



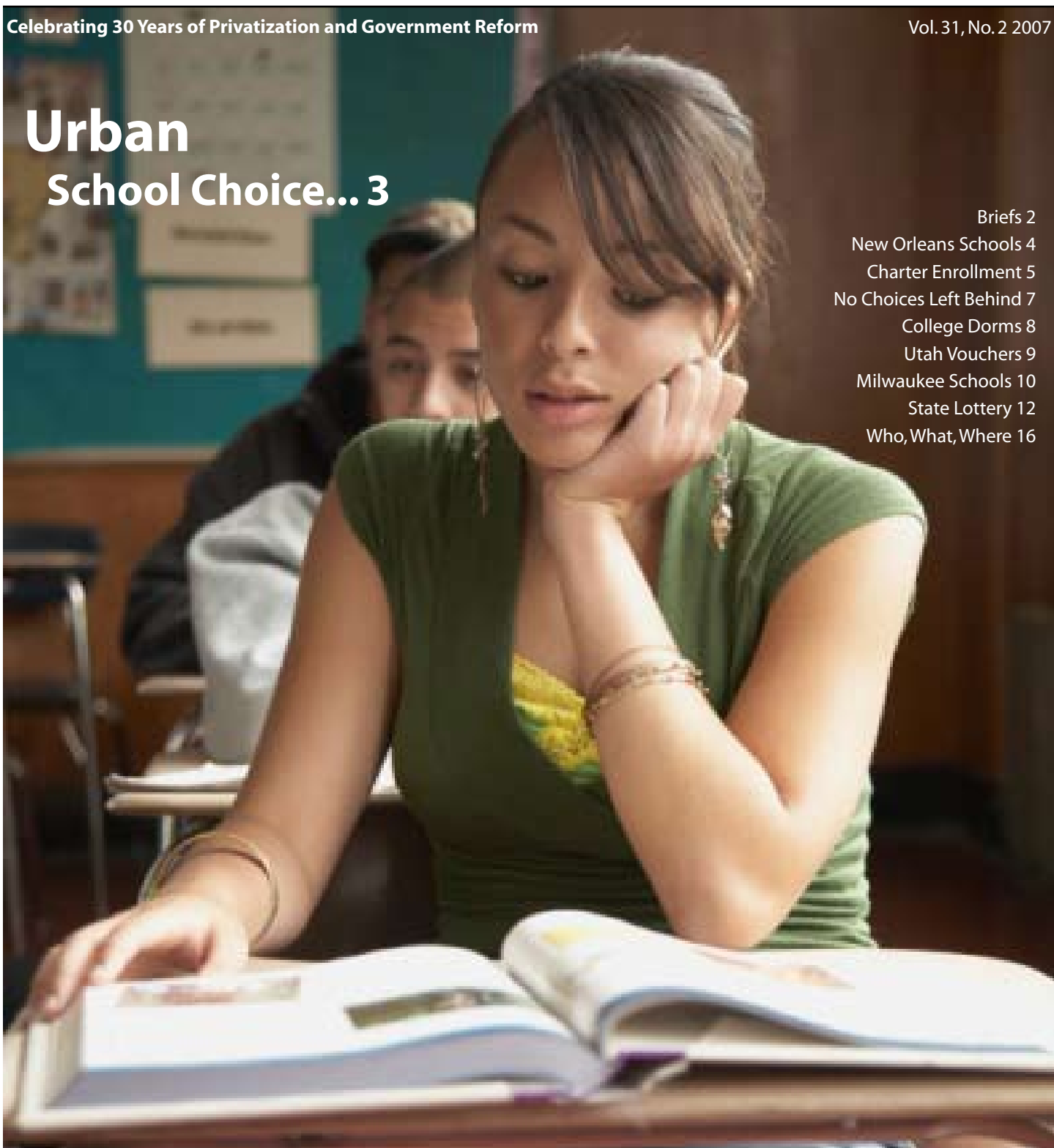
Privatization Watch

Celebrating 30 Years of Privatization and Government Reform

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Privatization Watch

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Privatization Briefs

Florida Gov. Crist Orders Privatization Review

In response to public criticism over state competitive sourcing initiatives, Florida Gov. Charlie Crist directed the state's Council on Efficient Government to undertake a review of privatization in state government, starting with the nine-year, \$350 million "People First" contract with Convergys for online personnel services, the largest of former Gov. Jeb Bush's privatization initiatives.

"The review will serve as a starting point for evaluating how to reap the most value from the system, whether privatization has merit—if it does, we should use it, if it doesn't, we should not," Crist said at a February 2007 news conference with Chief Financial Officer Alex Sink.



Crist said Sink and three other department heads will serve on the Council on Efficient Government, codified into law by the 2006 legislature after first being established by former Gov. Bush to develop and review contracting procedures and disseminate best practices among state agencies. Besides reviewing Convergys' People First contract, the Council will also review the MyFloridaMarketplace purchasing contract with Accenture and the Project Aspire inter-agency accounting services contract.

Houston Transit Agency Considers PPP For Bus Rapid Transit

According to a March 26th *Houston Chronicle* article, Houston's Metropolitan Transit Authority (Metro) is considering a public-private partnership to operate four bus rapid transit (BRT) lines. Metro's board is reportedly negotiating a long-term contract for a private team led by Washington Group International to design, build, operate, and maintain the four BRT lines.

Risk sharing is a significant advantage of the public-private partnership approach.

Risk sharing is a significant advantage of the public-private partnership approach, according to Metro consultant Frank Russo: "The public sector takes the risk for the income side of

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Experimenting With School Choice: A Tale of Two California Districts

Oakland, Compton show school choice can improve results more than the status quo

By Lisa Snell and Shikha Dalmia



Policymakers, unlike scientists, don't have the luxury of conducting controlled experiments to test competing solutions to social problems. But when it comes to reforming failing public schools, something close to that is occurring in two California school districts: Oakland and Compton.

The districts, comparable in many respects, are opting for completely different approaches to fixing their schools. And so far, Oakland's policy of giving parents more choice is showing far more success than Compton's strategy of micromanaging classrooms.

Oakland and Compton are not identical, of course. Compton, located in the outskirts of Los Angeles, does not have the gorgeous San Francisco Bay scenery of Oakland. It has a quarter of Oakland's population and no wealthy neighbors. But they are both high-crime inner cities. Both have a large Hispanic and black population, and a small Asian and white population. Average family incomes are comparable—about \$40,000 for Oakland and \$33,000 for Compton.

