Focus on Education

Privatization Watch

Celebrating 30 Years of Privatization and Government Reform
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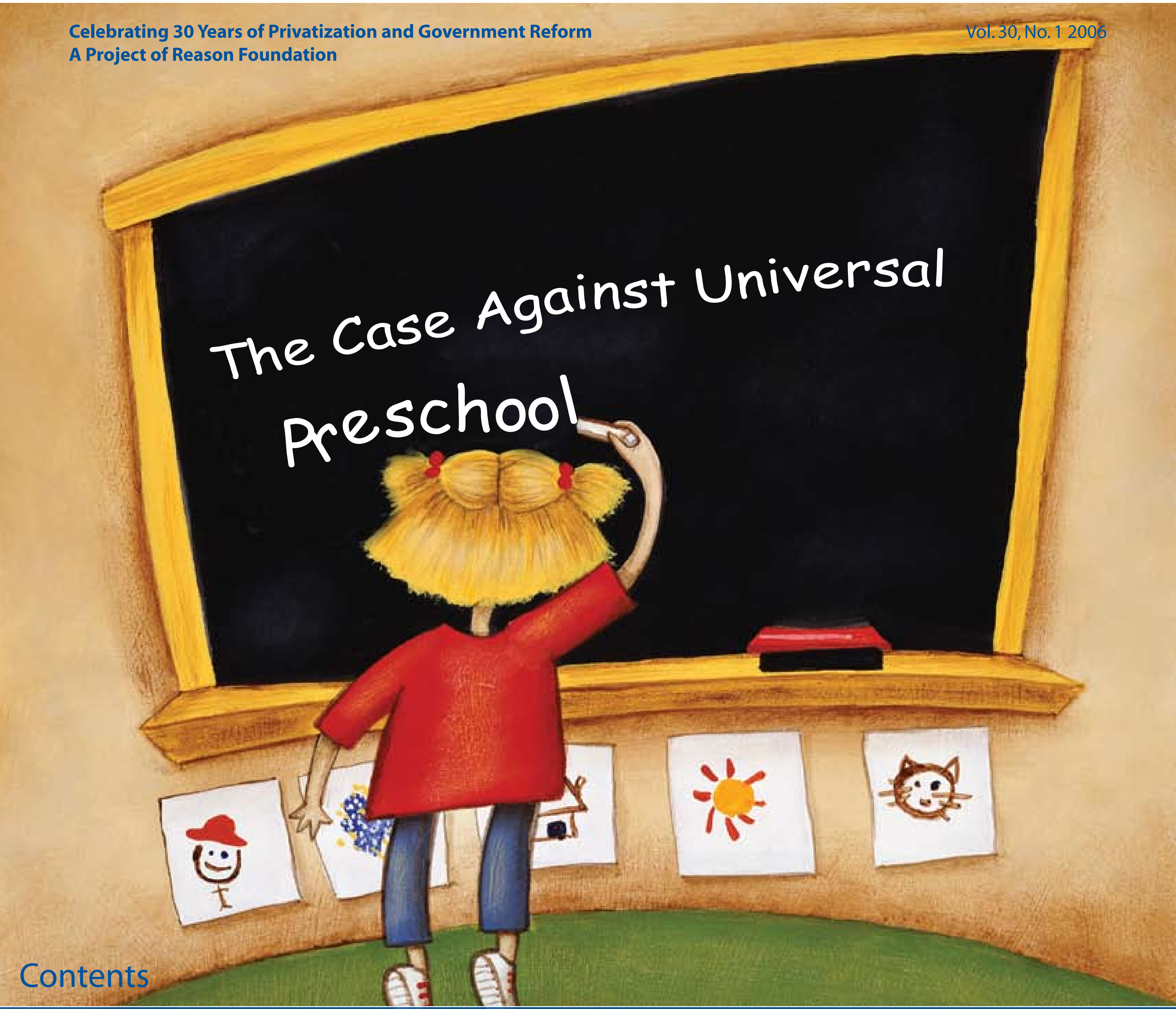

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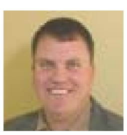

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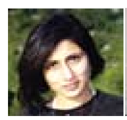
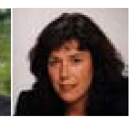
Pricey Preschool in Quebec

by Shikha Dalmia and Lisa Snell

The arguments Preschool for All supporters make are identical to the ones made in Quebec eight years ago. They claim that an investment in government-sponsored preschool will pay for itself, not once but many times. A RAND Corporation study estimates that every dollar spent on preschool will yield $2.50 in savings for the state by, among other things, boosting graduation rates and diminishing juvenile crime.

Setting aside the inherent difficulty of accurately quantifying such nebulous and distant benefits, such calculations inevitably underestimate the ultimate bill because they don't take into account the inflationary pressures that the program itself creates.

The final price tag for Quebec's day care program is 33 times what was originally projected: It was supposed to cost $230 million over five years, but now gobbles $1.7 billion every year.

Much of the increased spending has gone not toward increased access, but increased costs. Day-care worker unions, on the threat of strike, negotiated a 40 percent increase in wages over four years. The cost of care has doubled since the program began, with the annual per-infant cost now exceeding $15,000.

Besides unions, the other major reason for the skyrocketing costs is that when people don't pay the full price for a service, they consume more of it—what economists call the problem of the "moral hazard": Quebecois taxpayers pay 80

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Privatization Briefs

Local Control, Better Schools

William Ouchi of UCLA's Anderson School of Management has done extensive research on the effects of school district funding decentralization throughout the United States. Ouchi and his team of 12 researchers studied three very centralized public school districts: New York City, Los Angeles, and Chicago; three very decentralized public school districts that used the weighted-student formula (whereby government funds follow the student to whichever school he attends): Seattle, Houston, and Edmonton; and three very decentralized private Catholic school systems: Chicago, New York City, and Los Angeles. In his book *Making Schools Work*, Ouchi found that the decentralized public school districts and Catholic schools had significantly less fraud, less centralized bureaucracy and staff, more money at the classroom level, and higher student achievement.

