Privatization Watch

Celebrating 30 Years of Privatization and Government Reform

Vol. 30, No. 5 2007

Does it Deliver?
Examining Whether Rail Transit Spurs Economic Development... 4

Contents

Privatization Watch

Editor
Ted Balaker (ted.balaker@reason.org) is co-author of *The Road More Traveled: Why the Congestion Crisis Matters More Than You Think, And What We Can Do About It* (Rowman & Littlefield 2006).

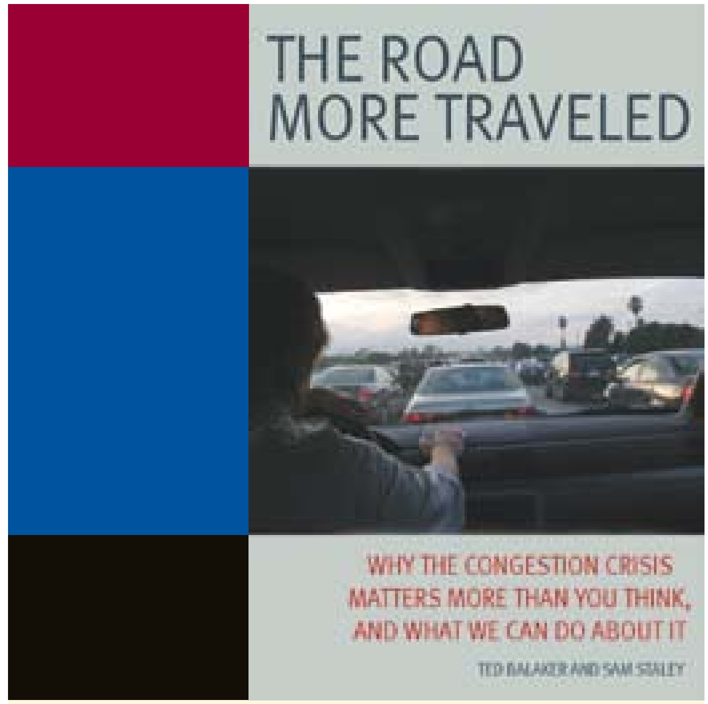
Managing Editor
Leonard Gilroy (leonard.gilroy@reason.org) Leonard Gilroy, a certified planner (AICP), researches housing, urban growth, privatization, and government reform.

Staff Writers
Shikha Dalmia (shikha.dalmia@reason.org)
George Passantino (george.passantino@reason.org)
Robert W. Poole, Jr. (bob.poole@reason.org)
Geoffrey F. Segal (geoffrey.segal@reason.org)
Lisa Snell (lisa.snell@reason.org)
Samuel R. Staley (sam.staley@reason.org)
Adam B. Summers (adam.summers@reason.org)
Steven Titch (steven.titch@reason.org)

Vice President, Reason Foundation
Adrian T. Moore (adrian.moore@reason.org) Frequently cited by journalists and sought after by policymakers, Moore is one of privatization's leading authorities.

President, Reason Foundation
David Nott (david.nott@reason.org) Nott leads Reason Foundation, a national organization dedicated to advancing a free society through the promotion of choice and competition.

Published by Reason Foundation
3415 S. Sepulveda Blvd., Suite 400
Los Angeles, CA 90034
800/582-2245; 310/391-4395 (fax)
www.reason.org



"*The Road More Traveled* provides a thoughtful analysis on the causes of congestion and offers detailed suggestions for relieving it in America's cities. Balaker and Staley clearly debunk the myth that there is nothing we can do about congestion."

—Mary E. Peters, Secretary of U.S. Department of Transportation

"*The Road More Traveled* should be required reading not only for planners and their students, but for anyone who loves cities and wants them to thrive as real places, not merely as museums, in the 21st century."

—Joel Kotkin, Irvine Senior Fellow, New America Foundation, and author of *The City: A Global History*

"Buy their book, read it, and then send it on to your favorite political representative."

—Peter Gordon, School of Policy, Planning and Development, University of Southern California

thoughtful bright and readable persuasive solutions

Privatization Briefs

The "Hunker-Down" and "Skedaddle" Factors

Many think it unseemly that taxpayers of relatively modest means are made to subsidize stadiums for billionaire owners of pro sports teams. Team representatives and public officials often assure the public that they will see benefits too. Apart from the pleasure of having a pro sports team in town, they say economic development benefits will also arise. Yet a new study (uta.edu/depken/P/megaevents6.pdf) challenges that view.

The University of Maryland's Dennis Coats and Craig Depkin of the University of Texas at Arlington report that sales tax revenue actually drops by more than $560,000 every time a city hosts a regular season NFL game. National Basketball Association games decrease revenue by $16,000 per game, but National Hockey League and Major League Baseball games tend to boost revenue slightly. Notably, political conventions were the biggest losers, depressing revenue by about $1.5 million.

Those who assume that all the sports hoopla would definitely provide an economic boost do not account for what Depkin calls the "hunker-down" and "skedaddle" factors. Fans may spend some money at a football game, but traffic jams prompt others to stay home or avoid the city.

Army Getting Out of the Hotel Business

More than 80 percent of the U.S. Army's American housing has been privatized, and now *The Wall St. Journal* reports that officials are following suit with the on-base hotels. Recently Actus Lend Lease of Nashville won a bid in which the company gets long-term ground leases for 48 hotel properties in exchange for running and upgrading the facilities. The 48 properties represent about one-third of the hotels the Army operates in the United States and plans are in the works to privatize the remaining properties.