They both became targets of a state takeover and a large financial bailout in the last decade. And the federal No Child Left Behind Act for two years in a row has ranked them both among California's 162 districts "in need of improvement."

In short, the two districts have similar student bodies, similar challenges, and—until now—a similar history of failure. But Oakland is beginning to break away from this history, and the reason is the weighted-student-formula program it embraced some years ago and fully implemented last year.

Under this program, children are not required to attend their neighborhood school, especially if it is failing. Rather, they can pick any regular public or charter school in their district and take their education dollars with them; more students therefore means more revenues for schools. Furthermore, as the name suggests, the revenues are "weighted" based on the difficulty of educating each student, with low-income and special-needs kids commanding more money than smart, well-to-do ones. Schools have to compete for funding, but the upside is that they have total control over it.



Compton has stuck to a completely different approach that does not involve empowering parents, or decentralizing control to schools. Instead, it has tried to fix its failing schools by mandating "classroom inputs." To this end, all Compton schools over the last few years have been ordered to reduce class size by 12 percent, improve teachers' credentials, adopt a tougher curriculum, and even clean up bathrooms.

What are the results so far? Oakland schools have shown a remarkable flexibility in responding to student needs, while Compton has stagnated. In 2003-04, for instance, Oakland's high schools offered 17 Advanced Placement classes. Last year, they increased this total to 91, or about one AP class for every 143 students. By contrast, Compton's AP offerings went up by two that year, to one class for every 218 students. Oakland students also are taking high-level math and science courses more frequently. About 800 high school students studied first-year physics last year—nearly triple the number taking the course in the 2004 school year.

More to the point, of course, are student performance measures. Oakland kids have shown major improvement

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Competition Key for Future of New Orleans Schools

By Lisa Snell



One unexpected by-product of Hurricane Katrina: New Orleans is now the only city in America offering unfettered public school choice.

Schools have dropped residency requirements, so any student living anywhere in the city can register at any school on a first-come, first-served basis. (If individual schools are over-subscribed, a lottery determines who gets to attend.) This year, students can choose from 31 charter schools, 20 state-run schools, and five schools run by the local district.

More than 70 percent of New Orleans students are enrolled in charter schools. Twenty-five different organizations, from nonprofits to national charter chains, are running schools, and the options run from comprehensive curricula to niche schools featuring early college, French immersion, Montessori, the arts, and architectural design.

Schools fought to attract customers with radio and TV advertising, enrollment fairs, visits to local churches and community groups, and roadside signs pitching the benefits of their programs. *The New Orleans Times-Picayune* told parents, “Think of yourselves as consumers in a brand new marketplace.”

Critics predicted chaos all summer. In August 2006, *The*

New York Times ran a negative piece headlined “Rough Start for State’s Efforts to Remake Faltering Schools in New Orleans.” Tulane University education professor Lance Hill told the *Times*, “We’ve created the most balkanized school system in North America. The average parent is mystified.”

But as the *Times-Picayune* reported in Fall 2006, 53 schools with 34,000 students have opened with relative calm and few snafus. Parents somehow managed to navigate their choices without mass chaos, and now one of America’s pre-eminent cities is getting a dose of educational liberty.

The New Orleans Times-Picayune told parents, “Think of yourselves as consumers in a brand new marketplace.”

All of the schools have a fresh start and a level playing field in terms of accountability and performance outcomes. The schools will have two years of fresh test score data and graduation and attendance rates to establish baseline data for school performance. Schools starting anew this year will not receive their first post-storm performance scores until the fall of 2008.

New Orleans schools still have an uphill battle. Implementation issues from teacher shortages to decisions about where to develop new school capacity will be difficult to sort out. However, this new choice based system offers students a fresh start and new opportunities for high-quality education.

Lisa Snell is director of education and child welfare at Reason Foundation.

An inspiring story from the *Times-Picayune* from March 2007 describes a compelling example of the new opportunities open to all students in New Orleans:

“In the city’s bold new landscape of charter schools, Science and Math, well-respected before Katrina for producing strong performance from students of a wide range of ability, has expanded to become its own, full-day charter school in Uptown. The school works on a theory that an open-access school—with no admissions standards—can do just as well, if not better, than one with admissions standards—if it commits to focus solely on academics and jettisons the all-too-common stand-and-deliver lecture method. Instead, the school strives for daily lessons that engage students with concepts and require them to wrestle with problems.

Science and Math is, in essence, a thinly veiled challenge to the very existence of the city’s selective admissions schools, who by their nature teach fewer low-performing students, and in the case of some, such as the exclusive Ben Franklin High, no low-performing students...

At the start of this school year, just 14 percent of its freshman class could read at grade level—some scored as low as second- and third-grade levels.

Now, after making use of phonics lessons, 43 percent of freshman read at grade level.”



Charter School Enrollment Soars

By Lisa Snell



Charter schools continue to be the largest example of school privatization with more than 4,000 schools holding contracts with government agencies in the 2006-2007 school year, serving more than one million children.

According to a September 2006 study on charter school market share from the National Alliance for Public Charter Schools, in some communities large numbers of students enroll in charter schools:

While charter schools enroll a modest percentage of students nationwide, some communities far exceed national and state averages to enroll high percentages of charter school students. In fact, 19 different communities educate over 13 percent of their public school students in charter schools.

New Orleans leads the pack with 69 percent market share, due primarily to the post-Katrina reconstitution of the schools. Ohio has FIVE different communities in the top ten, with Dayton leading the pack at the #2 spot on our countdown with 28 percent. Alliance home base and our nation's capital, Washington D.C., comes in at #3 with 25 percent. And the largest community on the list is Detroit, with 18 percent of its nearly 160,000 students in public charters.

Several states and individual communities are demonstrating the impact of charter schools at scale. Let's examine some brief profiles in market share:

Michigan

Enrollment in Michigan charter schools has reached nearly 100,000. The 2006 Michigan Educational Assessment Program (MEAP) tests show that elementary charter school students are matching or outpacing their district counterparts in English and math testing. More importantly, Michigan's charter public schools exceed the average scores of their host districts on 23 of 27 MEAP tests this year. Canton Charter Academy boasts a waiting list of nearly 1,000 children. The 58 charter schools run by Central Michigan University have waiting lists of more than 10,000. Charter school success has spread throughout Michigan and parents are clamoring for a lift of the charter school cap. Perhaps most telling is their success in urban areas. Detroit is the leader in market share

in Michigan. The number of children from Detroit enrolled in public charter schools last fall was 42,378, or 25.3 percent of the 167,490 city students enrolled in district schools. A teachers' strike last fall delayed the start of classes in the Detroit school district, and enrollment fell 9.6 percent, according to the Michigan Department of Education. The district is considering a proposal to close 52 schools by next summer in response to declining enrollment.

