ensure a more profitable and productive outcome, officials have begun to take the process a step further and privatize the marketing process. John Lynch is Vice President at Jones Lang LaSalle. He says that by sidestepping the often-constraining RFP process municipalities can get more bidders, a better price and a faster transaction.

John Lynch

The same rules apply to real estate marketing at all levels of government. For example, Lynch's firm often helps the federal government privatize military housing, and recently the city of Chicago turned to Jones Lang LaSalle after its RFP process failed to deliver a suitable buyer.

PW Editor Ted Balaker interviewed John Lynch via telephone.

Please explain your recent Chicago project.

The city had previously issued an RFP for a full block of downtown development and got a total of two responses, and neither met the city's pricing and land-use requirements. Then they hired our firm to market the property, and we were able to bring the city seven bona fide offers that met its visions for land use, and ultimately we were able to shortlist those bids and negotiate pricing that exceeded the city's expectations by over 60 percent—which was a huge success for them. In fact the final agreement that was negotiated allows the city to benefit even more, should market conditions allow more development density. We call that an "earn out" provision, where if the developer is able to build more product, then he can afford to pay more for the land even after the property is closed on. And that earn out provision, that's the kind of thing that would be very difficult to agree upon or negotiate in an RFP scenario. Ultimately, this property could net double what the city's reserve price was. And the city, by sticking to its typical process and requiring certain redevelopment agreements, got what it wanted out of the property from a community benefit standpoint. The city gets everything it wants for a higher price and a much faster process. (See development rendering above)

Typically, what kinds of properties are being sold?

It's a wide range. More often they tend to be land or redevelopment types of things only because of the potential for creativity in the marketplace. That's one of the key benefits of privatizing is that it can open up avenues for potential uses for the property that might not be immediately obvious or might not have been thought of by the municipality ahead of time.

Do you have an example of a creative use that was employed, even though it was not immediately apparent?

An old industrial facility was closed down and the large number of buildings that were on the property, the size of the buildings and potential environmental concerns made everyone assume that it would have to be a new industrial user that would have to go in there. An RFP situation typically doesn't allow a lot of dialogue between the buyers and sellers. It's typically, "Here's a requirement. We'll see you in 90 days when you submit." But by having a professional service firm get into the marketplace, solicit ideas and exchange thoughts throughout the process, ultimately we were able to find a visionary developer who envisioned a retail power center on the site instead.

How does private marketing improve the process?

Three things come to mind. The first one is the private sector firm simply has more marketing reach than a municipal-

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Big Box Planning

Sustainability depends on adapting to change, not ignoring it

By Samuel R. Staley

Kmart's descent into bankruptcy didn't shock many Wall Street analysts, but it sent thousands of city managers and planners scurrying. For many, their worst planning nightmare was about to become a reality.

The reason became apparent when Kmart announced it would close almost 300 under-performing stores and slash 20,000 jobs. By some accounts, this move alone could almost double the inventory of large, empty stores in America's cities, most of which are in the nation's older strip malls. How local communities handle this crisis will be an important test of how well planners and city officials are able to manage the demands of the 21st century economy.

The challenges will likely grow. The traditional department stores that anchor many strip shopping centers and malls have become less and less competitive. Sears, J.C. Penney, Dillard's, Macy's, Lazarus, and other chains struggle to maintain revenue growth. Meanwhile, revenues for big box and discount retailers such as Target, Wal-Mart, and Home Depot are increasing, boosting demand for more accessible, stand-alone buildings.

Many communities will likely follow the lead of anti-growth cities like San Francisco, where former Mayor Brown took aim at big box retailers by proposing a dramatic expansion of regulatory oversight. Retailers hoping to occupy more than 40,000 square feet would be subject to detailed micromanagement by planners and the planning board, discouraging their location in the city. Other Bay Area communities have anti-big box ordinances, and voters in the Southern California cities of Inglewood and San Marcos recently rebuffed Wal-Mart. The city of Los Angeles is expected to adopt a measure that would ban big box supercenters from nearly its entire jurisdiction.

However, limiting big box retailers ignores the tremendous social benefits they provide. Pioneers in discount marketing (including Kmart) revolutionized retailing and offered consumers a wider variety of products at higher quality and at lower prices. The big winners were low, moderate, and middle-income families. These folks will be the big losers in any attempt to rein in the big boxes.