First Skyway, Now Midway?

Last year the Windy City inked a $1.8 billion deal to lease the Chicago Skyway to a private operator, and now Mayor Richard Daley is considering whether to privatize Midway International Airport. The mayor's office has said that all or part of the airport could be leased to a private operator and a new bill making its way through the Illinois legislature could make a privatization more feasible. The bill would grant blanket property tax exemptions to private investors who lease all or part of the airport. The *Chicago Sun-Times* notes that this approach is exactly how Daley built momentum for the Skyway Deal.

Tax-Friendliness

The Tax Foundation recently released the 2006 version of the State Business Tax Climate Index (SBTCI). The index compares states on the basis of tax-friendliness, from the most (Wyoming) to the least (New York), and rewards states with low, flat rates that apply to all businesses.

The Tax Foundation advises states to avoid gimmicks, like the five-year package of tax incentives Columbus, Ohio officials gave a moving company in 2000. Four years later the company not only failed to add 100 jobs as promised, it fired 98 employees. "Ohio's experience shows preferential tax bonuses don't guarantee jobs will stay permanently," said Tax Foundation President Scott A. Hodge. "Often they mask deeper flaws in state taxes. The Tax Foundation's new State Business Tax Climate Index helps draw those to lawmakers' attention."

Tax-Friendliness by State

1. Wyoming	41. Arkansas
2. South Dakota	42. Iowa
3. Alaska	43. Nebraska
4. Florida	44. Kentucky
5. Nevada	45. Maine
6. New Hampshire	46. Vermont
7. Texas	47. Ohio
8. Delaware	48. Rhode Island
9. Montana	49. New Jersey
10. Oregon	50. New York

Fashionably Flat

Former Soviet satellites were quick to embrace the flat tax. Nations like Estonia, Latvia, Lithuania, Russia, Ukraine, Georgia, and Serbia have adopted some form of it and now other nations from Spain to Greece to Slovenia are thinking flat. In the United States another tax season has come and gone without any serious discussion of significant reform, but one of our closest allies is now taking a look at the flat tax.

In his new book, *Flat Tax: Towards a British Model*, Allister Heath writes: "For those of us who have consistently advocated a flat tax for Britain long before it became fashionable, it is gratifying to witness the explosion of interest in the idea over the past few months."

Heath notes that both the Conservative Party and the Liberal Democrats have "jumped on the bandwagon and are taking the idea seriously." Not only that, but George Osborne, the Tory shadow chancellor supports "flatter taxes" and has set up a commission to study the idea.

Heath's book is available, online and free of charge, through the Stockholm Network (stockholm-network.org/publications/list.php). ■

But It Sounds So Good!

The Case Against Universal Preschool

By Lisa Snell

(The following is an excerpt from the February 2006 Reason policy brief, The Case Against Universal Preschool in California. Available online: reason.org/pb42_universalpreschool.pdf)

Nationwide, at least 40 states provide funding for preschool programs, and at least 28 considered legislation to expand state-funded preschool programs in 2005. Three states—Georgia, Oklahoma, and Florida—offer universal preschool, replacing the private, parent-driven preschool system with a taxpayer-funded system that adds one or two years of "voluntary" preschool for all children onto the current K-12 public education system.

California may soon become the national prototype for universal preschool. Hollywood director Rob Reiner is promoting "Preschool for All," a June 2006 ballot initiative, calling for a voluntary, half-day preschool program that would be offered free of charge to California's four-year olds.

California: A Cautionary Tale

While universal preschool for all children sounds like a laudable goal, the Preschool for All Act represents a de-facto institutionalization of preschool in California by creating a new, government-managed, $2.5 billion a year entitlement program that subsidizes the preschool choices of middle-class and wealthy families. Although it is a voluntary program, it would change the current structure of the mixed-provider preschool market into a state-controlled monopoly.

According to California's "Preschool for All" supporters, universal preschool would enroll 70 percent of the 550,000 four-year-olds in California every year when fully implemented. That would be 385,000 preschoolers. According to California's Legislative Analyst Office, 66 percent of California four-year-olds are already enrolled in preschool. That is 363,000 preschoolers. If California's $2.4 billion Preschool for All initiative meets its goal of 70 percent enrollment, just 22,000 new four-year-olds would enroll, meaning it would cost taxpayers a whopping $109,000 per new preschooler.

California's Preschool for All initiative would be financed by a 1.7 percent tax increase on individuals who earn over $400,000 (or couples earning over $800,000), pushing the tax rate on upper-income families to a national high of 12 percent.

This new tax represents an 18 percent tax increase on wealthy Californians. With wealthy Californians already leaving the state in search of lower tax rates in states like Nevada, Texas, and Washington, adding an additional tax burden will exacerbate the problem. The last time California raised income tax to this level, it contributed to a five-year recession.

California currently spends more than $3 billion a year on subsidized preschool for low-income children. A recent report by the district attorney in charge of welfare fraud in California reports that rampant fraud is costing California taxpayers as much as $1.5 billion a year—half of the welfare money it pays to needy families for child care. In light of the resources already spent on early childhood education and the competing demands for scarce resources from children's health insurance, transportation, local government, and K-12 education, it is difficult to argue that more public dollars should replace private spending for preschool.

Government-Run Preschool Programs

There is little empirical evidence to demonstrate any lasting educational or socioeconomic benefit of government-run preschool programs for all children. Evidence from performance on the National Assessment of Education Progress (NAEP), which is considered the nation's report card, argues against the value of investing in universal preschool.

Georgia has had universal preschool open to all children since 1995, and Oklahoma has had a universal program in place since 1998. In a recent analysis of the top 10 best and worst state performers, based on the percentage point change in fourth-grade reading tests between 1992 and 2005 on the NAEP, both Georgia and Oklahoma were in the bottom 10 performers. In fact, Oklahoma was the worst performer of all states in terms of gains in fourth-grade reading between 1992 and 2005, actually losing 4 percentage points.