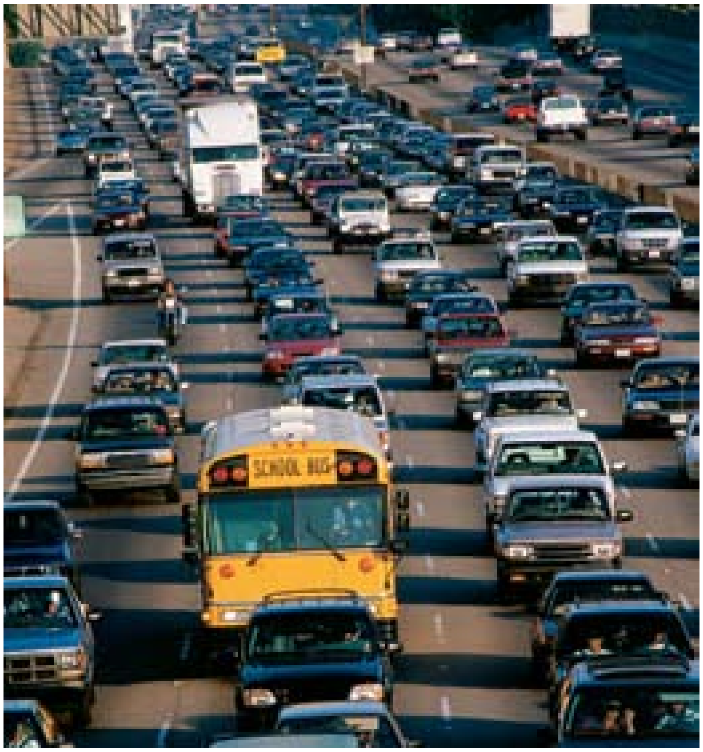
The Army admits that its hotels need work. "We've got mold, asbestos, HVAC (heating, ventilation, and air conditioning), and plumbing problems," says Bill Armbruster, a deputy assistant secretary of the Army who oversees the privatization program. He says that more than 80 percent of the Army's 19,000 hotel rooms are in need of renovation or replacement.

Actus already operates one-quarter of the recently privatized housing units, and Armbruster hopes the company will do for hotels what it did for housing. "Now that our [housing privatization] program is matured and we're actually seeing the results, it is absolutely astounding," he says. Since it has allowed soldiers' families to move into upgraded housing "it is having a positive impact in terms of re-enlistment and recruitment."

The Push and Pull of Business Location

Of the 754 small business owners recently surveyed by the National Federation of Independent Business, 28 percent are planning to expand outside their current area and 13 percent intend to go a step further and move their business somewhere else. (NFIB counts those with between 1 and 249 workers as "small businesses.")

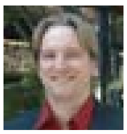
Two primary reasons explain the restlessness. The first is the "pull" of a business reason of some sort, perhaps proximity to a market or a supplier. The second is the "push" of an unfriendly business climate. Those planning to transplant their business to a different location are much more likely than those planning to expand elsewhere to cite unfriendly business climates as the reason for the move. The survey may actually understate the degree to which policies impede economic growth for it only queries those currently in business. No one knows how many would-be entrepreneurs decide against opening up shop at least in part because of business climate concerns. ■



Does it Deliver?

Examining Whether Rail Transit Spurs Economic Development

By Ted Balaker



In anticipation of the Phoenix area's first light rail line a recent *Arizona Republic* opinion piece considered some of the most popular justifications for rail transit. After deciding that rail makes good on some promises but not others, the author concluded that, on balance, building rail was a good idea. The primary reason wasn't that it would reduce traffic congestion, improve mobility, or help the transit-dependent poor. The verdict was based mainly on the belief that light rail would spur economic development and the author pointed to a single example (Dallas) where rail was associated with higher property values.

Many communities around the nation come to favor rail transit, in part at least, because they expect it to energize the economy. But will it and to whom should we turn to help us make up our minds?

Perhaps we should consider what economists have to say. After all, they are trained in benefit-cost analysis and that should be at the core of the debate: Will benefits outweigh costs? Indeed the author of the *Arizona Republic* article cited a study by two economists to make the case for rail. But does that study agree with what other economists have found and what do these experts say about other justifications for rail?

Recently, Cecilia J. Kim and I conducted a literature review to figure out whether economists (those with advanced degrees in economics or those who have taught economics at the college level) think building rail transit is a good idea (see "Do Economists Reach a Conclusion on Rail Transit?" available online at econjournalwatch.org).

Although not unanimous, we found widespread agreement among economists. Most conclude that rail transit usually does not make good on its core promises, such as reducing traffic congestion, improving the environment, and helping the transit-dependent poor. But what about economic development?

Making conclusions can be tricky. On the one hand properties close to rail stations may benefit from greater accessibility. On the other hand, stations come with assorted nuisances (noise, traffic congestion, safety concerns) that may depress property values.

In Dallas, closeness was associated with higher rates of appreciation compared to other areas. In fact, the positive

effect held only for areas within one quarter-mile of rail stations. While investigating rail transit in St. Louis, a St. Louis Federal Reserve economist discovered both an "accessibility" effect and a "nuisance" effect, but, on balance, the "positive accessibility effect outweighs the negative nuisance effect; so, the net effect of MetroLink on property values is generally positive." Economists from Cal State Fullerton report that light rail enhanced residential property values 2 to 18 percent in Portland, Sacramento, San Diego, and Santa Clara. But again, properties located too close to a station (less than a quarter-mile) may suffer nuisance effects and lower property values. Still, rail seemed to help property values more than it hurt them. Can we assume that rail tends to make cities more prosperous? Not exactly.

In their analysis of 16 cities over a 30-year time span, economists from Brown University and Tufts reveal that household income in new rail transit-accessible areas was below that of other areas. And, except for Atlanta and Miami, the income gap widened after new rail lines opened. The authors suggest that this supports the view that public transit is a "poverty magnet."

Rail systems also tend to drain more from a local economy than they contribute, according to an analysis conducted by economists from the Brookings Institution and U.C. Berkeley. The researchers did not come to this conclusion by simply noting that all systems operate in the red; instead they also

See RAIL on Page 14

Boosting the Economy by Fighting Congestion

By Samuel R. Staley

Traffic congestion is a significant drag on the national economy. Recently, the chief economist of the U.S. Department of Transportation considered costs associated with wasted time, fuel, productivity and other factors. He estimates that congestion costs our nation about $168 billion each year.

Congestion also affects the way people live and work. A French-Korean research team studied 22 French cities and found that increased travel speeds expanded cities' labor and employment pools. For every 10 percent increase in travel speeds, the labor market expanded 15 percent and productivity by 3 percent. In an extension of this analysis to the San Francisco Bay Area, U.C. Berkeley's Robert Cervero discovered that every 10 percent increase in commuting speed increased workers' output by 1 percent. Average speed had a bigger impact on land use than variables such as employment density and the racial composition of the workforce.

Congestion also works against an urban area's quality of life, and this influences its competitiveness. Although the primary influence on worker location continues to be wage rates, other factors become more important as a society becomes more affluent and more mobile. Workers begin to consider "amenities," or quality-of-life factors, such as climate, affordable housing, quality of schools, healthcare, and so on in their decisions to locate in cities or start businesses. An empirical examination of 81 U.S. metropolitan areas found that highway congestion was a "disamenity" for workers and prevented them from locating to those areas. The same analysis found that improved mobility increased the geographic size of local economies, thus improving productivity and economic diversity.