So, what's the alternative? First, citizens and city officials need to recognize the demise of Kmart for what it is: highly visible evidence of capitalism's "creative destruction." Kmart failed to provide a better product for less money in an efficient way. As Wright State University marketing professor Charles Gulas notes, fifteen years ago Kmart had to do three things to survive: go head-to-head with competitors such as Wal-Mart, live with reduced profit margins, and cut prices. It failed to execute these strategies effectively.

Of course, recognizing capitalism's dynamism doesn't solve the problem of what communities should do with the empty hulks of retail establishments. Sound urban planning, however, can't ignore the uncertainties inherent in a market economy.

In a dynamic setting where firms are born, grow, and eventually die, local development controls need to focus on impacts and processes, not specific outcomes. The empty big box is less important than ensuring policies are in place that encourage and embrace new uses for those spaces.

In my local area, regional population growth has been virtually stagnant. Nevertheless, many retail spaces, including a 100,000 square foot store abandoned by Kmart in 1994, are being or have been converted to new uses, including:

- Smaller retail and office uses;
- A Victoria's Secret mail order;
- A bank's private label credit card processing;
- Medical and other professional offices, or
- Smaller, niche retailing and entertainment outlets such as local hardware stores, a laser tag busineses, and restaurants.

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The Backlash Against "Smart Growth"

Commentary by C. Kenneth Orski

The debate about "smart growth" shows no sign of subsiding. Increasingly, however, the smart growth forces—long basking in uncritical acclaim—find themselves on the defensive.

In Loudoun County, Virginia—the second-fastest growing county in the nation—opponents have filed more than 200 lawsuits to overturn tough growth control measures enacted in the late nineties to control sprawl. In New Jersey, builders and developers are mounting a series of legal challenges against the policies of Gov. James McGreevey to promote "smart growth." In Colorado, local communities, eager to spur development and increase local tax base, are turning away from previously adopted growth restrictions. In California, the state has shelved legislation designed to shape California's future growth through financial rewards to cities that adopted the "smart growth" vision.

Elsewhere, advocates for affordable housing and pro-growth forces are challenging "smart growth" initiatives in South and North Carolina, Michigan, Oregon, and Utah. These are just some of the overt signs of what many see as a growing backlash against anti-sprawl measures enacted in the 1990s—measures which were meant to slow down suburban growth but whose outcome has come to be seen as exclusionary and elitist. Increasingly, the "smart growth" movement is defending itself against accusations that its main consequences have been to raise suburban housing prices, maximize developer profits and deprive low-income households and minorities of an opportunity to pursue the American dream of home ownership.

The strict growth controls enacted by Loudoun County supervisors in January 2003 were meant to curb some of the rampant suburban expansion that took place throughout the Northern Virginia county during the 1990s, transforming rural landscapes, necessitating costly school construction and overwhelming the county's road network. But many critics say the supervisors, elected in 1999 on promises to stop sprawl, have overreacted. The new zoning limits development to just one house per 10 acres in most areas and imposes impact fees that make it economically impractical for builders to construct anything but expensive tract mansions. "Smart growth" policies Loudoun County-style, charge critics, are nothing more than exclusionary policies masquerading as "open space conservation." They do not prevent sprawl — they just spread it

over a larger area. Exurban counties surrounding Washington D.C., which a decade ago were primarily dairy farms and agricultural fields, are now dotted with mini-mansions on 10-acre lots. In the meantime, construction of affordable housing on the urban periphery has slowed down to a trickle and in many areas has come to a complete standstill.

Faced with accusations of exclusionary practices and with pressures to provide affordable housing, many communities are relaxing previously adopted anti-sprawl policies. But "smart growth" forces are not about to surrender to populist pressures. Instead, they are going to ridiculous extremes to demonize sprawl by blaming it for all sorts of contemporary problems such as traffic congestion, drought and disappearance of neighborliness. Recently, they have blamed suburban sprawl for America's growing obesity epidemic. However, critics note that the research found only a trivial weight difference between city and suburban residents, and that obesity is associated more with poor diet than with geography, as witnessed by the fact that the highest incidence of obesity is found among minority residents of inner cities rather than among fitness-conscious suburbanites.

Economist Wendel Cox calls smart growth an "anti-opportunity" movement that would "force housing prices up and deprive millions of households of home ownership." His arguments do not go unheeded. "If sprawl allows more people to own homes, keeps housing prices down for middle- and lower-income buyers, and lowers transportation costs and time spent in traffic, why are we against it?" a Montgomery Journal (Maryland) editorial asked recently.