More specifically, in Oklahoma 33 percent of fourth graders were below basic in reading in 1992. By 2005, 40 percent of Oklahoma fourth graders were scoring below basic. In 1992, 38 percent of Oklahoma fourth graders scored basic in reading, but by 2005 only 35 percent of fourth graders could read at a basic level. Finally, in 1992, 25 percent of Oklahoma fourth graders were proficient in reading, but by 2005, only 21 percent were.

One would expect that a large statewide investment in universal preschool, including high-paid, credentialed teachers and high-quality curriculum, would have a positive effect on fourth-grade reading scores. These scores declined, despite the fact that all of the children that took the 2005 NAEP reading test in Georgia and Oklahoma were eligible for universal preschool. Moreover, none of the states in the top 10 best performers in terms of gains in fourth-grade reading on the NAEP card between 1992 and 2005 had implemented universal preschool.

Similarly, a February 3, 2006 study by researchers Russell W. Rumberger and Loan Tran of UC Santa Barbara found no lasting academic impact from state-run preschool programs. They found that while children enrolled in preschool had some moderate advantages in kindergarten performance, the benefit dissipated by third grade.

Universal preschool has failed to improve test scores, and the current parent-driven, private preschool system in America has produced "A"-level fourth graders when compared internationally. As children remain in the government system longer, our country does worse internationally (See Box).

The most dubious claim of all is that subsidizing universal preschool will benefit middle-class or wealthy children. A Children's Hospital and Boston College study published in the July 2005 issue of *Pediatrics* found that suburban kids enrolled in a high-quality early education program differed little from their suburbanite peers who were not enrolled. However, at-risk urban children enrolled in high-quality preschool programs did better in school and had better physical and mental health as adults than their peers who did not attend such programs.

Key Findings from Preschool Studies

The Goldwater Institute's Darcy Olsen, who has compiled extensive research on early childhood education, provides a useful summary of key findings from preschool studies:

- After 10 years, the Georgia preschool program has served over 300,000 children at a cost of $1.15 billion and children's test scores are unchanged.
- Head Start, the nation's largest preschool program for disadvantaged children, has not measurably improved educational outcomes.
- Historic trends are unpromising. The preschool enrollment rate of four-year-olds has climbed from 16 percent to 66 percent since 1965. Despite the change from home education to formal early education, student achievement has stagnated since 1970.
- America's flexible approach to early education gives children a strong foundation, according to widely used proxy measures of preparedness, concrete skills assessments and reports by kindergarten teachers. We find further evidence of the strength of our early education system in international comparisons, which show U.S. fourth graders are "A" students on the international curve, excelling in reading and science and performing above average in math. By twelfth grade, U.S. students are "D" students on the international scale—a decline occurring after fourth grade. Whatever the cause of that decline, it appears to have little or nothing to do with a lack of preparation in the early years.

Alternatives to Universal Preschool

California's healthy preschool market provides opportunities for parents to choose among a wide variety of educational options, but there are improvements to the current system that will streamline and diversify the market.

- One-Stop Shop for Preschool: California currently spends more than $3 billion a year on subsidized preschool for low-income children. Rather than creating yet another preschool bureaucracy and tax-funded revenue stream, California can create a single, integrated, seamless administrative system that will serve low-income families. The

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Second Thoughts on School Impact Fees

By Samuel R. Staley

Districts across Ohio are pushing for the right to fund new school facilities by imposing fees on new houses. In testimony before the Ohio legislature, for example, the Ohio School Boards Association argued forcefully for permission to levy these "impact" fees. Local schools, they say, desperately need the revenue.

Yet impact fees are a confusing tool for meeting school facilities shortfalls. Houses don't send children to school; families do. As a result, no school official can predict how many children, if any, will be sent to a local school district from any one subdivision. New homes can be bought by many people who do not add to the school population: homeschoolers, empty nesters, families who move within the school district, families who send their children to private schools, and childless households.

Even counting bedrooms isn't a reliable way to measure the demand for school buildings. Families will often put multiple children in bunk beds, or convert extra bedrooms to a home office.

Impact fees also raise questions of fairness: is it fair to ask residents who don't use these school facilities to pay for them? While childless homeowners certainly benefit from public schools, they already pay property taxes that contribute to public education, regardless of whether they have children who attend school or not. With an impact fee, they pay again. On an even more basic level: Why should new families have to pay extra for new facilities while established residents benefit from facilities paid for by the entire community, new and old?

Even if these questions are resolved satisfactorily, practical limits prevent impact fees from being applied equitably and rationally. Most school districts don't systematically collect data on which neighborhoods or subdivisions their students come from. They can't tie specific facilities to the families who will benefit the most.

Take the city of Pickerington. The city is in a fast-growth county outside of Columbus. The local school district determined it needed a new elementary and middle school to meet growing demand. The city wanted to help fund the new facilities, so it tried to levy a fee on new homes.

Yet, data gathered from the school district showed that most of the students in the new buildings would likely come

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Building Schools with Private Dollars

By Ronald D. Utt and Michael D. LaFaive

During the past decade, many parents, teachers and public officials have argued that public school buildings are overcrowded, obsolete or unsafe. This concern has produced a surge in spending on school infrastructure—a cost to taxpayers that could be reduced through public-private partnerships.

According to U.S. Census data, spending on school and university facilities has increased 213 percent over the past 10 years, and is growing almost twice as fast as spending on new residential construction, which itself has experienced one of the biggest booms in recent memory. In 2004, school districts spent more than $29 billion nationwide on new schools, additions and modernizations. This is a record, according to *American School and University* magazine.

What mechanisms might be employed to save districts—and thus taxpayers—money in school construction? A number of innovative solutions have emerged in the United States, Canada and the United Kingdom, and many involve partnerships with private developers, builders and nonprofit agencies.

In the United Kingdom and Nova Scotia, a private developer will often finance 100 percent of the construction of a new school in exchange for long-term lease payments from the school system. This lease may run for 20 or 30 years and cover only normal business hours. After hours, the developer is free to lease the building to compatible educational organizations such as trade schools, refresher programs, colleges and universities.