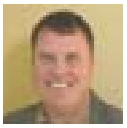
Increasing speed and mobility also has important implications for businesses. Economists Chad Shirley and Clifford Winston found that investments in highways significantly improved the profitability of businesses, although the benefits of these investments has declined in recent years. In the 1970s, highway investments generated rates of return of 15 percent or more by helping businesses reduce logistics costs through lower transportation costs. These benefits include lower freight rates, increased travel times and greater reliability within the transportation system, allowing firms to reduce their inventory and adopt "just in time" manufacturing and supply strategies. "In our analysis," they conclude, "highway spending raises productivity by improving the cost, speed, and reliability of highway transportation which reduces inventories."

By the 1980s and 1990s, however, Shirley and Winston found the rate of return for highway investments had fallen to 5 percent. Some have taken these data and evidence to suggest that highway investments are no longer needed. But Shirley and Winston believe highway investments are generating lower rates of returns in part because of inefficient transportation policy decisions. "It is also possible that inefficient highway pricing and investment policies have undermined the benefits from government spending," Shirley and Winston write. "The inefficiencies associated with such policies include but are not limited to wasteful pork barrel spending, poor responses to demographic changes, and suboptimal maintenance of the road system." But if policymakers choose the right projects and use the right tools they can help restore much of the efficiency and productivity-enhancing characteristics of our regional road systems.

Samuel R. Staley, Ph.D., is director of Urban and Land Use Policy for Reason Foundation and co-author of The Road More Traveled *(Rowman & Littlefield). This piece was excerpted from a forthcoming Reason study.* ■

Federal Aid Didn't Fix Downtown Detroit

By Adrian T. Moore



Detroit was one of the first cities singled out by the federal government in the 1990s to get grants, tax credits and other help that was supposed to bring economic growth back to its inner city. But it hasn't happened.

The federal Department of Housing and Urban Development's success story for Detroit is how taxpayers helped fund the creation of the Clinica Dra. Elena, which provides affordable health care to inner-city residents.

It is a great story, but it's not necessarily the kind of economic development that will bring back Detroit's inner city—a core urban area that has higher poverty and unemployment rates and a lower income level than the surrounding metropolitan area.

Michael Porter, a professor at the Harvard Business School who focuses on how to improve economic development and competitiveness among regions and cities, recently examined how the economies of inner cities in the nation's 100 largest metro areas are faring today. Detroit did the worst.

There is no silver bullet for success; it is a matter of fundamentals: decent public safety, good schools and reasonable taxes and business regulations.

Detroit has the worst inner city.

The Harvard study found that since 1995, inner Detroit's job base shrank by more than 3 percent and wages plummeted. Back in 1995, Detroit enjoyed wage levels near the top of American cities. But by 2003, average wages had fallen to just below average, meaning the highest-paying jobs fled Detroit the fastest.

Detroit is not alone—most of the inner cities lost jobs or failed to gain jobs as fast as the suburbs.

The irony is that the centerpiece of America's inner city revitalization efforts for the past decade—grants and tax credits under federal empowerment zone and renewal community programs—was apparently the wrong approach.

When Detroit was picked as one of the early targets for turnaround, the inner city empowerment zone got a cool $100 million in grants, followed by a share of $17 billion in tax credits for efforts to create inner-city jobs. And the 2005 annual report from the Detroit empowerment zone lists more than $650 million in other federal, state, local government and private grants.

Federal subsidies were wasted.

Yet the result was hardly inspiring. "Whatever these programs were, the research and the experience suggest that their impact was marginal at best," Alan Berube of the Brookings Institution told the Associated Press.

HUD's own assessment of the program was equally bleak. It could point to individual examples of creating jobs, but could not point to anything with broad and sustained growth. Only a third of the inner cities that have empowerment zones saw any job growth during the last 10 years.

It is time to think of a new strategy. The Harvard study points out that a distinguishing characteristic of the 10 inner cities that gained more jobs than their suburbs is that they had a different economic identity and mix of industries than the suburbs.

Identify competitive niches.

Detroit does not have an economy distinct from the suburbs—anything you can get downtown you can get elsewhere. So identifying economic niches that the inner city can dominate is crucial.

But before Detroit can really develop economic niches, some things that are broken have to be fixed. As Porter points out, there is no silver bullet for success; it is a matter of fundamentals. The conditions necessary for economic growth are decent public safety, good schools and reasonable taxes and business regulations.

In the last decade, Detroit lost thousands of jobs and saw its population shrink 10 percent, but the number of city workers increased 15 percent. Only in the last couple of years has the city been forced by budget deficits and declining revenue to cut city jobs.

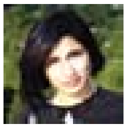
At the same time, Detroit has one of the highest tax burdens for a working family among America's large cities and is a poster child for burdensome business regulations. Crime rates have improved but are far from attractive. And the schools have a long way to go.

The future of Detroit doesn't depend on more federal block grants or tax credits. It depends on city leaders learning to focus on fundamentals and making them work.

Adrian Moore, Ph.D., is vice president of research at Reason Foundation. A version of this piece appeared in the Detroit News. ■

Indian Town Holds Lessons for Detroit

By Shikha Dalmia



Every Detroit leader over the past few decades has promised to transform Detroit into a "world-class city," and left without reducing even the population of weed gardens on the city's many vacant lots. During the same time, 10,000 miles away in India, a sleepy little town called Bengaluru has turned itself into a major information technology and outsourcing hub of the world (until recently Bengaluru was known as Bangalore). Does Bengaluru hold any lessons for Detroit? Plenty, as it turns out.

Factors Thwarting Detroit

The factors that are thwarting Detroit's renaissance are precisely the ones that made India the world's economic basket case for about half of a century: excessive bureaucracy and destructive taxes.

When India gained its independence in 1947, the country's socialist rulers embraced a command-and-control approach to the economy in the name of ensuring a "rational allocation of resources." They nationalized many important industries including heavy manufacturing, airlines and telecommunications. Worse, they tied up private industries in reams of bureaucratic red tape.

Not surprisingly, instead of catapulting India's economic growth to First World levels as its planners had promised, these bureaucratic roadblocks prevented India from even keeping pace with its smaller Asian neighbors such as South Korea and Hong Kong.