New York

In March 2007, New York legislators passed an estimated \$120.9 billion budget, doubling the maximum number of public charter schools to 200, including up to 50 new schools in New York City. A year-long freeze on approvals, however, means the next wave of new charter schools may not open until September 2008. The new legislation requires the Education Department to hold hearings before placing a charter within an existing public school. The bill also bows to union demands by requiring a provision that automatically unionizes the employees of any charter school serving more than 250

Table 15: Charter School Market Share

Community	Charter Market Share	Charter	Non-Charter	All
1. New Orleans, LA	69%	7,815	3,578	11,393
2. Dayton, OH	28%	6,374	16,365	22,739
3. Washington, DC	25%	18,000	54,000	72,000
4. Pontiac, MI	20%	2,563	10,385	12,948
Kansas City, MO	20%	6,457	25,766	32,223
Youngstown, OH	20%	2,326	9,248	11,574
5. Chula Vista, CA	18%	4,640	21,832	26,472
Detroit, MI***	18%	28,047	131,643	159,690
Southfield, MI	18%	2,233	9,907	12,140
Toledo, OH	18%	6,561	30,200	36,761
6. Cincinnati, OH	17%	7,029	35,479	42,508
7. Brighton, CO	16%	1,632	8,818	10,450
Cleveland, OH	16%	10,858	59,035	69,893
Milwaukee, WI	16%	15,059	81,275	96,334
8. Buffalo, NY	15%	6,332	37,000	43,332
Mohave County, AZ	15%	4,315	23,593	27,908
9. Dearborn, MI	14%	3,016	18,094	21,110
Oakland, CA	14%	6,668	41,467	48,135
10. Minneapolis, MN	13%	5,558	38,532	44,090

Source: Alliance for Public Charter Schools, September 2006 school year
 ***Detroit now has 25 percent market share.

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School Empowerment Surges Ahead in 2007

By Lisa Snell



In his 2007 State of the City Address, New York City Mayor Michael Bloomberg called for school empowerment through the “weighted-student formula,” a growing trend in which public funding moves with the child, for all of New York City’s 1,467 schools. One week later, Nevada Gov. Jim Gibbons echoed Bloomberg’s proposal with his own weighted-student formula plan, which would affect more than 100 schools and “empower” families with greater educational choice. Finally, the Los Angeles Unified School District and union officials have agreed in concept to develop a group of independent small schools in the Pico-Union area, allowing students to choose a campus that best fits their interests. The Belmont Pilot Schools Network would consist of five to ten fully autonomous high schools launched over the next five years, with a maximum of 400 students each. Principals and teachers at those schools would work under a separate contract that would free them to determine school calendars, curricula, budgets and administrative structures.

By decentralizing school dollars and allowing school funding to move with the child, principals have greater control of their resources and can give innovative teachers more flexibility. In cities like Oakland, Houston, Santa Monica, and Edmonton, Alberta (where the first weighted-student formula program was implemented), schools are offering improved curricula and better instruction. Public schools compete for students by improving the quality of teaching and diversifying their curricula, so that students who are proficient in math can find a school where calculus is offered, or students looking for a language immersion experience can attend a school where they can have classes in Spanish or Tagalog.

By decentralizing school dollars and allowing school funding to move with the child, principals have greater control of their resources and can give innovative teachers more flexibility.

Similarly, Nevada Governor Jim Gibbons has introduced legislation to decentralize much of the authority that currently rests with districts down to the school level, and give school principals control over nearly a school’s entire budget. Empowerment schools also would have authority over hiring and firing staff, and be able to implement pay incentives. They

also allow children zoned for other schools the opportunity to apply to an empowerment school. Gibbon’s program provides funding for 100 schools and would allow any student in the district to apply to an empowerment school.

In addition to Nevada and New York City, statewide adoption of school empowerment plans is now under consideration in Ohio, South Carolina, Delaware, and Florida, though at early stages.

Decentralized districts demonstrate that it is possible to allow parents to choose any school in a district and that the resulting competition and need to attract parents can help improve even the lowest-performing schools and encourage them to adopt best practices and unique programs that will benefit the children in their schools. Weighted-student formula programs have resulted in positive outcomes in terms of choice and student achievement for students in several districts:

- In 2004 the Oakland Unified School District transformed its budgeting formula from a centralized process to “results-based budgeting.” As reported in a new Education Trust West report, “California’s Hidden Teacher Spending Gap,” the Oakland District allocates funding to its schools based on the number and type of students at each school. Oakland gives each school administrator the flexibility to allocate this funding in whatever way fits the school’s instructional needs. Oakland allocates funds to the school in the same way it receives revenue from the state: unrestricted Average Daily Attendance (ADA) funding is allocated to the schools based on their current year enrollment. According to Education Week, Oakland is the only district in the nation that gives principals direct control of their ADA funding. The bottom line for Oakland is that in three years, Oakland went from failure to having the highest academic gain among California’s 33 largest unified districts, urban or otherwise.
- In Boston, pilot schools were opened in 1995 as a result of a unique partnership among the Boston mayor, school committee, superintendent and teachers union. Pilot schools are part of the Boston Public School system (BPS), but have autonomy over five key areas: budget, staffing, governance, schedule and curriculum, and assessment. Attendance at pilot schools averaged 95 percent, compared to 89 percent at other schools. The average number of students for high school teachers in the pilot schools is 66 compared to 81 in the traditionally managed schools. Scores on state tests at these pilot schools are 30 percent to 50 percent higher than they are at regular public schools with similar student bodies.

In a March 11, 2007 *New York Times* commentary, William Ouchi, a professor of management at the University of California, Los Angeles, and the author of *Making Schools Work*, explains how school empowerment has worked in New York City:

“In New York City, Schools Chancellor Joel Klein and Mayor Michael Bloomberg have proposed school empowerment changes that would radically alter financing formulas for the city school system and revolutionize its existing bureaucratic management structure. City lawmakers and the State Board of Regents are nervous, but they shouldn’t be.

