

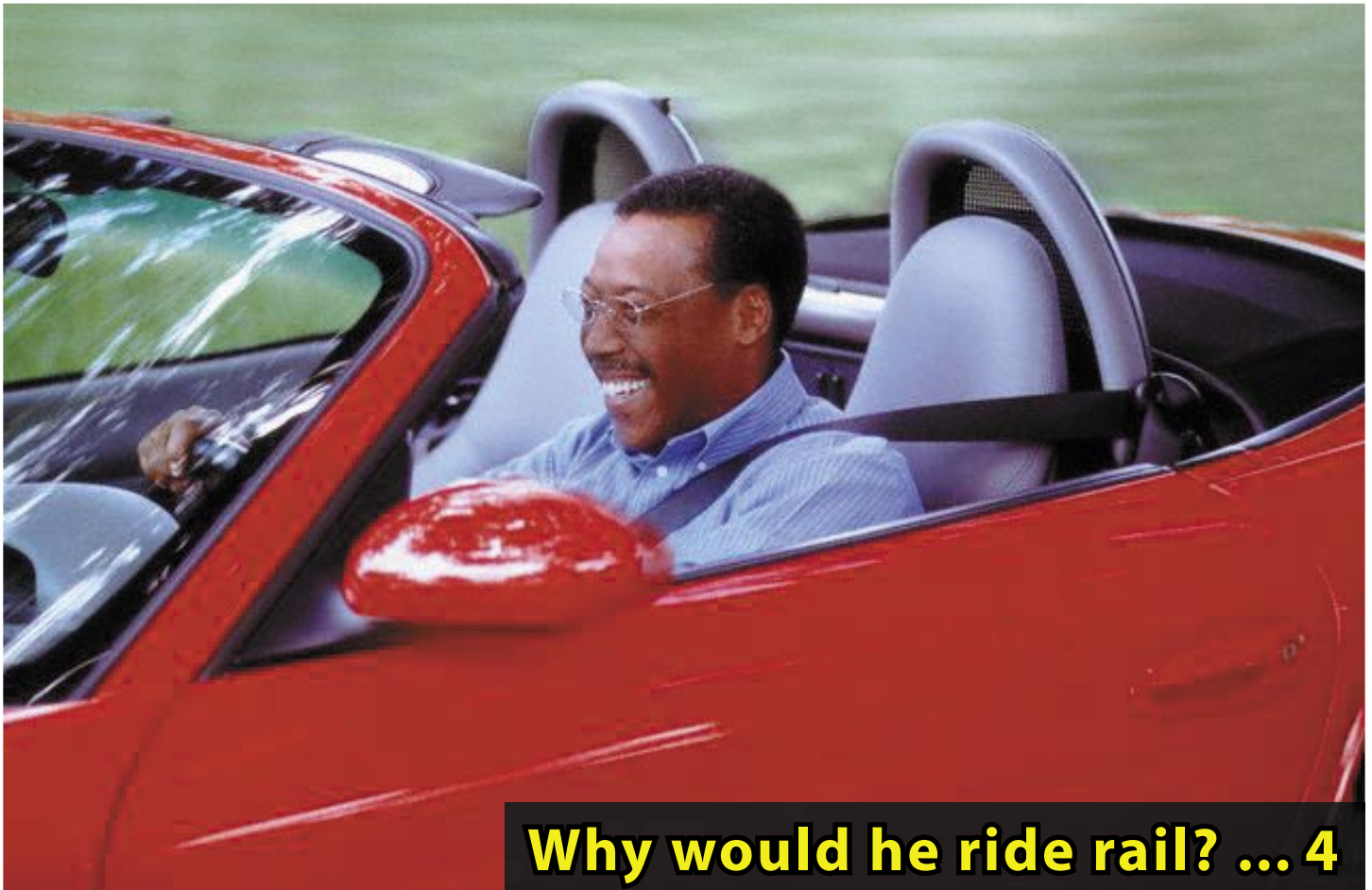


# Privatization Watch

Analyzing privatization developments since 1976

Vol. 28, No. 5, 2004

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## Privatization Watch

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## L.A. Story

### When rail comes to town, what happens to bus riders?

#### Interview by Ted Balaker

Getting to work and back takes the average Los Angeles commuter about one hour.