But all this began to change in the 1990s when India embarked on its massive liberalization effort. In a special bid to nurture the nascent information technology industry, the central government in New Delhi launched something called the Software Technology Parks Initiative. States that signed up for this program could not only offer information technology companies exemption from federal taxes, but also single-window clearance for all federal statutory approvals through a special liaison office. Karnataka, the state where Bengaluru is located, was among the first to join this program, something that allowed it to attract many large home-grown and foreign IT companies.

But instead of limiting technology parks certification to companies located on special campuses as other Indian states did, Karnataka extended it to any company anywhere in Bengaluru. This meant that any geek with a computer and e-mail could write and deliver software to anyone in the world from his or her own home.

One-Stop Permitting

By contrast, Detroit's leaders have only talked about creating a one-stop shop akin to the software parks' single-window clearance. Kwame Kilpatrick is so preoccupied with attracting big, glamorous Aswan Dam-type projects (witness the millions in tax credits he has arranged to pour toward the revival of a single building, the Book-Cadillac hotel) that he has no time to think about mundane process improvements such as these.

As if that were not enough to stymie entrepreneurship, the city imposes a plethora of licensing and fee requirements on 265 occupations—60 more than the state—from street vendors to day care centers. A home-based business has to acquire 70 or so building or equipment permits just to get started.

But if Bengaluru is ahead of Detroit in loosening the yoke of bureaucracy, it is also ahead in simplifying and lowering the tax burden on businesses. Detroit and Michigan, on the other hand, have done little to lower the overall tax burden on businesses—although they have given selective tax breaks to attract favored businesses such as Compuware. Michigan, in fact, is just one of a handful of states in the nation that levies all three: a sales tax, a personal income tax and the business-busting Single Business Tax—though that tax will be dropped for another form of business tax next year.

Detroit's Tax Burden

On top of all these, Detroit has added a 5 percent tax on residents' utility bills, a 2.5 percent personal income tax on residents, a 1.25 percent personal income tax on people who work in the city and a 1 percent corporate income tax. Conventional wisdom holds that companies are flocking to Bengaluru because of its cheap high-tech labor. But without a radical restructuring of the national and state economies, this boom would never have happened.

Michigan and Detroit, too, have much to offer potential businesses: cheap real estate easily accessible by a decent freeway system, a lovely riverfront, and proximity to a fairly wealthy country. If they want to flourish again they will have to get serious about creating a policy climate that allows business, big and small, to discover these and other assets.

Shikha Dalmia is a policy analyst at Reason Foundation and lives in Metro Detroit. ■

Seven Keys to Redevelopment

By Samuel R. Staley

Citizens and local policymakers must take a fresh look at how the economy repositions itself in an information-driven, globally competitive world market and what, if anything, public policy can do to influence these shifts. These keys may help.

1. Focus on the achievable. Any elected official's first inclination is to create and implement a positive program for change. Unfortunately, political and economic reality often gets in the way of grand plans, and elected officials need to factor this into their policy recommendations. Vision is not enough. Cities must focus on what they can achieve, not on hopes or aspirations that are no longer within reach or impossible to achieve under the best of circumstances. Although vision can provide a general context, it cannot provide a workable action plan. Thus, a practical key to successful economic development policy is the ability of local leaders to be realistic in their expectations and in the programs they create to achieve them.

2. Learn from the private sector. In the late 20th century many elected officials believed that government could create jobs by investing direction in projects, or seeding projects that would create a catalyst for long-term investment and growth. Most of these plans have achieved results far below expectations.

Over the past two decades, economic development specialists have recognized that good projects almost always have a significant private sector component because entrepreneurs have a better grasp of market conditions and the long-term viability of certain kinds of projects. In short, the private sector does a better job of leading and managing projects and leveraging public dollars than does the public sector investing on its own.

3. Provide core services efficiently. Local governments must not lose sight of their core competencies—the services and products local governments provide that no one else can (or will) provide. These core competencies include local infrastructure, certain kinds of regional planning, law enforcement, criminal justice, public education and other services. Ignoring these core services risks compromising economic development in the short and long run.

4. Create sustainable economies through private investors. Government investment does not create long-term growth. Certain types of investments, such as road and sewer infrastructure, help lay a broad-based foundation for private investment. Public works projects may provide a short-term infusion

of cash that increases the number of jobs in the short run, but they do not provide a foundation for sustained investment.

The vast majority of jobs come from local small businesses starting up, expanding and diversifying over time. Local officials rarely can pick and choose among those private businesses to determine which will be successful. Wealth creation, from a public official's perspective, is largely a spontaneous process where the logic and rationale of the success of a particular business can be determined only in retrospect.

5. Lead with focus, drive, and simplicity. Sometimes policymakers take a shotgun approach to economic development: try as many ideas as you can and hope two or three have an impact. This approach tends to diffuse accountability in the process, and often sets in motion initiatives that work at cross-purposes. A more effective strategy is for local leaders to identify two or three key areas and goals, and then develop a timed, phased action plan to achieve them.

6. Respect the rights of all citizens. Eminent domain and large-scale redevelopment projects provide narrow, not broad-based, benefits. Virtually all investment has a public benefit—raising property values, boosting employment—but public benefits are not public uses. Government should focus on providing core services that serve the broad-based citizenry.

7. Encourage voluntary investment and redevelopment. Some states—North Carolina and New Hampshire for example—rarely use eminent domain to achieve their economic development objectives. Cities should work with developers to accommodate property rights protections rather than provide ways for them to circumvent them. In the long run, this will create greater investment certainty than subjecting businesses and residents to the whims of political expediency and majority politics.