The perception of elitism is another point on which the "smart growth" forces are vulnerable. "The Smart Growth movement struggles mightily to overcome the suspicion that it is an effort by urban aesthetes and environmentalists to impose

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States Enact Transportation Privatization Laws

By Robert W. Poole, Jr.

Fiscal stress at the state level has put a squeeze on funding for highways and other forms of surface transportation. And new standards from the Government Accounting Standards Board (GASB 34) requiring accrual accounting by state and local governments have led many state DOTs to increase the proportion of their spending that they devote to asset management. That has further reduced the funds available for new construction.

Therefore, more and more states are turning to public-private partnerships that permit new construction to be financed via tolls—a net new source of funding for transportation infrastructure. In 2003, Delaware and Georgia enacted such measures, bringing the total number of such laws to 18, according to a detailed listing published in the January 2004 issue of *Public Works Financing*.

Both of the new laws allow projects to come about in either of two ways. The state DOT can decide that a particular project is a good candidate for public-private development and issue a request for proposals (RFP). Or the private sector can submit unsolicited proposals for projects that appear to make commercial sense. Twelve of the 18 state enabling measures permit unsolicited proposals (AL, AZ, CO, DE, FL, GA, MN, MO, OR, TX, VA, WI). Georgia has already received its first unsolicited proposal for the addition of toll lanes in the median of GA 316.

The most sweeping embrace of privatization to date is in Texas, which expanded its already broad public-private partnership provisions last year by enacting HB 3588 and getting voter approval of several constitutional changes that go along with it. Texas now requires all limited-access highway projects

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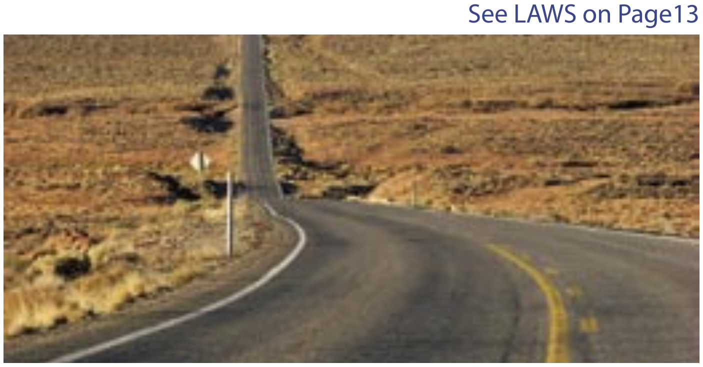

Private Space Launchers Get Boost

By Robert W. Poole, Jr.

Over the past two decades, several generations of start-up companies have been created to develop commercial space-launch vehicles, but none has succeeded. The only one actually launching payloads is Orbital Sciences Corp., and it depends heavily on government contracts. The 1990s' generation of companies hoped to profit from a proliferation of low-orbit communications satellites, but since most of those satellite companies (such as Iridium) proved unviable, that market collapsed, and with it the start-up launch companies.

Today there is a new generation of start-ups. Their target market is space tourism: launching people, not satellites, initially to the fringes of space and later to low-earth orbit. Most are vying to win the X Prize, being offered by a private foundation for the first company that can launch a reusable rocket carrying three people to at least 62.5 miles and repeat the feat within two weeks using the same vehicle. Some 27 companies have registered their entries with the X Prize Foundation, and the first attempts to claim the prize are expected by the end of 2004. Among the leading contenders are Burt Rutan's Scaled Composites with its Spaceship One, and Armadillo Aerospace with its Black Armadillo.

But there is a problem in bringing any of these companies' business plans to fruition: federal safety regulation. Is a commercial tourist-carrying space vehicle a rocket or an airplane? Which set of regulations should apply? Since the cost impact of different regulatory regimes could vary enormously, several start-ups report that regulatory uncertainty causes investors to hold off putting serious money into their companies. The consensus among the start-ups is that since some kind of safety regulation is inevitable, it's crucial that Congress make it as light-handed as possible—for example, not saddling an essentially experimental industry with airline-type safety and reliability requirements.