Despite what the critics say, the changes will work. Over the last five years, my team has visited 66 New York City public schools and 42 of the city’s more than 300 empowerment schools. At the empowerment schools, where principals on average control 81 percent of the money spent in their schools, we found fewer administrators, more teachers and an array of unique instructional innovations.

At the regular schools, we found that the average teacher was responsible for 121 students. At empowerment schools, however, the average teacher had 86 students. As a result, the teachers at the empowerment schools were spending more time working directly with their students either in small groups or one on one.

New Yorkers should not underestimate the magnitude of the innovations that the mayor and the chancellor have put forward. The extension of autonomy to all of the city’s 1,467 schools is a natural step and one that will almost surely benefit all students. And allowing the money to follow students will remedy inequities of long standing and strengthen the autonomy of each school. Moreover, continuing to give parents a choice in where they send their children creates a powerful incentive for schools to perform and address specific needs.”

- In 2005 Cincinnati Public Schools, where 70 percent of students are African-American, improved from “Academic Watch” to “Continuous Improvement,” and test scores were up for most students in most grade levels.
- Seattle continues to see increases in student achievement and in 2005 reduced the number of failing schools under No Child Left Behind from 20 to 18, even as the state raised the bar for proficiency.

Lisa Snell is director of education and child welfare at Reason Foundation. ■

No Choices Left Behind: Restructuring California’s Lowest-Performing Schools

By Lisa Snell



The federal No Child Left Behind Act (NCLB) requires states to show that students in every subgroup, including minorities, low-income, and special education students are proficient in reading and math. In 2005, each subgroup in elementary and middle school had to have at least 24.4 percent of students proficient in reading and 26.5 percent proficient in math. In high school each subgroup needs 22.3 percent of students proficient in reading and 20.9 percent of students proficient in math.

A total of 2,215 California schools are listed as “needs improvement” under NCLB and have entered program improvement status. Of these, 355 have been chronically low-performing for more than five years. Process improvements such as class-size reductions, bigger budgets, or threatened sanctions have failed to address the problem.

California needs school improvement legislation requiring schools with five or more years of failure to choose a competitive model that offers students meaningful alternatives to the current low-performing public school including:

1. offering opportunity scholarships to students in failing schools;
2. competitively bidding out low-performing schools to outside operators;
3. restructuring the district to a weighted-student formula system where a student could choose any school in the district, or
4. converting the low-performing school to a charter school.

Students need the right of exit from these low-performing schools. School funding needs to be put into the backpacks of children and follow them into the school of their choice. Offering parents and students “buying power” will help inspire excellence in low-performing schools if they have to compete for students in order to receive funding.

The weighted-student formula is a simple and equitable per-pupil funding system that allows money to follow each child. This reform wins out over other competitive reforms because it allows California to develop a stable school funding stream and would put every school provider—whether public, charter, or private—on a level playing field in California.

This piece was adapted from the Reason study, No Choices Left Behind: Competitive Models to Restructure California’s Lowest-Performing Schools, available at reason.org/ps354.pdf. ■

Colleges Feel Housing Crunch

Universities should mimic military housing plan to save billions and speed delivery

By Leonard Gilroy and Geoffrey Segal



College students who expect more from their living spaces are forcing universities to come up with creative approaches to resolving housing shortages, renovating dilapidated dorms, and providing appealing on-campus options to compete with off-campus alternatives. Some universities have called upon the expertise of private housing providers to develop comprehensive solutions to these problems. In return, they have reaped the rewards of lower cost, higher-quality student housing.

Despite these success stories, privatization of student housing remains underutilized. A 2005 survey of 73 public universities revealed that less than 14 percent of new residence halls were to be funded with private developer dollars. Only 16.6 percent of new residence halls will be owned by private developers or foundations, and 15.3 percent will be privately managed.

Just as apartment-style living spaces and updated buildings are replacing some of the 11 by 14 foot dorm rooms and 1960s residence halls, it is time to replace old notions of government-subsidized construction and management of university housing. The innovation and efficiency inspired by privatization benefits students, universities, and the states themselves.

Those who doubt the promise of privatized university housing can look to the U.S. military housing model for reassurance. The Military Housing Privatization Initiative (MHPI) has proven to be a remarkable success since its creation in 1996. In less than a decade, the military services have made impressive strides in utilizing private housing developers to replace inadequate on-base housing. The private sector has shown that it can build, renovate, operate, and maintain higher-quality housing communities at less cost than traditional military construction methods. Privatization has resulted in greater efficiency for the services and greater quality of life and morale for service members and their families.

Benefits of Military Housing Privatization

By examining the nature of the benefits that have accrued to military housing as a result of privatization, it is possible to understand how similar partnerships would alleviate most universities' housing woes.



- **Cost Savings:** Private project development is significantly cheaper than government housing construction and management. According to the Department of Defense (DoD), it would have cost \$16 billion to make necessary housing improvements based on the traditional military construction (MILCON) program. Privatization is expected to cost only \$14 billion—a savings of \$2 billion. DoD concluded in 2004 that private development is much cheaper:

Life cycle analyses have shown privatization to be less costly than military construction for all projects so far. Our most recent data reflects for the 20 projects we've analyzed thus far, a life cycle advantage for privatization of about 10-15 percent.

Under the Military Housing Privatization Initiative (MHPI), the private developer pays the vast majority of the development costs. DoD policy requires that a privatized housing project must generate at least \$3 of housing development for every \$1 appropriated by Congress to support the project, or a “leverage ratio” of 3 to 1. For the 43 projects awarded as of February 2005, government construction costs totaled \$767 million for developments that would have cost \$11 billion under the traditional MILCON approach. This represents a leverage ratio of over 14 to 1, far exceeding program guidelines and expectations.

- **Speed in Addressing the Housing Shortage:** Not only are private-sector housing developers cheaper than government developers, but they are also much faster. Using MILCON, DoD estimates it would have taken another 20 years to fix all of the military's substandard housing. Assuming DoD's

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Utah Creates Nation's First Universal School Voucher Program

By Aricka Flowers

In early February, Utah Gov. Jon Huntsman Jr. (R) signed the nation's first law allowing all children to use state-funded scholarships to attend the school of their choice—a move some say might be the beginning of several such state laws nationwide.

“For parents, this is reaffirmation of their right and responsibility to give their children the best possible education,” said Elisa Peterson, executive director of Parents for Choice in Education, a Utah-based organization. “We firmly believe that parents are best able and have the best interest in deciding what’s good for their child’s education. School vouchers give parents the opportunity to put their child in any school they choose.”