This piece was excerpted from the Reason policy study **Eminent Domain, Private Property, and Redevelopment: An Economic Development Analysis**, *which is available online: reason.org/ps331.pdf* ■

Second Thoughts on School Impact Fees

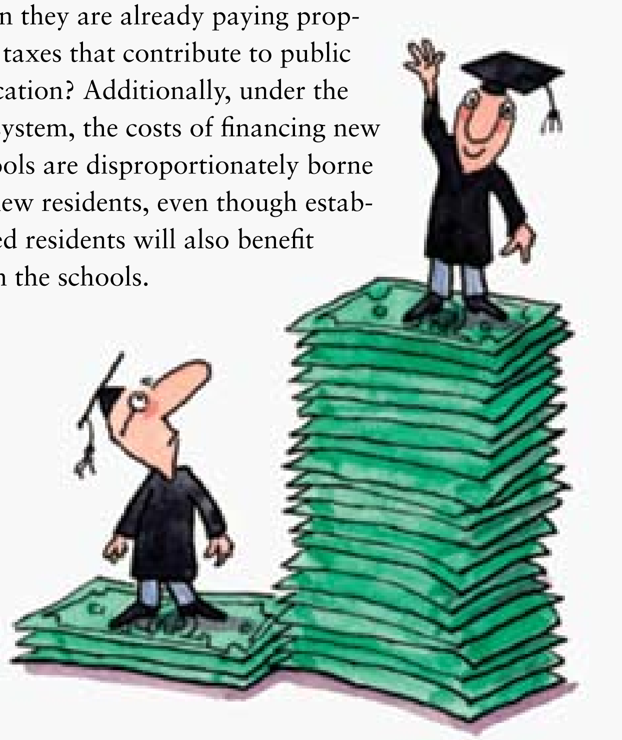
By Leonard C. Gilroy

School impact fees on new residential development are touted as an innovative way to fund new school facilities. In reality, they are a makeshift funding solution that hides the real problems and fails to tackle school construction needs in a fair and fiscally responsible manner.

School impact fees are an inefficient tool for financing and planning new school services and facilities. The revenues generated from a one-time fee on new homes will naturally rise and fall with the real estate market, creating an unpredictable revenue stream that is completely unsuited to addressing long-term capital needs.

Further, the fees are assessed on new houses— not new families—making it impossible to predict how many children will be sent to a local school district from any one subdivision. In any new subdivision one might find childless households, empty-nesters, home schoolers, families relocating within the same school district and families with children in private schools.

And that prompts serious questions about the fairness of the fees. Is it fair to ask residents who won't use these school facilities, such as empty-nesters and retirees, to pay for them when they are already paying property taxes that contribute to public education? Additionally, under the fee system, the costs of financing new schools are disproportionately borne by new residents, even though established residents will also benefit from the schools.



School impact fees lack transparency because the funds come from targeted populations that may not actually benefit from future schools and educational services. Unlike roads or water and sewer systems, it is difficult to target educational facilities to the families who will benefit the most.

Financing needed new schools in growing communities is a legitimate challenge, but school impact fees are a Band-aid, not an answer.

Leonard C. Gilroy is a policy analyst at Reason Foundation and a certified planner. A version of this piece appeared in the Atlanta Journal-Constitution. ■

Related Reason Studies

No Choices Left Behind: Competitive Models to Restructure California's Lowest-Performing Schools
Policy Study 354
By Lisa Snell

Analysis of California's Proposition 88: Education Funding, Real Property Parcel Tax, Initiative Constitutional Amendment and Statute
Policy Brief 56
By Lisa Snell

Assessing Proposals for Preschool and Kindergarten: Essential Information for Parents, Taxpayers and Policymakers
Policy Study 344
By Darcy Olsen with Lisa Snell

Driving More Money into the Classroom: The Promise of Shared Services
Policy Study 339
By William D. Eggers, Lisa Snell, Robert Wavra, and Adrian T. Moore

Education Management Organizations: Growing a For-profit Education Industry with Choice, Competition, and Innovation
Policy Brief 21
By Guilbert C. Hentschke, Scot Oschman, and Lisa Snell

For more information, go to reason.org/education

Growth Buffers for Indiana?

By Samuel R. Staley

Homebuilders and land developers in Indiana are worried that a new model of comprehensive plan might restrict their ability to provide the best housing at an affordable price. Experience suggests their concerns have merit. The most controversial elements of this type of plan are the "urban growth boundaries," that is, land-use regulations designating certain areas off limits to new development for a specified period of time.

The city of Bloomington has attempted something of this sort. Portland, Oregon, however, may be the most widely recognized region with a regional growth boundary. Several cities in California have adopted them, and Florida's statewide growth-management law effectively mandates them as part of its official policy of discouraging urban sprawl.

Most recently, a discussion in Allen County has focused on where such lines are to be drawn. The real issue, though, is the fact that the lines exist at all in a plan that is likely to become policy. That should concern affordable housing advocates and others interested in promoting diverse, dynamic and reasonably priced housing in the Fort Wayne region.

A comprehensive plan is supposed to guide growth in the region. But these "growth buffers" presume knowledge of the local housing market and a level of certainty about what type of housing people will want in the future. It is a presumption that the regional planners simply can't justify.

Such planning documents, with their emphasis on land use, take a typically supply-side approach to housing development, largely ignoring consumer preferences for different housing types and locations. This will inevitably create mismatches in the housing market and, ultimately, lead to housing price increases.

These plans are rationalized by the goal of reining in urban sprawl. Sprawl is low-density commercial and housing development—big houses on big yards. Some planners also call it "haphazard." It is a convenient buzzword but one that lacks content and substance for guiding land-use policy.

That is because present land development is not haphazard. People aren't buying houses randomly without thinking about the quality of the housing, the neighborhood, the commute or access to basic services. Land development is haphazard only in that patterns may not conform to a pre-conceived and perhaps political notion of what development should look like, i.e., the ideal of higher density, smaller yards physically next to another pre-existing neighborhood (for comparison, think of the older neighborhoods in your community and the newer subdivisions).

The danger is that by restricting land development, planners and the regulatory process impede the ability of the local housing market to meet emerging housing demands and needs. This likely will reduce the supply of housing in two ways: 1) by creating more regulatory hurdles for developers; and 2) perhaps more importantly, by creating a mismatch between the kind of housing people want (large, semi-private yards) and what builders can legally supply. Again, both effects contribute to higher housing prices down the road and reduce the ability of the local housing market to meet the changing needs of households and families.

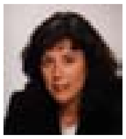
Planners and local officials may have legitimate concerns about the pattern and pace of development in Indiana cities. They need to be careful, though, to use the right policy tools that have the least distorting impacts on the land market and housing industry.

Growth buffers or urban growth boundaries are blunt and ineffective instruments for achieving the efficiencies that political groups say they want in their push for a new planning process.

A version of this piece appeared in the **Fort Wayne Journal-Gazette.** ■

California's Never-Ending School Bonds

By Lisa Snell



Only one of the six new schools scheduled to open this fall in San Diego actually met the deadline for the first day of school. San Diego voters approved a $1.51 billion local bond measure in 1998 and were promised 13 new schools and three rebuilt schools. Most of these schools are behind schedule and over budget.