In March, the House of Representatives did just that, voting to approve HR 3752, the Commercial Space Launch Amendments Act of 2004, sponsored by Rep. Dana Rohrabacher (R, CA). It puts commercial human space flight under the jurisdiction of the Federal Aviation Administration's Associate Administrator for Commercial Space Transportation (AST), eliminating potentially conflicting or overlapping jurisdictions. It also creates a new regulatory concept, the "experimental

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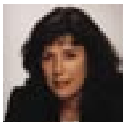
What's Wrong with Teacher Pay

Moving Toward Performance-Based Teaching

By Lisa Snell



New research points out a decline in the academic quality of new teachers and the need to restructure teacher pay to reward performance and attract higher quality applicants. Harvard economists Caroline M. Hoxby and Andrew Leigh analyze the effects of unionization on dumbing down the teaching profession in *Pulled Away or Pushed Out*? Explaining the Decline of Teacher Aptitude in the United States. Hoxby and Leigh reveal that the percentage of high-aptitude teachers has declined significantly over the past five decades. The authors attribute much of the decline to the increasing homogeneity of wages, which results from collective bargaining agreements. Pay has migrated to the middle, and teachers are now less likely to earn very high or very low wages. The study finds that wage compression is responsible for about three-quarters of the decline in teacher aptitude. While Hoxby acknowledges that increased opportunities for women outside the teaching profession play some role, she maintains that the trend only partially explains the disproportionate decline in the category of high-aptitude female teachers. A 2002 paper by University of Maryland Economics Professor Sean P. Corcoran found a similar trend. In 1962 nearly 20 percent of females at the top of their high school class entered teaching, but by 1992 the figure fell to 4 percent.

A new high-profile commission has taken on the task of improving teacher quality. Established by former IBM chairman Louis V. Gerstner, Jr., *The Teaching Commission*, also counts the likes of AFT President Sandra Feldman and venture capitalist John Doerr among its members. In January the commission released *Teaching at Risk: A Call to Action*, which notes that college graduates whose SAT and ACT scores are in the bottom quartile are twice as likely to major in education. Moreover, only 14 percent of college graduates with education majors scored in the top quartile on the SAT. The Commission's mission is to bring a national sense of urgency to luring and keeping high-quality teachers in the profession and to "muster the political will" to actually put a high-quality teacher in every classroom. In short, "the commission wants to break the cycle in which low-performing college students far too often become the teachers of low-performing students in public schools."

The Commission wants to increase compensation for teachers who raise student achievement, become mentor teachers, and for those who teach in the toughest classrooms or high-demand subjects like math and special education. In exchange for performance-based pay structures, teachers would receive high-quality professional development and university education programs that would be revamped to focus on student achievement and subject proficiency. State certification programs would also be streamlined to achieve higher standards and less bureaucracy.

The Commission acknowledges that these are not unique reforms. What is unique is the comprehensive nature of the Commission's plan, the high-profile support from business, government, and education leaders who have signed off on the plan, and the multi-tiered strategy to implement the proposal by simultaneously reforming federal legislation, state education practices, and higher education teaching programs.

A specific example of The Teaching Commission's influence can be seen in New York City Schools Chancellor Joel Klein's call for changing the way teachers are paid in New York City. Klein has proposed teacher bonuses based on student achievement and higher salaries for teachers who work in troubled schools or difficult-to-staff fields like math and science. In a recent speech Klein called the Teacher's Commission report a seminal document and argued that "at the heart of the problem are the three poles of civil service: lockstep pay, seniority and life tenure. Together they act as handcuffs and prevent us from making the changes that will encourage and support excellence." ■

Feds Dominate Competitions—Why?

By Geoffrey F. Segal

President Bush's management agenda emphasizes the importance of subjecting the federal workforce to competition, where appropriate. Even though they have little or no experience in a competitive environment, federal workers have fared surprisingly well in these competitions.

Although several hundred jobs were trimmed, 1,464 civil servants at the National Institutes of Health triumphed in two major competitions. Out of 1,206 positions in the Department of Agriculture's Natural Resources Conservation Service only six were moved into the private sector, and employees at the Centers for Medicare and Medicaid Services won all 17 competitions held in 2003. Last year, of all the federal jobs subjected to competition, nearly 90 percent stayed in-house. Why?

For some, who wins is less important than simply going through the process. "To me, the disturbing trend would be one that says we're not doing very many competitions," says Office of Management and Budget Director for Management Clay Johnson.