It takes Barbara Lott-Holland four hours. She, like roughly 400,000 other Angelinos, is transit-dependent, and like many others, she is frustrated by transit officials' priorities. She notes that in an attempt to lure wealthy motorists out of their cars, they spend lavishly on light rail lines. Yet when it comes to improving bus service, the transit mode that offers the poor the greatest level of mobility, funding is hard to come by (See "Why would he ride rail?" Page 4).

The issue is so contentious that a U.S. District Judge issued a consent decree, which, in theory, prevents the Metropolitan Transportation Authority from favoring rail at the expense of bus. Lott-Holland has found theory to be far removed from reality. She says L.A. still needs more buses, more drivers, fewer transfers, and better service.



**Barbara Lott-Holland**

*You have been riding the bus in L.A. for about 30 years. How has it changed?*

It has deteriorated, it really has. And the poor are almost like prisoners in their neighborhoods because the transportation is so bad. You think real hard whether or not you want to go out of your area because you know it's going to take you so long to get back. By the time you come home from work you're so tired and exhausted and realizing that if you want to go anywhere you have to get on the bus, a lot of the people just decide not to go anywhere.

To make matters worse the poor people are slapped in the face because you have the trains, the light rail and trains, they run like a dead end.

#### *How so?*

They really don't take you where you need to go. If you take a train, for the majority of people, it's only going to take you half the way. And then you have to get off, and wait for a sorry bus to come. They are few and far between and then when you get them they are extremely overcrowded. A good example of this is the blue line. It goes from downtown Long Beach to the train station in L.A. and it doesn't even go through the heart of L.A. because the train station is on the outskirts of downtown. So all arteries in between you have

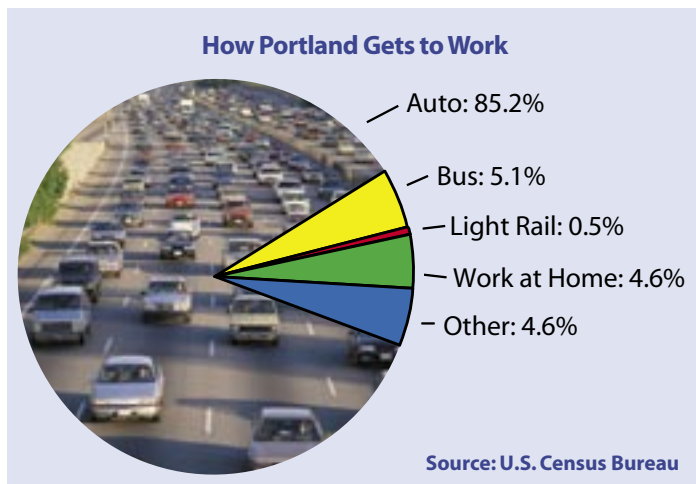
See L.A. TRANSIT on Page 6

## Privatization Briefs

### Light Rail's "Best" Case Scenario

Portland, Oregon's light rail system has probably been used to justify more new light rail projects than any other system. While it is light rail's best-case scenario, just how good is the best? Officials tout daily ridership that reaches 100,000, but light rail's best-case scenario actually has a lot in common with its worst-case scenario, which, by most accounts, is San José. Neither system accounts for 1 percent of total travel or 1 percent of work trips.

One high-ranking transit official admits the San José system still has "a long way to go." He hopes that in 40 years the city's light rail system will be seen as a success. Apparently, residents should just sit tight till 2044.



### Russian Oil Company on the Auction Block

This fall the Russian government will auction off its 7.59 percent stake in the Lukoil oil company with a starting price of \$1.9 billion. If it gets that price, it would be the most expensive deal in the history of Russian privatization. The U.S. oil company ConocoPhillips is among the interested bidders.

Russia's privatization program has been a mixed bag, with some successful initiatives, but too often plagued by corruption or other problems.