The Parent Choice in Education Act provides vouchers worth between \$500 and \$3,000 per student, depending on family income, allowing the parents of all public school children statewide to send their students to the school of their choice.

Low-income children already attending private school are also eligible. At press time, the Utah Board of Education expected to have an application process in place by May 15. It plans to start distributing vouchers by August 15.

National Impact

Though school voucher programs have existed across the nation for nearly 17 years, until now they have operated only on a city level (Cleveland, Milwaukee) or been limited to disabled students (Florida’s McKay Scholarships, Utah’s Carson Smith program).

“Utah’s universal school voucher program shows that this can now be passed,” said Robert Enlow, executive director of the Milton and Rose D. Friedman Foundation, a national school choice advocacy group based in Indianapolis, which worked with Utah legislators and policy advocates on the issue for the past six years. “If those of us in the movement trumpet this victory, we can show that school vouchers can work, and it will have an impact around the country.”

One Utah Legislator Disagreed

“Just because one state passes universal school vouchers,



does not mean it is something that will happen elsewhere,” said state Sen. Gene Davis (D-Salt Lake), who voted against the measure. “A lot of money was spent last fall in lobbying for the election of candidates that are supportive of school vouchers. Over \$500,000 was spent in getting those representatives elected.”

Robert Fanger, the Friedman Foundation’s public relations specialist, said polls conducted in late 2006 in Indiana, Missouri, and New Hampshire “show higher public support for universal school choice as opposed to targeted school choice. Now that Utah has proven universal choice can pass, there will be many more [proposals] on the horizon.”

Healthy Competition

Peterson said the bill would create healthy competition for public schools statewide.

“The fact that more kids are able to choose private schools over public schools creates an incentive for public schools to reevaluate performance,” Peterson said. “[Public school administrators] will ask, ‘What can we do better to meet the needs of parents and students? How can we keep them happy and in our schools?’”

“These vouchers will make public schools more introspective,” Peterson added. “Private, charter, and public schools will all be competing for students and working to help them do better.”

Davis said public schools are competitive enough already.

“I think there is plenty of competition with an open school system,” Davis said. “We have open enrollment throughout the state, so parents can choose to place their child in any school in the system.”

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Milton Friedman's Ideas Work in Milwaukee Schools

By John Gardner

Milton Friedman is most widely known and celebrated for his monetary policy. But school choice—making markets work for parents and students—was one of his most passionate priorities. Friedman's critical insight has been redirecting debate from one of mandates versus markets, to making markets work—especially for people locked out of markets by poverty, monopoly and constricted supply.

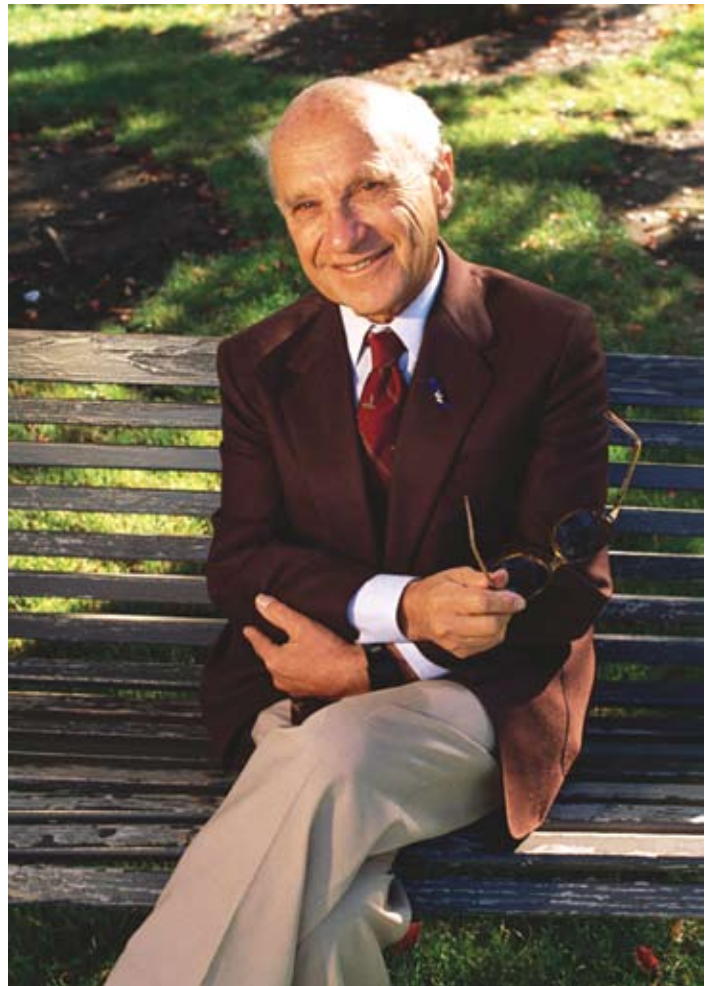
School choice has earned its largest, longest experiment in Milwaukee. Eighteen thousand children attend independent and religious schools financed by the education vouchers Friedman advocated for half a century. Another 10,000 attend charter schools independent of Milwaukee Public Schools, and over 8,000 Milwaukee students enroll in school districts outside the city of Milwaukee.

But tens of thousands of Milwaukee choice students are not the biggest story. The greatest surprise has been how Milwaukee Public Schools has responded to the challenge and competition from vouchers, charters and suburban schools. Fifteen years into Milwaukee's school choice experiment, more than half of Milwaukee Public School's 90,000 students attend schools that did not exist in their current format when school choice started.

Schools offering effective programs have thrived and grown. Milwaukee Public Schools, which reduced options for low-income, central city and minority families for decades, expanded both neighborhood school options and specialty schools previously targeted to middle class and white enrollments. International Baccalaureate, Montessori, and other popular specialties have been replicated in both Milwaukee Public Schools and the choice and charter sectors.

Milwaukee has redefined "public education" from a government monopoly to a multi-sector public service delivered by governmental, independent and religious schools. Parents know, or learn fast, which schools work and which schools don't.

Best of all, terrible, persistently failing schools have closed. Middle schools for sixth- through eighth-graders—an often bad idea in general with disastrous results in many urban low-income communities—have closed and been replaced by smaller, safer kindergarten through eighth-grade schools. Three low-performing high schools have been shut down and



converted to multiplex facilities for smaller, more responsive academies. Milwaukee public elementary schools that cannot sustain their enrollment are closed and no longer drain the system of resources.