Others see high retention rates as cause for concern. Stan Soloway, president of Professional Services Council argues "there should be a major red flag being waved right now – if you had that kind of ratio of private sector wins, you would have legislation on the Hill in five minutes, because the assumption would be that the process was rigged." Angela Styles, the former Office of Federal Procurement Policy administrator added, "I am sure they [federal employees] have a lot of high-quality workers, but the chances of that occurring in a fair and open competition aren't that high. If at the end of the day you have a 50-50 ratio of wins, you're about right."

What might account for the one-sided result of federal competitions?

Streamlined competitions

Most competitions have used the new streamlined method where federal agencies simply compare the bid of the federal team with the going rate in the private sector, at times without even soliciting private sector bids. Contractors have won a few significant streamlined competitions—including the $3.5 million contract to perform equal employment opportunity reviews—but the process seems to favor federal employees. Critics have questioned the reliability of the process and accuracy of the data used for the analysis.

Many of the competitions have been relatively small and located in remote areas. Again, these smaller competitions have made use of the streamlining method. Here agencies can rely on market research and skip any actual competition. Moreover, contractors are less likely to bid on small or rural contracts, and under such conditions, federal employees have been nearly invincible. For example, Forest Service employees have won 136 out of 143 competitions.

As agencies move to larger and more complex competitions, more bidders will be attracted, and this could limit the success of federal employees.

Political roadblocks

Several agencies have had a difficult time simply getting their competitions off the ground. Often, politics has been at the root of the problem. For example, legal and political issues have kept the Veterans Affairs Department from competing 55,000 commercial jobs including laundry facilities and other blue-collar positions. Several other agencies, including the Interior and Agricultural Departments have had competitions held up or cancelled by congressional activity.

Direct conversions

Depending on what is analyzed, contractors can actually come out ahead. When direct conversions—where agencies simply outsource work—are included, contractors have won 55 percent of all jobs put up for bid from 1996 to 2003. During the past two years the Interior Department used direct conversions to transfer almost 1,500 positions to private firms, sometimes simply using contractors to fill vacant positions. However, the rewrite of the A-76 federal procurement guide banned direct conversions. ■

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Cool

Seattle, and Los Angeles. While all of these cities have areas that might be considered "hip," the vast majority of the regions are comprised of typical suburbia. And the high-growth areas—where many creatives live and work—are actually in the suburbs. Much of the San Francisco Bay area talent lives in sprawling Silicon Valley. Boston's technology hotbed sits along Highway 128, the inner beltway of the city and well outside the city limits. Most of D.C.'s technology job growth has occurred deep in the Northern Virginia suburbs or in suburban Maryland. Seattle's growth has centered on Microsoft in suburban Bellevue and Redmond, and many of L.A.'s cutting-edge industries are located in suburban Orange County. Clearly, the presence of urban sprawl has little to do with regional economic decline or stagnation, so why should eliminating it be part of a growth strategy?

In fact, comparing job growth rates reveals surprising data. From 1993 to 2003, Mr. Florida's 10 most creative cities had a job growth rate of 17.5 percent, while the 10 least creative cities had a job growth rate of 19.4 percent. Consider job growth since 1983, and the gap grows even larger. *Inc.* magazine recently ranked U.S. cities on business-friendliness, and, again many traditionally unhip cities fared better than many of our hippest areas.

Hip to be Square? Ranking Business-Friendliness

Best of ...	Worst of ...
1. Atlanta	1. San José
2. Riverside-San Bernardino	2. Grand Rapids
3. Las Vegas	3. Greenville-Spartanburg
4. San Antonio	4. Dayton
5. West Palm Beach	5. Rochester
6. Southern New Jersey	6. New York City
7. Fort-Lauderdale-Hollywood-Pompano Beach	7. San Francisco
8. Jacksonville	8. Portland
9. Newark	9. Boston
10. Suburban Maryland-D.C.	10. Philadelphia

Source: *Inc.* March 2004

What to do?

Contriving "hip" is a nearly impossible task because the very essence of hip is that it is not contrived. And one thing is for sure, if you could create it, increased government intervention would not be the mechanism of choice. Consider two growth management leaders: Portland, Oregon and the state of Maryland. While Portland has stagnated with high unemployment, across the river Vancouver, Washington has boomed. Likewise, Maryland's constraining regulated growth climate may have helped spur prosperity in Northern Virginia.