Much of the developer's increased revenues under this arrangement are effectively passed on to schools in the form of lower rent. When builders know they can make more money by leasing their facility at night, they adjust their bids accordingly when they vie for the right to build the school.

In many cases, school systems also have the option to buy the building at a predetermined price. Contracts may even call for the owner of the building to refurbish the kitchen or other aspects of the building.

The United Kingdom has the world's most extensive public-private partnerships for schools. Since 1997, such partnerships have driven the new construction or renovation of 256 school buildings. Currently, work is underway on another 291 schools, and an additional 222 schools are in various stages of the procurement process for renovation or new construction

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San Francisco's Decentralized Schools

By Lisa Snell

Imagine a city with authentic public school choice—a place where the location of your home doesn't determine your child's school. The first place that comes to mind probably is not San Francisco. But that city boasts one of the most robust school choice systems in the nation.

San Francisco is one of a handful of public school districts across the nation that mimics an education market. In these districts, the money follows the children, parents have the right to choose their children's public schools and leave underperforming schools, and school principals and communities have the right to spend their school budgets in ways that make their schools more desirable to parents.

As a result, the number of schools parents view as "acceptable" has increased greatly in the last several years and every grade level in San Francisco has seen increases in student achievement in math and language arts.

Give credit to Arlene Ackerman, San Francisco's superintendent of schools since 2000. Ackerman introduced the weighted student formula, pioneered in Edmonton, Alberta, in 1976, which allows money to follow students to the schools they choose while guaranteeing that schools with harder-to-educate kids (low-income students, language learners, low achievers) get more funds. Ackerman also introduced site-based budgeting, so that school communities, not the central office, determine how to spend their money. Finally, she worked to create a true open-enrollment student assignment system that gives parents the right to choose their children's schools.

Ackerman is now headed for Columbia University Teachers College and although she will leave the district at the end of the school year, she is optimistic about the future of the reforms she put in place. Lisa Snell interviewed Ackerman in January.

How did the weighted student formula get put into practice in San Francisco?

We started with a year-long pilot program. We took a cross-section of about 27 schools—schools that have a lot of parent involvement and schools that didn't have a lot of parent involvement. That gave us an opportunity to look at what kind of resources we needed at the district level and what kind of support the schools would need regardless of the conditions on their individual campuses. We paid them $200 per student to participate. We went full-scale the second year.

What has been the impact of the new system?

Five consecutive years of academic improvement for all groups of students at every level. I mean all groups—even special ed.

When I first came to the district, the African-American students' achievement was going backwards. We reversed that. The last two years we have been the highest-performing large urban school district in California. This last year we were up for the Broad Prize as one of the five top urban school systems in the country. I'd say that's pretty good.

I'd link our success not only to the weighted student formula but to the fact that the formula is linked to an academic planning process that's based on trend data and performance targets that every school has to meet.

What's the role of school choice?

As a school's academic performance index gets better, the school becomes more desirable to parents. We had schools that were 8s [in our academic performance index rating] that are now 10s and schools that were 3s that are now 6s and 7s. When I arrived six years ago, those were not schools that parents were choosing. Now they are, because their academic performance has increased and they are much more desirable.

A new union president came in about three years ago who wanted to get rid of the weighted student formula. There was a resounding "no" from the majority of the schools because they like making the decisions. For example, we've had to make deep cuts for the last three years. In the past those decisions were made in the central office. Many of the schools felt that was inappropriate because the central office is too far away from the needs of the students. Even when it's been difficult to make hard choices, I've heard parents and principals and teachers say they'd rather make those choices than someone else.

The preceding was adopted from a cover story and interview that ran in the April 2006 issue of Reason. *The entire issue is available online: reason.com/0604/april.shtml.* ■

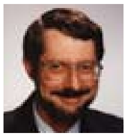
Decentralizing Schools

Areas where some form of decentralized school management has been implemented:

- Boston (pilot program)
- Chicago (pilot program)
- Cincinnati
- Houston
- New York (pilot program)
- Oakland
- San Francisco
- Seattle
- St. Paul

Another "F" for Air Security

By Robert W. Poole, Jr.



The latest bin Laden tape was a grim reminder that terrorists are still probing for our weaknesses. So the 9/11 Commission report giving airline passenger-screening an "F" is a kick to the gut.

Why do our airports remain vulnerable? It's not lack of resources: The Transportation Security Administration (TSA) earned that "F" despite spending nearly its entire $5.5 billion budget last year on passenger and baggage screening.

Nor is screening the only problem area. Access to planes and the tarmac, either through the airport fence or by thousands of on-airport workers, remains a weak point. We still don't check most carry-on luggage for explosives. And the security measures we've added—baggage-inspection machines, more checkpoints—make for more crowds, a likely suicide-bombing target.

Reason Foundation's year-long assessment of airport security concluded that these holes, and others, are due to three fundamental problems with TSA.

First, TSA assumes all passengers are equally likely to be a threat. So all checked bags get the same costly screening; we all stand in the same endless lines, take off our shoes, etc.

Second, TSA is grossly over-centralized and unable to handle the wide diversity of circumstances at 450 different airports. Rep. John Mica (R-Fla.), the chairman of the House aviation subcommittee, calls it a "Soviet-style, command-and-control approach" that "has been unable to match the changing requirements."

Third, as both the provider of airport screening and its regulator, TSA has a built-in conflict of interest that allows it to grade and monitor its own performance. Here's the kind of thing that leads to: Shortly after its creation, TSA paid a company to recruit new screeners; the taxpayers wound up spending $143,432 in recruitment costs for *each* screener—in the terrorism hotbed of Topeka, Kansas. A bureaucracy shouldn't police itself.

We can, and must, do better.

TSA should be reconceived as a rule-setter and enforcer, and get out of the business of providing security services. Individual airports (which already carry out other security functions, such as perimeter protection) should be given control of security, with strict TSA oversight and auditing. And our policies on airport security should become thoroughly risk-based, with

more resources devoted to high-risk passengers and situations and less devoted to low-risk ones.