San Diego's experience is representative of the overall school construction process in California. Children continue to languish in deteriorating or overcrowded classrooms, but not because of a lack of money. In the past decade, California voters have approved nearly $100 billion in school construction bonds at the state and local level. The state still has more than $3 billion in school construction funds that have not been spent from the last school bond initiative. Gov. Arnold Schwarzenegger and lawmakers have increased education spending more than 17 percent over the last two years and yet didn't devote any of that money to construction projects. Even so, in November voters approved Proposition 1D, giving the state an additional $10.4 billion for school construction.

Yet the complex regulatory process, coupled with mismanagement at the district level, makes building a school an excruciatingly slow process in California. And the longer it takes to build a school the more it costs. Just ask San Diego.

San Diego's new schools have been much more expensive than anticipated. Normal Heights Elementary, the only new school to open in 2006, cost $53 million, nearly $5.2 million more than the original cost projection. Similarly, when Cherokee Point and Herbert Ibarra elementary schools were planned in 1998, they were expected to cost about $30 million each for land acquisition, architectural design and construction. To date, Herbert Ibarra has cost $48 million and Cherokee Point about $35 million.

Not every school built in California suffers from delays and cost overruns. Innovative public-private partnerships can help speed the delivery of new schools. In San Diego County lease-leaseback arrangements, whereby a school district purchases land and then leases it to a developer for at least $1 per year, have resulted in projects being built on time and without large cost overruns. In this process, the developer finances the construction of the school up front and subsequently leases the facility back to the school district over a period of time. As a result, the developer assumes the risk, manages the cost and has very strong incentives to build the schools on time and on budget. The projects have upfront price caps and the developer cannot low-bid the project and then make up the difference through costly change-orders later, as currently plague government projects.

San Marcos Unified used the lease-leaseback method to build Mission Hills High School for $73.5 million, and Fallbrook Union Elementary used it for three modernization projects worth $13 million. These projects were all built on time and without cost overruns.

In contrast to the price caps, Proposition 1D offers no accountability measures for school districts that use bond money inefficiently and districts face no repercussions for going millions over budget. Only districts with cases of outright theft and fraud are held accountable. *The Orange County Register* reports that just six of the 19 school districts that have passed construction bonds since 1990 are "delivering nearly everything" they promised voters.

There is an alternative: streamline regulations, give districts incentives to use the cost-saving benefits of public-private partnerships, and the work should be performance-based to ensure that schools are built on time and on budget.

***Lisa Snell is director of education and child welfare at Reason Foundation. A version of this piece appeared in the* San Diego Union-Tribune.** ■

Wave of "Private" Cities in Georgia

By Leonard C. Gilroy and Steve Stanek

Fed up with high taxes and poor service delivery, the nearly 90,000 residents of Sandy Springs in Georgia's Fulton County voted in 2005 to incorporate, making Sandy Springs the first new city in Georgia in 50 years.

The incorporation has gone so well that two new municipalities are about to be created in Fulton County, which includes Atlanta. Residents of John's Creek and Milton voted to incorporate in July. The areas became cities on December 1st, and incorporation votes in other unincorporated areas of the county will soon follow.

Service by Contract

Instead of creating a new municipal bureaucracy, Sandy Springs opted to contract out nearly all government services. City leaders started with a blank slate, enabling them to ask fundamental questions about what role government should play. Every "traditional" service or function was required to prove its worthiness and proper role and place within government, and officials had to decide whether to "make" or "buy" public services.

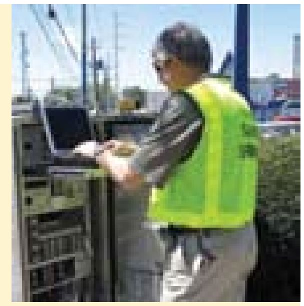
Ultimately they decided to "buy" most services from the private sector, signing a contract with CH2M-Hill, an international firm that oversees and manages the day-to-day operations of the city. The $32 million contract was just above half what the city traditionally was charged in taxes by Fulton County. That will save the new city's citizens millions of dollars a year.

> We use privatization and partnering to use tax dollars more effectively.

Mike Bodker, chairman of the Northeast Fulton County Study Commission heading up the effort for John's Creek, said the new city will likely follow Sandy Springs' model and "use privatization and partnering to use tax dollars more effectively." Bodker said the commission wants to identify and use innovative and competitive solutions while making the government more responsible, transparent, and accountable to taxpayers.

Sandy Springs' first mayor, Eva Galambos, said the city's relationship with CH2M-Hill "has been exemplary. We are thrilled with the way the contractors are performing. The speed with which public works problems are addressed is remarkable.

> "The speed with which public works problems are addressed is remarkable."
>
> —Eva Galambos, Mayor of Sandy Springs



CH2M-Hill operates IT services in Sandy Springs, Georgia

"All the public works, all the community development, all the administrative stuff, the finance department, everything is done by CH2M-Hill," Galambos said. "The only services the city pays to its own employees are for public safety and the court to handle ordinance violations."

Police, Fire Government-Run

Sandy Springs had been contracting for public safety services from Fulton County since its incorporation in December 2005. In July, Sandy Springs started its own 100-member police department. The city and county also recently agreed to the sale of three fire stations from the county to the city. Sandy Springs bought the fire stations for $5,000 each. The county owed money on two of the fire stations, and Sandy Springs agreed to assume the debt. The city is hiring its own fire personnel.

Galambos said the city would have preferred to use private firefighters, but there is no company in the area that provides private fire services. "This has been more problematic," Galambos said. "We have been struggling with whether to continue with the county for fire and 911 services or make other arrangements. "We've had arguments with the county about charging us too much and not giving us the proper equipment," Galambos said.

Leonard C. Gilroy is a senior policy analyst at the Reason Foundation. Steve Stanek is managing editor of The Heartland Institute's Budget & Tax News, *where a version of this piece appeared.* ■

Pennsylvania Ponders Video Franchise Reform

By Steven Titch

What follows is a portion of recent testimony given by Steven Titch before the Pennsylvania Senate Communications & Technology Committee:

It is important that legislation recognize how cable TV service in Pennsylvania has evolved from its obsolete past of regulated monopoly into an era of consumer choice, and how positive steps need to be taken to bring consumer choice in cable to more Pennsylvanians more quickly. Video franchise reform involves moving away from the practice of municipalities charging cable companies a fee in exchange for monopoly privileges. Let's state this as simply as possible: video franchise reform means competition for cable TV service. Competition means lower prices for consumers.