How can cities encourage economic development? First, the obsession with creating hip cities needs to be reined in. Not everyone can be or need be hip. A dying town in upstate New York may focus on being a winter sports destination for tourists. A low cost area might tout itself as a place for back-office operations, affordable labor and housing. A mid-sized city could position itself as a getaway from big city life. Still other areas can tout themselves as 24-hour towns with abundant nightlife and action. Having a quaint, walkable downtown is a nice amenity that will draw people, but that feature does not scale to the entire metropolitan region. Locals and tourists walking around browsing and window-shopping may be nice, but it's rarely an anchor of economic growth. Cities can enjoy economic development even without density and "street culture."

Second, cities should think about how to develop their own creatives. Members of the creative class are not just born; to some degree they are shaped by society and its institutions. And what better place to shape young creative minds than universities. Cities that were considered growing technology job hotbeds in the 1990s like Austin, Raleigh-Durham, Denver-Boulder, and Seattle not only attracted the creative class, they grew creatives internally. All these cities boast major universities and a smaller, more laid-back scale where you have big city amenities and a relatively small-town feel. Such cities did not develop into trendy or hip places through an act of policy, but rather through the presence of large student populations and young people that brought knowledge, cutting-edge skills, energy, popular culture, attitude, and a reluctance to leave their beloved college towns.

Third, get back to basics and abandon bigger government strategies. Compared to spending blank checks on lots of public projects, reasonable taxes, more efficient and streamlined government, and strong local services sound boring. However, prudence will be more effective in the long run.

Those who argue that economies in high tax, high regulation areas have grown do not see the larger picture. Typically, areas with lower taxes and regulation and new infrastructure experience more rapid economic growth. As they mature, growth cools, infrastructure declines, and rapid growth forces the political response of high taxes and regulation. Over time, these factors threaten the local economy. Jobs and residents begin move to other areas that have quality infrastructure, affordable housing, low taxes, and looser regulation.

Since economic development does not correlate to election cycles, it becomes increasingly difficult to see short-term results from local economic policy actions. Impatience creates the impetus to seek quick fixes that will have an effect on local jobs or tax coffers during a particular politician's term of office. Instead of falling for the latest economic development fad, cities should learn lessons from the fads of the past.

Chris Fiscelli is a Senior Fellow at Reason's Urban Futures Program. ■

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Laws

to be reviewed for toll feasibility. It also has empowered urban areas to create regional mobility authorities (RMAs) to act as toll road agencies, able to partner with the private sector in the same way as the Texas DOT.

Conspicuously absent from this list of states is California, which pioneered toll road public-private partnerships in 1989 with the enactment of AB 680. Only two of the four authorized private toll roads have gone forward, the SR 91 Express Lanes (91-X) in Orange County and the new SR 125 toll road in San Diego County. As part of the law authorizing Orange County to buy out the developer/operator of 91-X in late 2002, the Gray Davis administration repealed AB 680. This leaves California unable to make use of the kinds of innovative solutions being embraced by other high-growth states. ■

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Space

permit," similar to the light-handed regulatory regime that has worked well in the experimental aircraft field for decades.

If Congress enacts this measure later this year, it will be a big step forward in the privatization of space launch and the creation of a new industry. ■

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Backlash

their lifestyle choices on the majority who generally prefer a suburban lifestyle," notes Matthew J. Kiefer, a planning critic generally friendly to growth management, in a recent article in the Harvard Design Magazine.

In the end, the verbal skirmishes fought over "smart growth" are of little practical consequence, for the "smart growth" movement has no power to reshape America's urban landscape in any significant way. The demographic and economic forces driving metropolitan expansion are too powerful to be reined in or influenced by a planning ideology. As the noted urban analyst, Anthony Downs, points out, the biggest factor influencing future land-use decisions is the nation's need to accommodate a 23 percent gain in population by 2020—a projected increase of some 64 million people. It is hard to conceive that this population bulge could be fitted into existing built-up areas where neighborhood opposition to increasing density through infill development already is fierce. Thus, absent some cataclysmic energy crisis, continued dispersal of urban population and economic activity seems inevitable.

The "smart growth" movement is likely to go down in history as yet another planning ideology that has foundered for lack of a realistic understanding of demographics, market forces and consumer preferences.

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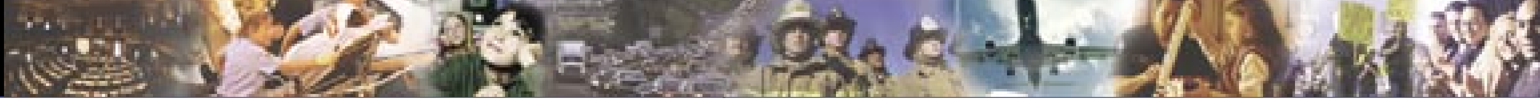

Privatization Briefs

Govs Tap Reason Staff

Reason's George Passantino and Geoffrey F. Segal may be on different coasts, but they're in the middle of the same push for leaner state governments.