Mr. Friedman died on Nov. 16, 2006. In the last 10 years of his life, he concentrated on promoting educational freedom through school choice, including founding the Milton and Rose D. Friedman Foundation with his wife.

The market Friedman envisioned works. Remarkably, school choice works not only for students, families, and independent and religious schools, but for Milwaukee Public Schools.

John Gardner is a self-described left-wing Democratic organizer, with 40 years' experience with labor unions, cooperatives, election, and schools. He has come to believe that markets constitute one essential form of democratic power, essential to "democracy's three essential values of liberty, equality and community." This piece was excerpted from Michigan Education Report. ■

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HOUSING

budget requests are fulfilled, the Department anticipates eliminating all inadequate military housing units in the United States by the end of FY 2007—and all inadequate units overseas by the end of FY 2009—by allowing the private sector to manage the process.

- **Better Housing Quality:** According to DoD, in January 2001 approximately 180,000 of the Department's 300,000 family housing units worldwide were deemed "inadequate," requiring significant renovation or repair. In 2005, on-base housing had an average age of 33 years, and 25 percent of it was over 40 years old. Primarily because of the military housing privatization program, DoD expects to eliminate all inadequate units by the end of FY 2007. This represents a dramatic improvement from the 60 percent inadequacy rate of just a few years ago.
- **Better Property Management:** Privatized military housing offers better property management and maintenance. For example, private management companies reportedly fix maintenance problems much more quickly. Chris Crennan, Vice-President of Lincoln Military Housing, Mid-Atlantic Region, proudly reported his company's maintenance track record at NAS Patuxent River housing privatization project: It addresses 97 percent of reported problems within 24 hours and meets emergency needs within 30 minutes. At Fort Meade, the base handed over a maintenance backlog of 4,000 repairs to the new private management company, which fixed all problems within eight months.

Universities that face the challenge of providing new or modernized housing, especially those historically dependent on state appropriations for construction and renovation, can learn a great deal from the success of the Military Housing Privatization Initiative (MHPI). Specifically, they can use MHPI as a model for harnessing private sector efficiency and innovation to offer students higher-quality housing more quickly and at lower cost. By taking advantage of private sector expertise in delivering housing services, universities will be free to focus more of their attention on their primary mission of providing high-quality education to their students.

Leonard Gilroy is a senior policy analyst at Reason Foundation. Geoffrey Segal is director of government reform at Reason. This piece was adapted from the Reason study, Privatizing University Housing, which is available online: reason.org/ps356.pdf. ■

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VOUCHERS

Fear of Competition

Because the vouchers are funded by tax dollars, Davis said accountability would be a problem.

"This is nothing more than taking public dollars out of the public education system and giving them to private entrepreneurs," Davis said. "The public schools system will be here tomorrow as it was yesterday. We will continue to fund public education even if it means with less money. But there is no guarantee that any private school will be here at the end of the year."

Davis added, "There is no real accountability for private schools in this bill. The testing requirements for private schools are held at a different outcome standard than the public system."

Serious Accountability

But supporters of the plan note the new law places several accountability measures on private schools accepting vouchers.

The law requires schools to apply for eligibility; administer a national, norm-referenced test and make the results accessible to parents and the legislative auditor general; employ teachers with either bachelor's degrees or special skills and experience in their subject areas; disclose all teachers' relevant credentials; release their schools' accreditation status; be audited annually for fiscal soundness; enroll at least 40 students; and not operate out of a residence.

"Because tax dollars are being used," Peterson explained, "the legislation calls for accountability through student testing. Private schools face the ultimate accountability because parents can take their children out of their schools and force them to close if there aren't enough pupils.

"It comes down to control," Peterson continued. "The philosophy that parents aren't good enough or smart enough to make decisions for their children's education is what feeds the opinion of voucher opponents. Do you trust parents, or do you trust the government in deciding how children are educated? That's what this comes down to—and we trust parents."

Aricka Flowers (atflowers@hotmail.com) writes from Chicago. A version of this piece appeared in School Reform News. ■

Editorial: States Consider Lottery

Privatization

Revenues should be used for infrastructure, not to increase government spending

By Geoffrey Segal



Extracting value from assets has moved beyond the emerging category and into a staple of public finance. Many states are seeking alternatives to new taxes and higher fees to pay for transportation infrastructure—an effort that has caught fire in the last few years.

The trend began when Chicago entered into a 99-year lease for the operation of the city's 7.8 mile Skyway—a terribly underperforming toll road—that netted the city \$1.8 billion. Shortly thereafter deals were struck in Indiana and Virginia that have delivered transportation improvements and billions into state coffers.

The state or local governments still own the assets and private companies now operate them. The companies must perform maintenance and invest in improvements for a specified period of time, under a long-term lease arrangement called a “concession.” Once the lease is up, just like when you lease a car, the asset goes back to the original owner. Generally speaking the private company pays an upfront fee for the right to collect fees over the life of the operating agreement.

Following the successful deals in Indiana, Virginia and Chicago, several states are pursuing their own deals. High-value toll roads in New Jersey and Pennsylvania are up for bid this year, with several others likely to soon follow.

More traditional asset privatization has long been used by governments, however, they've usually stuck to selling surplus property and underutilized property. Indeed, Indiana has raised millions in surplus sales in recent years and Ohio Treasurer Richard Cordray recently released a list of 446 state properties that should be divested. Recently asset privatization has evolved into a new field—lotteries. Several states including Illinois, Indiana and Texas have floated plans to privatize their state lotteries. The deals themselves are not unlike toll road concessions. A long-term concession would be signed which will establish the guidelines and expectations of both parties, as well as what the state's regulatory role will become.