Israeli airports and 19 of the 20 busiest airports in Europe all use this risk-based airport-security model. Their governments don't provide screening services, but instead set and enforce strict standards that airports and their contractors must meet and adhere to—with severe penalties for failures.

A risk-based system would focus more resources on potential terrorists—where they should be focused. A computer program had flagged more than half the 9/11 terrorists as risks—but they weren't then exposed to tough enough questioning or security. We need to concentrate time and resources on the highest threats—and toddlers and terrorists are not equal threats.

The forthcoming Registered Traveler program (scheduled for the summer), under which frequent flyers can opt to go through a background check and security clearance to gain access to fast-lane processing with a biometric I.D. card, is an important first step. This is one way to reduce the haystack, to better find the needles.

Sure, a terrorist could try to roll the dice and infiltrate the Registered Traveler system. But ask yourself this—are terrorists more likely to volunteer themselves for in-depth background checks and fingerprinting to get a Registered Traveler card (where they'll still have to go through security at the airport) or simply take their chances in the regular lanes, knowing that most carry-on bags and passengers don't even get screened for explosives?

Our reaction to 9/11 created an air-security policy that doesn't examine relative risks, costs or benefits. And that system is failing miserably. It shouldn't take another attack to make us fix its fundamental flaws.

Robert Poole is author of the new study Airport Security: Time for a New Model *(reason.org/ps340.pdf). He advised the White House Domestic Policy Council and several members of Congress on airport security following the 9/11 terrorist attacks. A version of this piece appeared in the* New York Post. ■

States Selling Toll Roads

By Geoffrey Segal

What follows are portions of recent testimony given by Geoffrey Segal, Reason's Director of Government Reform, before the Indiana Senate Appropriations Committee. At issue was Major Moves, Gov. Mitch Daniels' new 10-year transportation plan for Indiana. The entire testimony is available online: reason.org/commentaries/segal_20060209.shtml.

As federal and state highway funding has become more constrained, and as the need for highly efficient transportation systems continues to press on communities, the role of the private sector has continued to grow. Most recently a wave of laws allowing long-term concessions has hit the states. At least 20 states currently have these laws in place, and at least a half-dozen states are currently reviewing or considering similar legislation.

Traditional means of road financing, via federal and gas taxes, are limited and increasingly fail to meet the challenges and needs of commuters. Even traditional tolling, which relies on tax-exempt bonds, is falling short. The concession model—using equity, bank debt, and taxable revenue bonds—is quickly becoming the model for getting the roads we need. It's less risky for start-up toll roads since they're not entirely funded with debt, but it also opens up a much larger source of funding. There are literally trillions of dollars in pension funds and insurance companies starting to invest in U.S. infrastructure.

This new model also transfers risk. The state is totally protected because all of the money is paid up front. If there are cost overruns and/or inadequate revenues, the contractor is on the hook for any losses, not the state. Additionally, the concession agreement is very detailed and protects the public interest. It has defined the limits on tolling and return on investment (ROI). It has spelled out all kinds of "what-ifs." Performance levels are well defined and the contractor is required to meet them or face a penalty.

Incentives also change with operation. The contractor has all the incentive to keep the roads running efficiently and effectively. If there is a need to expand, they do it quickly so that revenues can begin to accrue. Quality also has to be top priority.

Since ISTEA was passed in 1991, we've seen tremendous growth and reliance on toll roads. A recent survey from the Federal Highway Administration notes that 922 miles of new toll roads were opened or are under construction. An additional 1,989 miles are currently in the finance, design, or planning process. These assets carry a total value of $79 billion. With new technology making collecting tolls much easier and more efficient, we can expect more growth.

Several key developments are driving the most recent tolling revolution:

- The development of a critical mass of HOT lanes;
- The lease of existing toll roads; and
- The concession model for new toll roads.

First, HOT lanes or managed lanes. The success of I-15 and SR-91 in California demonstrates that value pricing works. It does eliminate congestion on priced lanes, and gets the other "free" lanes moving faster too.

Several HOV conversions to HOT are currently underway in California, Colorado, Minnesota and Texas. My home state of Virginia is also studying (and hopefully rolling out soon) similar conversions on I-95 and the capital beltway. In addition, several new HOT lanes are proposed, mostly as public-private partnerships (PPP) projects, in Atlanta, Dallas, Denver, San Antonio, and Washington, DC.

Second, the lease of existing toll roads. Since 1999, there have been six major global leases of existing toll roads. Note, these are all long-term leases, not sales. Those are:

- Chicago Skyway, $1.8B
- Spain, $1.8B

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What Price Free WiFi?

By Steven Titch

Philadelphia has been closely watched by municipal wireless advocates as a model for other cities to follow. The city, via a city-created nonprofit known as Wireless Philadelphia, is in negotiations with EarthLink to build and operate a 135-square mile wireless network in the City of Brotherly Love.

Craig Settles, who dissects the process of the Wireless Philadelphia project in his book, *Fighting the Good Fight for Municipal Wireless*, is one of the few municipal wireless consultants who is willing to talk about the hard facts of the task at hand. In a new paper, "What's the Price of Free?" he has published the replies to a list of questions he sent to various analysts and municipal IT officers about the challenges of municipal WiFi, particularly free WiFi. It makes interesting reading for anyone following the municipal wireless trend.

The 13 respondents include Ben Gibson, director of wireless and mobility networking at Cisco Systems; Chuck Haas, CEO and co-Founder of MetroFi; Kim Crossman, a municipal wireless activist with San Francisco's Webnetic; Cindy Mullen, CIO of St. Paul, Minnesota; and Berge Ayvazian, executive vice president of wireless mobile technologies at the Yankee Group.

The 33-page document amounts to a virtual roundtable on the experience municipalities have had with wireless to date. While difficult to boil down to a sound bite, most participants agree that cities begin these projects with unrealistically high expectations, basically about cost of the technology and the willingness of vendors and service-provider partners to provide equipment and services for free or at extreme discounts.