Passantino is the only private sector advisor on Gov. Arnold Schwarzenegger's California Performance Review. By analyzing how state programs operate and searching for efficiency gains, the CPR will play a central role in rescuing the state from its daunting deficit. Meanwhile, Segal serves as an advisor to Florida Gov. Jeb Bush's Center for Efficient Government, the body tasked with evaluating and expanding the state's outsourcing efforts.

Brits Break New Ground with Air Tanker Leasing

Boeing and the U.S. Air Force have aroused concerns in Congress over their plans for the company to lease a fleet of 767 tankers to the Air Force. Traditionally, the Air Force would buy the tankers outright. But the British are going well beyond leasing tankers—they are buying air tanker services.

Britain's Royal Air Force has selected a consortium headed by EADS to provide air refueling services, using Airbus A-330 tankers, for 27 years. The deal is expected to be worth some $23 billion over the life of the contract. Under the terms of the service contract, the Airtanker consortium will finance the deal, based on the expected stream of annual service payments. When the A-330s are not being used for RAF refueling duties, the consortium will be free to generate other revenues with them.

Base May Hire Private Housing Firm

As the Department of Defense looks to get out of the housing business, California's Travis Air Force Base is the latest base to consider going private. Travis may turn over its remaining on-base housing to a private firm to manage and renovate. According to a recent analysis, the base could do without more than half of its on-base housing. Currently the Air Force has 30 different housing privatization projects under study covering 30,868 housing units across the nation.

In an effort to focus spending on military equipment and improving service members' quality-of-life, DOD has begun privatizing many support functions, ranging from maintenance to on-base transportation.

Army Engineers Merge Contracts

The Army Corps of Engineers expects to compete 75 percent of its information technology jobs as it moves toward an enterprise network that would replace 972 separate contracts with a single contract. The contract bundling is expected to save the corps significant money while also simplifying management and oversight.

For daily Privatization Briefs visit rppi.org/outofcontrol ■

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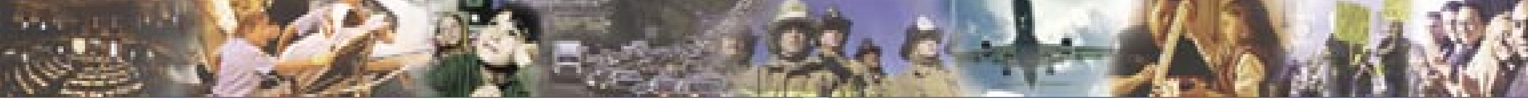
Property

ity would have on its own. What that means is knowledge of marketing channels and the ability to reach prospects beyond traditional geographic boundaries, as well as prospects that might not habitually monitor public sector opportunities. Point number two is streamlining the process. By hiring a private sector firm you're making it that firm's responsibility to screen prospects and ensure quality prospects and opportunities. And that enables the municipality to sort of ease back on its typical bid qualification requirements. A lot of times by asking for all that stuff through an RFP the municipalities end up losing a lot of qualified respondents who decline to respond simply because of the large up-front costs. Streamlining enables [the municipality] to get more interest in the property up front, qualify, and then move to a more serious stage where you're asking for those things later in the process once you've gotten serious with a handful of serious prospects. And the third item I would mention is credibility. What we've discovered is that by taking the time to select a qualified firm to market the property, municipalities give clear signals to the market that they're serious about accomplishing something.

Some might say there's a point where you can emphasize price too much.

I think privatization allows you to have your cake and eat it too because you can conduct the process and have it be driven on price to the extent you want, but you can also have the firm bring you the most qualified prospects and the most qualified opportunities. And then the city still retains control over the process. Even if you get the group down to a short list of bidders or even if you just take one that you're going to go with to complete the process, the city still retains control and the city's still going to require certain things of a developer before it can complete the acquisition of a property or begin the development of a property.



What about criticisms that come up in other kinds of privatizations? For example, some worry that the private sector won't be as devoted to the public interest or that there's the potential for conflicts of interest.