Texas became the first state to pass video franchising reform last August. Because they were able to go directly to the state capitol for permission to deploy video services anywhere in the state, Verizon and AT&T were able to accelerate their rollout. Consumers saw quick results.

With a statewide video franchise in hand, Verizon in January rolled out its FiOS fiber-optic video service in Keller, Plano and Lewisville, three communities near Dallas. The local cable provider, Charter Communications, immediately dropped its prices. Verizon priced its FiOS TV service at $43.95 a month for 180 video and music channels. The company also offered a 35-channel plan for $12.95 a month. Shortly thereafter, Charter began offering a bundle of 240 channels and fast Internet service for $50 a month, compared to $68.99 it had been charging for the TV package alone.

Consumers noticed. Market researchers noticed.

According to a Bank of America research report, *Battle for the Bundle: Consumer Wireline Services Pricing*, "The rollout of Verizon's FiOS service in select markets has elicited thinly advertised, yet highly competitive pricing responses for incumbent cable providers."

For the purposes of their market research, the authors took the role of Texas consumers inquiring about area cable TV service. They discovered that when they mentioned the competing FiOS service to cable competitors, those cable companies were willing to quote lower prices on the phone.

The consumer experience in Texas followed the trend in

other markets where cable competition has been introduced. Because franchise reform can cut months off the process by which competitors attain permission to enter markets, it is a terrific idea. Wherever there is video competition, consumers see a break. In Florida, for the first time in a decade, Comcast is not raising rates in Manatee and Sarasota counties, according to a report last week in the *Miami Herald*. The reason: Verizon already has introduced cable services in Manatee and is close to a franchise agreement in Sarasota.

In a new report, Yale M. Braunstein, a professor at the School of Information at the University of California at Berkeley, cites FCC measurements of competitive and non-competitive cable markets that found subscription rates for basic and expanded basic services were on average 16 percent lower in the competitive group. Using the data as a baseline, Braunstein predicts cable competition franchise reform will save California consumers between $690 million and $1 billion.

Unfortunately, in most states today, including Pennsylvania, video service providers are faced with the prospect of negotiating individual franchises in scores, if not hundreds, of individual cities, towns, and villages. Despite the documented consumer benefits of cable competition, local officials appear bent on preserving the older, much slower processes.

But who wins? Officials in Roselle, Ill., ordered AT&T to halt a network upgrade for 180 days so the town could make a decision on the video franchise implications. That's six months more residents of Roselle will have to wait for more choices and lower rates consumers elsewhere are enjoying. What's worse, the Roselle delay is part of a coordinated effort by at least 11

See VIDEO FRANCHISE on Page 14

Continued from Page 4

RAIL

accounted for larger societal benefits that transit officials frequently tout. Even so only one system passed the benefit-cost test. Except for San Francisco's BART, every rail system drained more from the economy than it contributed. In most cases the yearly drain was in the neighborhood of hundreds of millions of dollars—for example, $171 million in St. Louis, $221 million in Portland, and $457 million in Dallas.

What about transit-oriented development (TOD)? It's hard to find a long-range transportation plan anywhere that isn't peppered with optimistic references to TOD. The idea is to encourage economic development, alter travel patterns, and reduce congestion, often by building high-density, mixed-used developments that encourage walking and transit use and discourage driving. Metropolitan planning organizations typically refer to TOD as if the case were closed, as if this kind of planning delivers the results it promises. Yet, after sifting through the academic evidence a U.C. Irvine-UCLA research team discovered that "there is little credible knowledge about how urban form influences travel patterns. Given the enormous support for using land use and urban design to address traffic problems, it was somewhat surprising…to find the empirical support for these transportation benefits to be inconclusive."

Measuring rail's economic impact can be especially difficult because researchers must control for many factors, from market forces to public policies on issues as varied as crime rates, regulatory climate, and the quality of public schools. Before pondering rail transit, one economist urges policymakers to consider a different question: "Why is economic development not occurring in a given area in the first place? Possible reasons include relatively high cost to business start-ups, unattractive locations (crime, poor infrastructure) and unnecessary zoning and regulations." In other words, focus first on the core duties of government.

The public debate often strays from some simple considerations. It is not enough to show that rail (or any other public policy) provides benefits. Benefits must outweigh costs. Rail projects cost hundreds of millions—even billions—of dollars. One would expect this level of spending to generate some benefits. There are many ways to pursue economic development, but modest benefits don't justify steep costs. Paving streets with gold may well increase the value of neighboring properties, but few would call this good policy.

And if it is to be viewed as the best choice, policymakers must be able to determine that it is more effective than all other options at achieving a particular goal.

Finally, of those economists who offer a bottom-line, big-picture assessment of rail transit, the vast majority agree that benefits simply don't outweigh costs. Even a relatively rail-friendly economist acknowledges the widespread skepticism in his field: "The dominant view of economists has been that rail investments generally have been ineffective and expensive, and the benefits do not justify the costs."

Ted Balaker is the Jacobs Fellow at Reason Foundation and co-author of **The Road More Traveled** ***(Rowman & Littlefield).*** ■

Continued from Page 13

VIDEO FRANCHISE

other local communities in suburban DuPage County to stop telephone companies from upgrading their networks until exact franchise rules can be determined. It's an example of what most communities across the country can expect if franchise reform is blocked.

The most controversial aspect of franchise reform bills is the lack of a build-out requirement for new entrants. But this is part and parcel of the competitive environment in which cable services now operate. For cable companies, build-out requirements were a condition of exclusivity. Although we use the term rather freely now, that's what "franchises" were once all about. The term franchise itself implies exclusivity over a certain territory. The entry of competition ends that exclusivity.

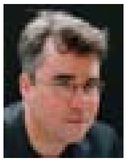
Market mechanisms will now take over—delivering services to all segments of the population, just as competitive businesses do in other sectors. Local governments do not impose build out requirements on supermarkets, video stores, chain restaurants or other retailing establishments. The reasoning is that no business deliberately chooses not to serve entire swaths of a local market. The same holds true with competitive cable services. There is demand for these services and new companies are investing millions in infrastructure to meet it, not ignore it.

The choice is straightforward: Lower rates for consumers accompanied by greater choice of services, or retention of an obsolete system that reinforces a regulated monopoly and accompanying high rates.