In short, there is no such thing as free WiFi, and while municipalities can expect a high level of cooperation from vendors and partners, they need to be acutely aware that their interests don't always coincide. Those cities that fail to grasp this are most likely to either fail, or on the other hand, be grossly taken advantage of by an aggressive corporate partner. The worst case scenario is likely to occur in cities that attempt to mount municipal wireless purely for a political payoff, such as the case in San Francisco.

In summarizing his findings, Settles cautions municipalities with the following observations:

- Put too much emphasis on free during the vendor search and you'll scare away what might be your best options for a quality network;
- All this talk about free can raise expectations among citizens that can't be met;
- "It's free, what do they have to complain about" is a perception that will lead to needless headaches, rude awakenings and a possible regime change at City Hall;
- Overemphasis on free can lead to inferior networks, inadequate maintenance and technology obsolescence;
- A hands-off approach to vendor relationships leads to hands-on aggravation when stuff hits the fan;
- Don't pay attention to the financial well being of your vendors and bad things can happen;
- "Free now, pay later" brings out the worst in some politicians.

Settles and his survey participants conclude that in order to be successful, a city has to approach wireless as if it were a business—that it be able to perform due diligence on partners, challenge vendors on technology claims and evaluate service-partner marketing plans. Cities also need to be able to articulate their interests and realistically assess their partners' ability to meet them.

The trouble is that governments, by nature, do not truly operate like businesses. Nor are they designed to. If this is what's needed to run a successful municipal wireless operation, it's no surprise so many have failed. ■

Broadband is Spreading—Even Without Free Wi-fi

During the past year, the number of home broadband users jumped 28 percent. According to a March report by Nielsen/NetRatings, the number of Americans with home broadband access increased from 74.3 million in February 2005 to 95.5 in February 2006. The firm estimates that 68 percent of active Internet users surf with broadband connections. Three years ago that figure stood at just 33 percent.

Why the sizeable increase in broadband penetration? Jon Gibs, senior director of media at Nielsen//NetRatings points to the decline in broadband prices in recent years. "At this point, broadband is, if not comparable, at least fairly similar to dialup prices," he said.

Uncle Sam: Louisiana's Next Real Estate Baron?

By Leonard Gilroy

Given the furor over the federal government's response to Hurricanes Katrina and Rita, any proposal to give the feds ultimate control over the rebuilding effort would seem to be a non-starter. Yet Rep. Richard Baker (R-LA) is pushing just that.

A Baker-sponsored bill, H.R. 4100, would create a new federal agency—the Louisiana Recovery Corporation (LRC)—that would purchase up to 200,000 homes and commercial properties throughout the state that were damaged or destroyed by the 2004 hurricanes. The acquisitions would be funded by the issuance of $30 billion in U.S. Treasury bonds. The LRC would compensate owners at 60 percent of their home or business's pre-hurricane value, and banks would receive 60 percent of each property's remaining mortgage. The LRC would then make infrastructure improvements to prepare these properties for redevelopment and auction them off to private developers for rebuilding and resale, with previous owners having right of first refusal.

Baker's proposal is backed by the entire Louisiana legislative delegation and has a great deal of popular support. But, there are several glaring downsides to the plan.

First, history is littered with examples of the government's poor track record in large-scale property development. Failed urban renewal efforts of the post-WWII era like those in Pittsburg and Chicago displaced tens of thousands of poor and minority residents and resulted in the isolation or destruction of previously vibrant neighborhoods. Similarly, ambitious federal public housing projects like St. Louis' Pruitt-Igoe and Chicago's Cabrini-Green led to the concentration of poverty and crime in economically depressed neighborhoods and suffered from poor maintenance and bureaucratic mismanagement. As we've seen so far in Louisiana, the agencies involved in the post-hurricane recovery effort are already mired in red tape, poor oversight, and bureaucratic inertia.

Next, given that state and local officials will be steering the planning process in New Orleans, there's a danger that an LRC-led recovery effort will be based on rebuilding the city as it was, rather than recognizing the reality of an uncertain future for a radically altered city.

However, New Orleans is unlikely to return to its pre-Katrina population level anytime soon. The New Orleans-based Bureau of Governmental Research estimates that the city's population will be between 250,000 and 275,000 in three years (just over half the pre-Katrina level), and no one can accurately predict what the future population demographics will be.

Also, the Baker bill would make the LRC what *The Wall Street Journal* described as "the Donald Trump of New Orleans" for the foreseeable future. Giving the federal government control over such a massive amount of land would severely undercut the private real estate market. Lacking any significant local real estate expertise, the feds are in no position to determine if pre-Katrina property values were reasonable in the first place. Further, giving them broad power to determine future land prices would effectively allow the feds to artificially establish the new market price level and thwart the natural evolution of a dramatically changed real estate market.

Finally, the plan would set some dangerous precedents. As *USA Today* recently pointed out, Baker's bill would force taxpayers to bail out mortgage lenders, even those that skirted federal rules mandating insurance for homes in designated flood plains as a pre-condition to mortgage approval. Also, it's reasonable to assume that victims of future disasters would certainly expect the federal government to come to the rescue with similar aid.

Instead of a federal land grab, a far better solution would be to offer grants to individual property owners to rebuild their homes and businesses themselves. Combined with a limited-scale buyout of those neighborhoods deemed unfit for redevelopment, this approach would allow citizens to quickly begin work on repairs or new construction and would provide a needed jolt to the local economy. Entrepreneurial property owners are already starting to do this on their own, as well as numerous nonprofit organizations that are on the ground helping residents and businesses rebuild.

The feds need to take a lesson from previous disasters, such as the San Francisco earthquake of 1906. Over half of the city's population of 400,000 was left homeless as a result of that disaster, and property damages totaled over $8.2 billion (in 2005 dollars). But the city rebuilt itself largely through private-sector efforts. Even more impressive is that a century ago, we didn't have anywhere near the sophistication of the capital markets that we do now. We also lacked the transportation infrastructure to efficiently move people in and out of the area and keep businesses in place. Despite the grand scale of property devastation, Louisiana is in a far better position now to rebuild itself using private-sector initiative. ■

Who's Afraid of Foreign Ownership?