The concessionaire will likely pay an upfront fee in the billions of dollars for the right to operate the lottery on behalf of the state. Some states may ask for lower upfront payments in



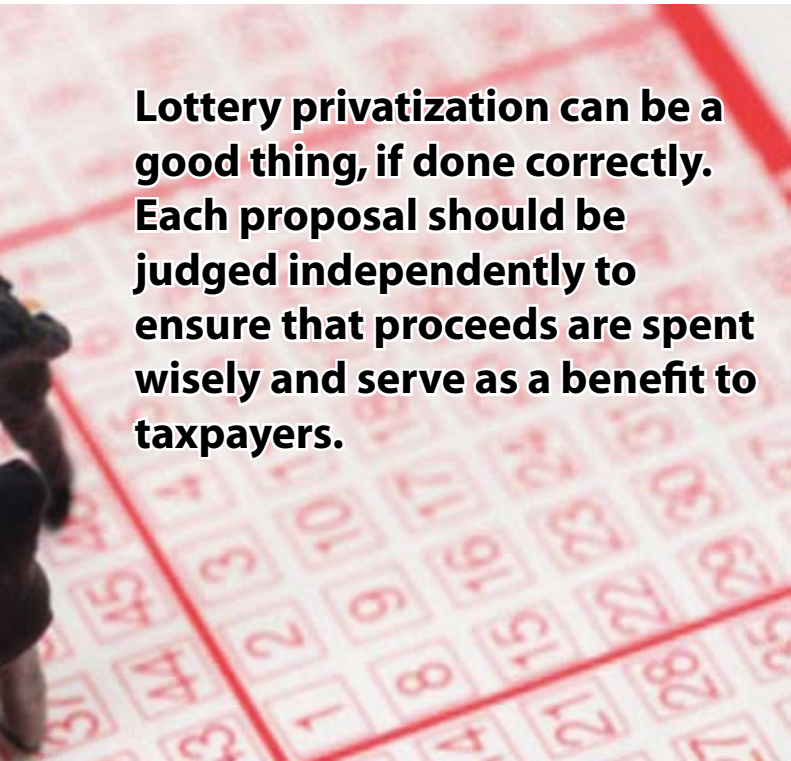
return for an annual royalty and/or revenue sharing plan.

There is no doubt that lotteries are valuable assets. They have a fairly stable revenue stream and one that certainly can be maximized under private management. Private operators will likely introduce new, more popular games. Marketing will also be professionalized using the latest technology to target games to markets. Under this arrangement, lotteries may, for the first time, truly operate as a for-profit business with the goal of generating more sales.

Traditionally, proceeds from toll road concessions have rightfully been dedicated to relieving debt and investing new transportation infrastructure. However, some of the proposals currently being debated in state capitals call for lottery privatization proceeds to be spent on a host of new government programs. Perhaps the most egregious is Texas Gov. Rick Perry's plan to fund a new state health insurance program, cancer research and education with the lottery proceeds.

While privatization is a valuable exercise, and certainly an effort that every government should use for all non-essential or non-core functions, including lottery operations, privatization cannot be used as a mechanism to fund government expansion.

There are several acceptable uses of proceeds from privatization. First, proceeds should be used to pay off existing debt. States pay billions in interest each year; paying this debt



Lottery privatization can be a good thing, if done correctly. Each proposal should be judged independently to ensure that proceeds are spent wisely and serve as a benefit to taxpayers.

off early reduces the tax burden and creates a better fiscal picture. Second, states should invest into additional hard infrastructure—e.g., roads and highways—to relieve congestion and improve their long-term economic competitiveness. Third, proceeds could be used to fund a shift in the state pension system from defined benefit plans to less risky, more financially-responsible defined contribution plans. Finally, proceeds could also be used to fund permanent tax decreases for taxpayers and businesses. Each of these options has one thing in common—a reduction in the tax burden.

Creating new programs or establishing new benefits does exactly the opposite. Rather than shrink government and lower the tax liability, it increases it.

This of course says nothing about the state granting monopoly rights for lottery operations in the state, which isn't a good thing. The state ought to consider allowing competition, perhaps through multiple franchises. This will likely diminish the value of a deal—which may not be a bad thing considering how some states are proposing to spend the proceeds.

Lottery privatization can be a good thing, if done correctly. Each proposal should be judged independently to ensure that proceeds are spent wisely and serve as a benefit to taxpayers. Without a doubt, using proceeds to create new government programs or expand existing ones is unacceptable.

Geoffrey Segal is director of government reform at Reason Foundation. ■

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BRIEFS

the ledger and the private sector takes the risk for the costs... It's [Metro's] project. We devised it. We insisted that it be built. If the ridership isn't as high as we expected it to be, that's our problem." Alternatively, Russo noted that the contractor would be paid less than the agreed-on amount if it failed to meet contractual performance standards or to contain costs.

According to Russo, having the private sector build, maintain and operate a transit system creates an incentive to build it well, since the contractor will bear the costs of system maintenance and upgrades over the duration of the contract. Russo also suggested that a public-private partnership would allow Metro to focus more attention on its existing bus and rail operations by shifting the responsibility of coordinating the new BRT project to the private partner.

Poll Finds Public Support for Pennsylvania Turnpike Lease

A Quinnipiac University poll released in late March shows a plurality of Pennsylvania voters in support of leasing the Pennsylvania Turnpike if the state retains control over tolls and maintenance. The survey reported voters in favor of a lease by a 49-to-41-percent margin, with the greatest support coming from Democrats and Philadelphia-area voters.

According to Clay Richards, Quinnipiac's director of Pennsylvania polling, the Quinnipiac poll indicates that voters see the turnpike lease proposal "as a good tradeoff...The state gets the money now."

To generate \$965 million a year for repairing Pennsylvania bridges and highways, Gov. Ed Rendell has proposed leasing the Pennsylvania Turnpike and using the interest from an upfront concession fee to fund the transportation shortfall; his administration has received expressions of interest in leasing the Turnpike from 48 firms. Governor Rendell has indicated that draft legislation will be sent to the state legislature in April, with the intent of facilitating a turnpike deal by fall 2007.

The Quinnipiac results contradict a recently released poll by AAA that found little support among Pennsylvania motorists for leasing or selling the turnpike. The polls' difference may be in the methodology: AAA asked drivers if they favored selling public roads to private companies as a way to raise transportation funds, while Richards notes that the Quinnipiac poll question "made it clear that it would be a lease, not a sale, and that toll increases and maintenance would remain under state control." ■

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CALIFORNIA

on the California High School Exit Examination, which all students must pass in English and math before graduating from high school. Sixty-two percent of high school students passed the English-language-arts portion, compared with 57 percent in 2005—a 5-point gain—and 60 percent passed math, a 6-point jump from the year before. By contrast, Compton showed no gains in English—staying stuck at 58 percent—and posted a 2-percentage-point drop in math, from 50 percent to 48 percent.

Similarly, Oakland's score on the state's Academic Performance Index—a numeric grade that California assigns to its schools based on the performance of their students on standardized tests—went up by 19 points. Compton, in contrast, gained only 13 points.