Steven Titch is a telecom policy analyst at Reason Foundation. ■

Thank You Milton Friedman

By Brian Doherty



When celebrated public intellectuals of Nobel-prize-winning heft die, the newspapers praise their brilliance and importance. It isn't always obvious, though, where the rubber of their lofty scholarly words hits the road of our day-to-day life. With Dr. Milton Friedman, winner of the 1976 Nobel in economics, most celebrated figure of the Chicago School of Economics, author of the 1980 nonfiction bestseller *Free to Choose*, seeing his (invisible?) hand in the workaday world isn't all that hard.

If you or your children have not been forced into the armed services in the past three decades—which you haven't—thank Friedman. He was the intellectual sparkplug for the Nixon-era Gates Commission that convinced Nixon a volunteer army is both workable and the right thing to do.

If the dollars in your pocket are worth somewhere close to what they were a year ago, not 8 percent or more less, thank Dr. Friedman. His work as an economist convinced Federal Reserve chiefs, after the grim late 1970s dominated by stagflation (high inflation combined with recession), that we should strive to keep money supply growth low to restrain both inflation and unemployment. While the world's central banks haven't followed every technical detail of his plan, the old and destructive belief that government can tax, spend and inflate our way to prosperity is gone, and Friedman is why.

At the heart of all of Friedman's scholarship and activism was the idea in the title of his famous book and TV series: that all of us should be free to choose. From who should have to serve in the military to who should decide what a dollar is worth, Friedman has supported 100 percent taking power out of the hands of elites and government and handing it to the decentralized decisionmaking of everyone everywhere.

Who should decide where our kids go to school, and who should control the money used to pay for it? We should. Thus, Friedman's advocacy for decades on behalf of school choice and education vouchers, which became his main policy focus during his later years through the efforts of the Milton and Rose Friedman Foundation. Who should decide what we can eat and how we enjoy ourselves? We should. Thus Friedman's controversial arguments for ending the war on drugs. Who should decide how we get to spend our money? We should. Thus, Friedman's writing and speaking on behalf of tax and

Friedman has supported 100 percent taking power out of the hands of elites and government.

Milton Friedman (1912-2006)

spending cuts anywhere and everywhere. The day he won the Nobel in 1976, he was schlepping himself around to a talk in Detroit on behalf of a Michigan state-level amendment to limit state government spending. He did this sort of thing tirelessly for over 50 years, agitating for liberty and choice in venues both exalted and everyday, never thinking that any audience was too small or unimportant. His belief in the propriety and effectiveness of personal control over our own resources always energized his stumping for Social Security reform to give us more personal control over our retirement savings.

Friedman won vital policy victories on the draft and the money supply. He was less successful (though no less right) on his other efforts to empower the individual. This is to be expected—he was a radical, and radicals aren't going to win all their fights. (He once referred to one of his heroes, Adam Smith, as "a radical and a revolutionary in his time—just as those of us who preach laissez-faire are in our times.") But through a combination of his piercing intelligence, his academic successes, and his unparalleled ability to explain complicated ideas in understandable terms (honed during his nearly two decades writing a column on economics for *Newsweek*, from 1966-84, and coming to fruition with *Free to Choose*), he was the most successful purely intellectual radical of the 20th century.

Milton Friedman was never a politician. He could never make things happen. He could only explain why they should, and let us decide. But still, to a large degree because of him, the world is a different, and better, place.

Reason Senior Editor Brian Doherty is author of This is Burning Man *and the forthcoming* Radicals for Capitalism. *A longer version of this piece is available online: reason.com/news/printer/116839.html* ■

Who, What, Where

Reason Studies

Eminent Domain, Private Property, and Redevelopment: An Economic Analysis, Samuel R. Staley and John P. Blair, Policy Study No. 331: reason.org/ps331.pdf

Statewide Regulatory Takings Reform: Exporting Oregon's Measure 37 to Other States, Leonard C. Gilroy, Policy Study No. 343: reason.org/ps343.pdf

Affordable Housing in Monterrey County: Analyzing the General Plan Update and Applied Development Economics Report, Benjamin Powell, Edward Stringham, and Adam Summers, Policy Study No. 323: reason.org/ps323.pdf

Housing Supply and Affordability: Do Affordable Housing Mandates Work? Benjamin Powell and Edward Stringham, Policy Study No. 318: reason.org/ps318.pdf

Reducing Congestion in Atlanta: A Bold New Approach to Increasing Mobility, Robert W. Poole, Jr., Policy Study No. 351: reason.org/ps351.pdf

15th Annual Report Performance of State Highway Systems (1984–2004), David T. Hartgen, Ph.D., P.E., and Ravi K. Karanam, Policy Study No. 350: reason.org/ps350.pdf

Innovative Roadway Design: Making Highways More Likeable, Peter Samuel, Policy Study No. 348: reason.org/ps348.pdf

Building Roads to Reduce Traffic Congestion in America's Cities: How Much and at What Cost? David T. Hartgen and M. Gregory Fields, Policy Study No. 346: reason.org/ps345_universal-preschool.pdf

Why Mobility Matters, Ted Balaker, Policy Brief No. 43: reason.org/pb43_whymobilitymatters.pdf

No Booze? You May Lose: Why Drinkers Earn More Money Than Nondrinkers, Bethany L. Peters and Edward P. Stringham, Policy Brief No. 44: reason.org/pb44.pdf

Business Jet and ATC User Fees: Taking a Closer Look, Robert W. Poole, Jr., Policy Study No. 347: reason.org/ps347_business_jets_atc.pdf

Reason Foundation studies archived at reason.org/policystudiesbydate.shtml

Privatization Watch Back Issues available at reason.org/pw.shtml

Publications

Phoenix Rising: A City of Aspiration, Joel Kotkin, Goldwater Institute: goldwaterinstitute.org

Public Policy and Entrepreneurship, Joshua C. Hall and Russell S. Sobel, The Center of Applied Economics, University of Kansas School of Business: heartland.org/pdf/20014.pdf

Reviving Washington's Small Business Climate, Carl Gipson, Washington Policy Center: washingtonpolicy.org

Sprawl and Urban Growth, Edward L. Glaeser and Matthew E. Kahn, Harvard Institute of Economic Research: economics.harvard.edu/hier/2003papers/HIER2004.pdf

PRIVATIZATION WATCH
Reason Foundation
3415 S. Sepulveda Blvd., Suite 400
Los Angeles, CA 90034
www.reason.org

Nonprofit Org.
U.S. Postage
PAID
Santa Monica, CA
Permit 81