By Leonard Gilroy and Adam B. Summers

The recent Dubai Ports controversy launched a firestorm over what kinds of infrastructure critical to national security should be privately operated, particularly by foreign firms. A recent *USA Today*/CNN/Gallup poll showed that around 66 percent of Americans opposed the proposed transfer of six major U.S. port operations to Dubai Ports World, a United Arab Emirates firm, viewing the deal as a national security threat.

It is interesting how foreign involvement in international ocean-borne shipping has generated so much hostility, given that we have long since come to rely on products made by foreign companies that much more directly affect our health and daily lives. Every day, Americans drive foreign cars, drink water distributed by foreign-owned water systems, strap our children into foreign-made car seats, and take medicines made by companies from around the world.

Many of the critical infrastructure assets that Americans rely on in their everyday lives—including such important assets as airports, highways, and water systems —are managed by private, foreign companies.

Consider the example of Indiana, in America's heartland. Every day, citizens in Indianapolis drink and brush their teeth with tap water provided through the nation's largest public-private water partnership with a domestic subsidiary of a French-owned company, Veolia. Thousands of Hoosiers catch flights at Indianapolis International Airport, an airport entirely managed by a subsidiary of a British company, BAA plc. And families traveling through northern Indiana may choose to drive on the Indiana Toll Road, which may soon be leased to a consortium that includes Spanish and Australian firms.

Indiana is not unique. Here's some perspective on the foreign operation of infrastructure assets and related security issues throughout the United States.

Ports

Foreign companies already own most of the infrastructure used in the domestic shipping industry, including vessels, containers, handling equipment, and port facilities. Approximately 80 percent of U.S. port terminals are leased and operated by foreign companies, largely because federal law requires U.S.-based shipping companies to use American crews, making these

firms less competitive.

It is important to note that the ownership of U.S. ports remains squarely in the hands of local port authorities, and the responsibility for security at these ports lies not with the private companies that operate them, but with American security officials, including the U.S. Coast Guard, the U.S. Bureau of Customs and Border Protection, port police, and local authorities, among others. In fact, every domestic port and terminal operator—foreign or domestic—is required to comply with the 2002 Maritime Transportation and Security Act and submit a security plan to the Coast Guard for approval.

Airports

Of the 517 domestic airports offering commercial passenger service, 13 have management contracts with private companies, and all of these companies have significant foreign ownership or involvement.

Like security at sea ports, security at airports is controlled by the federal government. The responsibility for baggage and passenger screening at all of these airport facilities is the responsibility of the Transportation Security Administration—not the companies that hold the management contracts.

Water and Wastewater

Out of approximately 54,000 publicly owned water and wastewater systems, over 2,400 (5 percent) of them contract with private firms to provide system operations and maintenance services. Many of these 2,400 contracts are held by domestic firms with a foreign parent. For example, Veolia Water, the U.S. subsidiary of a French firm, serves more than 600 communities and 14 million people through public-private partnerships with local governments, including the nation's largest water partnership in Indianapolis. Of the four largest water companies that provide operations and maintenance services to publicly owned water and wastewater systems in the United States, only one—OMI—is a domestic company.

In addition, 15 percent of the U.S. population is served by approximately 20,000 private, regulated water and wastewater utilities, including many small systems serving subdivisions or trailer parks. Most of these are owned by domestic subsidiaries of foreign firms.

Regardless of size or scale, the private firms—both foreign and domestic—that provide water and wastewater services to local governments and communities are subject to the same environmental and safety regulations as publicly managed utilities, and all fall under the regulatory supervision of federal, state, and local governments.

There has been a great deal of paranoia surrounding the Dubai Ports deal. Contrary to public fears, federal and local government agencies would still have been in charge of enforcing security measures; the company would merely operate certain terminals at the ports, not own the ports themselves; and the people operating the ports would be substantially the same. The vast majority of port terminals in America are already operated by foreign businesses.

Private companies, even foreign-owned companies, have successfully owned and operated numerous "critical infrastructure" systems and assets in the United States—from airports to highways to water and wastewater plants—for many years. The country has managed to survive, indeed thrive, under these arrangements because these companies have a strong interest in keeping their customers healthy and happy and maintaining their business. ■

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PRIVATE-SECTOR

through public-private partnerships.

Combining private-sector cost advantages with a partnership in which a private firm can rent out a building after normal school hours could dramatically reduce school districts' costs for developing educational infrastructure. The savings could matter greatly in fast-growing suburbs, deteriorating cities, and places that are experiencing a demographic boom of school-age children. Although there are many reasons why some communities are struggling with school infrastructure, a common cause of the shortfalls is the cumbersome public-sector design and construction process.

As has been demonstrated in the United States, Canada and especially the United Kingdom, public-private partnerships offer the prospect of serving more community needs for less cost and in less time.

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PRESCHOOL

different funding streams that support low-income families have multiple administrative bureaucracies, paperwork requirements, and eligibility requirements. Millions of dollars that could go directly to pay for more low-income preschool slots are wasted maintaining duplicative preschool programs. California needs a one-stop shop with a centralized eligibility list for low-income preschoolers.

- Preschool For All Tax Credit: A tax credit approach could help California achieve the policy goal of more quality preschool for California children with the most efficiency for taxpayers and the greatest satisfaction for parents. By supporting new preschool slots for low-income and middle-class children, all taxpayers would be able to keep more of their own income to pay for their own preschool choices. A $1,000 tax credit to middle-income families would help them to choose from a wider preschool market, and a corporate tax credit scholarship program could be created to give scholarships that would enable low-income children to attend existing preschools. Pennsylvania's example of the corporate program shows that companies have been responsive to tax incentives. The state expanded the existing K-12 corporate tax credit program in 2003, giving corporations a 100 percent credit for the first $10,000 and up to a 90 percent credit for remaining contributions up to $100,000. To date, $5 million a year is used to target Pennsylvania's low-income children with preschool scholarships. Families of children receiving the scholarships must earn less than $50,000 plus a $10,000 allowance for each dependent. In the first year of the program, 39 preschool scholarship organizations were created.