Two responses to that: The first is, it's incumbent upon the firm to keep the process transparent and that helps alleviate some of those concerns. If anything, a privatized marketing approach allows for more communication with prospects than is typically allowed from the RFP, so I think if the firm does its job right, that communication helps alleviate any concern that you're not looking out for the proper interests. Things like informational conferences for prospects, well-advertised bid requirements, well-advertised deadlines, good communication. All those help ensure the integrity of the process. Second thing is that again many of the technical requirements that the municipality has in place to ensure that the public benefit is met, to reiterate, the municipality can still enforce those. But they're just pushing it a little farther down the process until after you've screened applicants, after you've gotten interest drummed up in the property rather than at a point where it's too early—where it's going to turn away prospective bidders just because of the cost of assembling those things.

I've heard that the traditional process can result in fewer bids because it breeds uncertainty. How does this occur?

It comes down to communication. Your typical RFP allows for minimal, if any, dialogue between the municipality and the buyers. And the logic there is we can't talk to one person and not share information with everyone else, so the way to address that is to not talk to anybody. By getting outside the RFP model all of a sudden those rules don't have to apply. And what you find is that the prospects want to talk to you, they want to ask questions, they want to solicit information. And as long as everyone understands that you're willing to do that and, in fact, you give them forums that are public. Most developers, that's how they operate. That's the private sector model. So it's not new to them. In fact, they prefer that.

Often privatization is slowed simply because there are legal barriers that prevent it from happening. Do you find that this is the case in this area?

We haven't found legal barriers to it. Occasionally, you'll find that some municipalities are unused to paying contingency fees for services, and to be honest in some cases the rules are written so they can be rewritten or worked around. I think you find with most municipalities that it's not laws, it's not things that can't be changed, it's more just ways of doing business that need to be looked at a second time. ■

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Big Box

Citizens and local officials can start by taking a hard look at their current land-use plans and zoning codes. Most land-use plans treat land use as a "stock": something that doesn't change. Land is, in fact, a stock resource. Land use, however, is a "flow"—the highest, best, most efficient, and most appropriate uses change as the community evolves and develops. Land that may have been most suitable for single-family housing may be best suited for multifamily or mixed use now. The community needs to determine whether its local development controls facilitate or hinder the natural evolution of the land market.

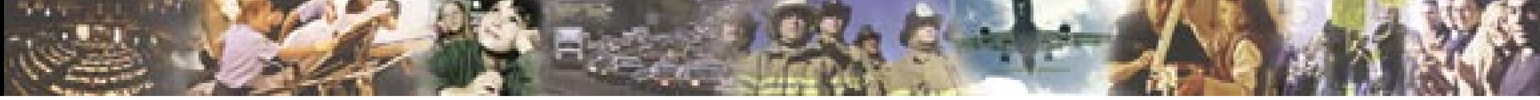
In addition, communities faced with large investments in unique structures such as big box stores can anticipate issues that might crop up in the event the store closes. A chronically empty store may well become a blight in the community, particularly if its physical and exterior condition is allowed to deteriorate. Businesses should recognize the potential for their store's closure to negatively affect neighbors and the community.

Some communities negotiate agreements with property owners and store managers to help mitigate the impact of abandoned buildings. Local governments (and even the local business community) can, for example, clearly specify property owners' responsibilities and obligations to maintain the appearance and soundness of their buildings and property even if it is abandoned. They can also encourage or assist in marketing the space for new uses through sources such as the local Chamber of Commerce. In more extreme cases, communities might even subsidize the demolition of chronically vacant properties.

While some will see Kmart's demise as another reason to substitute political judgment in place of the accountability of the marketplace, the long-term viability of communities depends crucially on their ability to adapt to the changing needs of the economy. Cities evolve, just like the businesses that serve them. Locking communities and neighborhoods into static land-use plans and development controls risks their long-term future.

Ultimately, every community's sustainability depends on its ability to adapt to market changes, not ignore them.

Samuel R. Staley is a Senior Fellow at Reason and President of the Buckeye Institute.This article appeared in PLANetizen.org. ■



Who, What, Where

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Conferences

Wisconsin Transportation Finance Summit, June 22, Milwaukee, WI. Metropolitan Milwaukee Association of Commerce: mmac.org

ALEC's 31st Annual Meeting, July 28-August 1. American Legislative Exchange Council: alec.org

Show Me the Measures! July 19-20, Arlington, VA. The Performance Institute: perforomanceweb.org

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