### Lawmakers Commission, then Ignore, Outsourcing Study

In California, Senate Democrats passed a bill that would forbid the state from sending government work overseas just as a study—commissioned by their Democratic Assembly colleagues—found that outsourcing would likely be good for job creation. The study, by the Public Policy Institute of California, suggests that outsourcing's productivity gains could increase

living standards at home.

Still, concern about job losses trumped the study's findings, and today many lawmakers use government as a jobs program. So where some see efficiency gains that allow for private sector job creation, they see job-killers.

But just how many jobs would be "killed"? Although specific figures are hard to come by, an anti-outsourcing group recently documented roughly \$75 million worth of government work sent overseas by the 50 state legislatures. Although the report was intended to stir fears about the rise of offshore outsourcing, it actually revealed how infrequently states make use of the practice.

### Federal Regulators: A Quarter-Million Strong

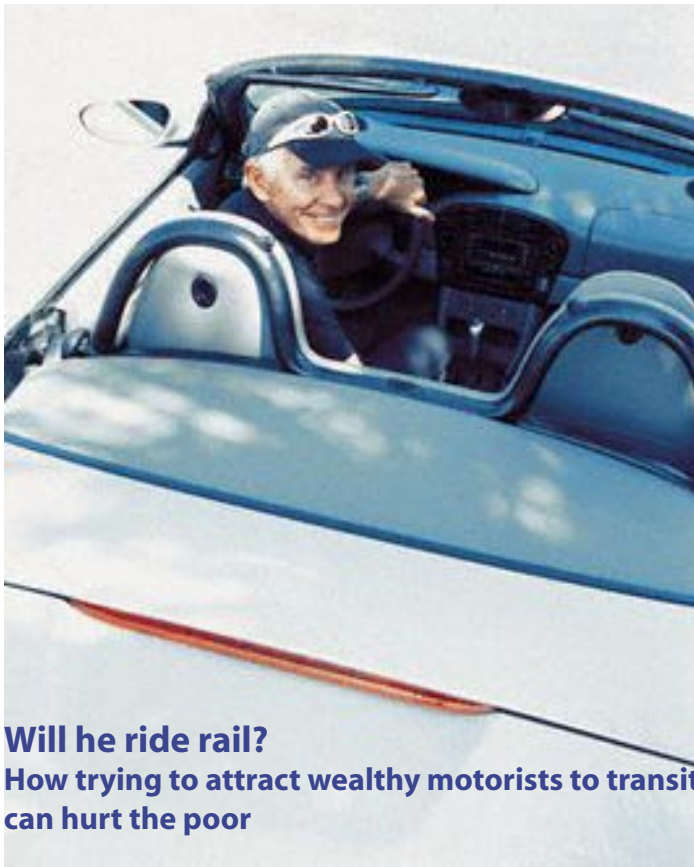
In 2005, the number of federal regulators is expected to exceed 2000's mark by 40 percent. The total number of regulators will be 242,500—a new record. So says a new study by the Mercatus Center. That means our nation will have more regulators than pharmacists, many more than aerospace engineers, and more than dentists and biologists combined. And that's just counting federal regulators.

### Remembering Louis A. Witzeman

In September businessman and privatization pioneer Lou Witzeman (below) succumbed to lung cancer. After moving to Scottsdale, Arizona in the 1940s, Witzeman was dismayed to find that the suburb had no fire service. He attempted to organize a quasi-volunteer department, but when that stalled, Witzeman started his own company. The Rural/Metro Corporation would become a national presence in fire protection and emergency medical services. Witzeman's vision would also inspire Reason Foundation Founder Robert W. Poole, Jr., and spur Reason's work in privatization. Everyone in the privatization field is in Lou Witzeman's debt. ■







## Will he ride rail? How trying to attract wealthy motorists to transit can hurt the poor

By Ted Balaker



What if government anti-hunger programs were aimed at getting food to rich people? Such a scenario seems hard to imagine for no public official would dare make such a suggestion. After all, the rich are least in need of food subsidies.