Conclusion

Preschool for All is not a program that California needs, yet opposition to the concept is muted because policymakers do not want the stigma of opposing programs "for our children." Yet there is little empirical evidence from other states' experiences with universal preschool to demonstrate any lasting educational or socioeconomic benefit of government-run preschool programs. The program also makes no fiscal sense, and, as with the provision of K-12 education, the costs of publicly run preschools will likely escalate beyond the initiative's current projections. Once the program is established and has a large constituency of preschool families, there will be calls for more taxpayer support. The Preschool for All initiative is not self-sustaining and will likely require future support from the general fund to truly provide preschool for all four-year-olds.

And in the midst of the state's biggest financial crisis in history, it does not make sense to increase taxes to support a new spending program. California's mixed-provider preschool market already serves two-thirds of four-year-olds. The bottom line is that Preschool for All will subsidize preschool children whose families can already afford to pay for preschool. In a time when California's limited funds are best spent on programs that increase the educational outcomes for students, universal preschool is not the panacea claimed by proponents.

The current private preschool market offers an array of choices. Government preschool is a formulated, one-size-fits-all approach to education that institutionalizes young children at their most impressionable ages. This is a move backwards that should be avoided. ■

Continued from Page 2
QUEBEC

to 90 percent of the cost of care, requiring parents to pitch in only $7 a day.

Literally overnight, long lines of desperate parents vying for a "free" day-care spot emerged. Parents registered babies yet to be conceived. And when they did land a spot, they paid their $7-a-day to hold it—even if they were months away from using it. In this way, Quebec's program is actually reinforcing the very inequities it was meant to eradicate.

Many low-income parents, who lost their child-care tax deductions in order to finance the program, have been crowded out by middle- and upper-income parents more savvy at negotiating the system. According to research by Peter Shawn Taylor for the Canadian Taxpayers Federation, half of Quebec's day care spaces are taken by families in the top 30 percent income bracket.

It is true that California's program will be for only four-year-olds, somewhat limiting demand. However, this will be offset by the greater moral hazard in the program, because parents won't be required to contribute anything toward their child's care.

A version of this piece was published in the San Francisco Chronicle. *The entire piece is available online: reason.org/commentaries/dalmia_20051204.shtml.* ■

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TOLL ROADS

- Portugal, $2B
- Canada, $2B
- Italy, $6.7B—more than 2000 lane-miles, wholly private in 1999
- France, $17.8—essentially every major expressway will now be under private operation.

Clearly, our European friends have been at this a little longer than we have here in the United States. While many of the toll roads started as state-owned, they have slowly but consistently taken on private partners over the years. However, significant domestic activity is currently underway:

- Dulles Toll Road: four active proposals expected to bring in at least $1 billion, maybe a bit more;
- VA Pocahontas Parkway: being negotiated;
- Houston toll road system: feasibility study;
- NJ Turnpike: Governor Corzine is looking into the possibility of leasing the entire, or pieces of, the NJ turnpike;
- NY: enabling legislation being introduced again;
- DE toll roads: study;
- Chesapeake Bay Bridge & Tunnel: legislative proposal; and
- Two of Indiana's neighbors, Illinois and Ohio, have started to talk about it. Ohio Secretary of State Ken Blackwell has even proposed a plan similar to Indiana's Major Moves.

The key to success is a detailed, long-term PPP agreement that protects both parties.

So does a long-term lease make sense? If nothing else, these efforts bring in substantial flows of capital that can be used to invest in other areas, and can be further leveraged utilizing the public-private partnership model.

Third, the concession model for new toll roads, following a long-term ownership interest. Examples abound, including the following:

- SR 125 in San Diego: $635 million (opening this year);
- HOT lanes on Washington Beltway: $900 million;
- HOT lanes on I-95 in Virginia: $1 billion;
- Three Oregon toll roads: $1 billion;
- HOT lanes on I-635 in Dallas: $1.5 billion;
- Proposed GA-400 and I-75 HOT in Atlanta: $3.2 billion;
- I-81 truck lanes in Virginia: over $6 billion; and
- TTC-35 in Texas: $7.2 billion. This one initiative will double the tolled-lane mileage in the United States.

There is some $50 billion in proposed private-sector investment right now, either for leasing existing toll roads or developing new ones. It's worth noting that the federal government spent $34 billion on transportation last year. Either way, the 20 to 25 billion dollars is a huge amount of money. That's being driven into just five states.

Wrapping up

Tolling and public-private partnerships offer some major advantages. First, they bring a large, new net investment in the transportation system. Second, they put new capacity in place many years sooner, so citizens will be able to reap the benefits sooner. Third, they bring higher-quality highways to better serve customers. Finally, they shift risks from taxpayers to investors.

The key to success is a detailed, long-term PPP agreement that protects both parties. A concession agreement that includes rich detail, explicit performance measures, and penalty for failure to meet expectations will do just that.

There is no shortage of funds to invest in better highways. Global capital is already flowing into California, Georgia, Texas, and Virginia—and will soon flow into other states. ■

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FEES

from at least six separate cities, villages, and townships. Neither the school district nor the city had determined how many students in the facilities paid for by new Pickerington residents would actually come from the new subdivisions. This raises the possibility that the new residents would be subsidizing district-wide facilities.

Impact fees may be problematic, but many communities still need to find ways to build new school facilities. Here we can look to other nations for inspiration (See "Building Schools with Private Dollars," Page 6).

A version of this piece was distributed by the Buckeye Institute. ■

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SPN 14th Annual Meeting and K-12 Education Reform Summit, State Policy Network, October 4-7, Milwaukee: spn.org/events/

2006 States & National Policy Summit, American Legislative Exchange Council, December 6-9, Phoenix: alec.org

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