Yet even this overstates Compton's performance, because almost all of its gains came at the elementary level, where students are not so intractable. Compton's middle schools lost an average of 6 points, while Oakland's gained an average of 16 points. Meanwhile, half of Compton's high schools lost points on the API score—including Compton High, where now fewer than 6 percent of males are proficient in reading, and fewer than 1 percent in algebra. Conversely, Oakland high schools gained, on average, 30 points. Even Oakland's economically disadvantaged and limited-English students have shown major improvements. In 2006, its economically disadvantaged students gained 60 percent more on the performance index than Compton's, and its English-language learners gained 120 percent more.

Nor is Oakland's progress in any way anomalous. Oakland borrowed the weighted-student formula program from San Francisco, where the approach has already had six years of success. San Francisco children in every grade level in every subject have consistently performed above the state average. Since 2001, its low-income students have posted gains of 83 points, 16 percent more than Los Angeles's and 25 percent more than Compton's. Last year alone, San Francisco students overall earned the highest API test scores of any urban district in California—97 points higher than Los Angeles and 150 points higher than Compton. Even San Francisco's minority, poor, and special education students have shown major improvements. English-language learners, a challenging group, gained 12 points in 2006, compared with zero points for Los Angeles's. Similarly, San Francisco's special education students gained 19 points that year, whereas Los Angeles's

gained only 1 point.

What's more, a wide array of schools have cropped up in the city, catering to practically every student need and interest by offering dual-language programs, college-preparatory classes, performing-arts electives, and advanced math and science courses. In fact, every public school in San Francisco is fast developing its own unique blend of size, pedagogic style, and course offerings.

Meanwhile, Oakland hosted a daylong fair last month at which the district's 120-plus schools could vie with each other to entice parents, handing out information about course offerings, highlighting accomplishments, and answering questions. In short, schools are being forced to sell themselves to each and every parent. Compton and the majority of low-performing schools nationwide that can count on a captive audience have no such plans.

What's more remarkable is that Oakland's turnaround happened at a time when the state had initiated a hostile school takeover, triggering protests from the community and the school board. The state-appointed administrator for the Oakland schools was forced to hire a bodyguard because of threats to his life at community meetings. But because the weighted-student formula decentralized control to individual schools and effectively put parents in charge of enforcing accountability, principals were insulated from this ugly infighting, allowing them to focus on what matters: students. In essence, this mechanism proved stronger than district politics.

The success of the weighted-student formula program has not gone unnoticed. The Washington-based Thomas B. Fordham Foundation last year touted the approach as an important tool for school reform. Former U.S. Secretary of Education Rod Paige has praised it in *The New York Times*. Although most teachers' unions resist handing control of school funds to principals, out of fear that this might dilute their ability to enforce such union work rules as seniority-based promotions, some unions have given cautious approval to the concept.

Nationwide, close to 10,000 schools are considered to be failing under the No Child Left Behind Act, hundreds for more than five years. Yet less than 1 percent of students in these schools manage to transfer to a higher-performing school, even though they have that right under the federal law. Political leaders can change this by building on Oakland and San Francisco's modest experiment in school choice. No student deserves anything less.

A version of this article appeared in Education Week. ■

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ENROLLMENT

students in its first two years. In 2005, charters in New York outperformed non-charters in surrounding schools districts in 4th and 8th grade reading and math. In Buffalo, New York 15 public charter schools serve more than 5,500 students in the city, catering to about 13 percent of public school enrollment. Data gathered by the Buffalo News reveals the city's charter schools achieve better results than traditional public schools despite having a higher proportion of students living in poverty.

Washington DC

Charter school enrollment in the District of Columbia has increased by 2,260 over the past year. Charter schools now serve 19,733 students, 26 percent of the city's children. At the same time, enrollment in the D.C. public school system has declined by 2,670 students from the previous school year. Total public school enrollment remained relatively steady, with 75,088 students in 2006-07, compared with 75,498 the year before. Charters outperform non-charter schools in reading and math on the most recent national assessments.

Milwaukee

Not only is Milwaukee home to one of the nation's largest publicly funded voucher programs with almost 15,000 students in the program in 2005-06, it is also home to a robust charter school sector with over 15,000 students in 2005-06. The types of charters in Milwaukee range from district-sponsored charters largely independent of the district, to district-sponsored charters that are still part of the district, to charters authorized by non-district entities (the city or a local university) that are completely independent of the district.

New Orleans

Although enrollments change daily, enrollment in charters by the fall of 2006 was 71 percent. Schools have dropped residency requirements, so any student living anywhere in the city can register at any school on a first-come, first-served basis. In 2007 students can choose from 31 charter schools, 20 state-run schools, and five schools run by the local district. Twenty-five different organizations, from nonprofits to national charter chains, are running schools, and the options run from comprehensive curricula to niche schools featuring early college, French immersion, Montessori, the arts, and architectural design. ■

Charter School Enrollment and Closures by State

State	Total Schools Operating	Enrollment	Average Enrollment	Closures 1992
Alaska	24	4,814	201	5
Arizona	462	105,422	228	83
Arkansas	15	3,998	267	4
California	637	219,460	345	83
Colorado	132	47,443	359	6
Connecticut	19	3,577	188	4
Delaware	19	7,826	412	2
Washington, D.C.	68	19,143	282	13
Florida	347	96,007	277	53
Georgia	59	25,882	439	4
Hawaii	27	5,538	205	0
Idaho	28	9,384	335	1
Illinois	55	21,343	388	8
Indiana	38	8,274	218	2
Iowa	8	1,249	156	0
Kansas	26	2,588	100	8
Louisiana	6	17,315	376	8
Maryland	23	4,870	342	0
Massachusetts	60	21,987	366	6
Michigan	241	96,200	399	22
Minnesota	137	23,455	171	24
Mississippi	1	367	367	0
Missouri	27	11,134	412	4
Nevada	22	5,979	271	5
New Hampshire	8	388	49	1
New Jersey	53	15,381	290	17
New Mexico	62	10,034	162	2
New York	95	23,972	252	7
North Carolina	99	29,070	294	27
Ohio	301	87,288	289	20
Oklahoma	15	4,606	307	1
Oregon	71	10,105	142	8
Pennsylvania	120	55,760	465	9
Rhode Island	11	2,723	248	0
South Carolina	31	5,844	189	8
Tennessee	12	1,891	158	0
Texas	283	94,429	334	27
Utah	54	18,985	352	1
Virginia	3	241	80	3
Wisconsin	198	32,667	165	18
Wyoming	3	235	78	0
Total	3,940	1,156,874	267	494

Source: The Center for Education Reform, April 2007

Who, What, Where

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