Still, many of those same politicians feel quite at ease tailoring transit services to those who need them least. The desire to entice rich people—commonly called “choice” riders—is a big reason why light rail has broken ground in so many cities. Many local officials regard light rail as their only hope for luring wealthy motorists to transit.

But, as the U.S. General Accounting Office and others have reported, commuters of all sorts value transportation features (convenience, speed, comfort, cleanliness, etc.) more than transportation modes (bus, rail, etc.). Grimy transit buses have sullied its reputation for decades, but there’s nothing inherently unappealing about the bus. After all, buses take wealthy rock bands from gig to gig, and wealthy Manhattanites from the Upper East Side to the Hamptons. Yes, these are very nice buses, but it shows that people have no natural aversion to

the physical form of a bus. Give the bus a facelift and watch who suddenly finds it attractive.

### Whom should transit serve?

Still, many local officials prefer to believe that, while choice riders won’t get out of their sedans and onto a bus, they will get out of their sedans and onto light rail. And so officials openly admit that rail transit costs much more than bus transit, but they justify the hefty price tag by claiming that rail is the only way to get wealthy motorists out of their cars.

But what about those who aren’t “choice” riders—those who use transit because they have no other choice? Certainly, the transit-dependent may also ride light rail, and officials often argue that they can serve the needs of all customers equally well. However, business owners—though they would love to make a product appeal to everyone—know how unrealistic this goal is. Often, the rise of light rail means the fall of quality transit services for the poor (See “L.A. Story,” page 2).

Welfare advocates of all political stripes point out that access to quality transportation is crucial to the poor’s ability to improve their lives. The more area they can get to quickly, the greater chance poor people have at landing a better job or improving their résumés by taking classes. Since light rail costs so much more than bus, a pot of funds devoted to rail will yield far less mobility improvement than if the same pot were devoted to bus. Rail’s high cost and long funding and environmental review process mean that even if voters gave the nod to half-cent sales taxes as quickly as transit officials could propose them, rail could probably never serve anything wider than a few select corridors. It is, however, comparatively cheap and easy to add buses and bus stops, particularly since the infrastructure (the road) has usually been built already. Since public funds are always limited, the more a city devotes itself to rail the less it can provide widespread transit service to those who need it most.

Although they won’t be highlighted in any environmental impact report, light rail often hurts the poor in more direct ways. Cities typically build rail in their busiest corridors, and this usually means a rail line will replace a bus line. Indeed, a long-standing rule of thumb holds that three-quarters of rail patrons are not people new to transit, but those who have been booted from the bus. Replacing a bus line with a rail line often means the transit-dependent must endure more transfers as they go from bus to rail and from rail to bus. Transit officials call this “intermodalism;” transit users call it a longer trip. A Harvard University study notes how rail lines

are built to benefit those who already have access to reliable transportation:

*[M]ost transit systems have tended to take minority and low income “captive riders” for granted and focused their fare and service policies on attracting middle-class and affluent riders out of their automobiles. In many cases, the result has been lower quality service for the poor and minorities and superior service, at high public subsidy cost, for the affluent.*

### Transit Politics

Since light rail ground-breaking ceremonies are usually preceded by highly publicized struggles for funding, transit officials are under tremendous pressure to boost rail ridership. As a GAO study notes, emphasis shifts toward serving rail: “When light rail lines are introduced, transit agencies commonly reroute their buses to feed the rail line.” In order to address its high cost, transit agencies may further tilt resources toward rail and away from bus. The result often means fewer bus lines, fewer and older buses; so a bus service that was not good to begin with gets even worse.

During recent decades, civil rights organizations have filed many complaints and lawsuits against transit systems whose fare and service policies were seen as discriminating against poor patrons. Bus riders in Los Angeles are particularly familiar with the tradeoff between rail and bus service. Beginning in 1986, local policymakers began to divert funds from a successful bus ridership program toward rail construction. Four years later, bus ridership fell by over 96 million passenger boardings per year (19.3 percent). By 1995, lost bus ridership was 10 times that gained by the new rail line. The issue drew intense political scrutiny, culminating in a legal victory for the Bus Riders Union, a grassroots organization that represents the Metropolitan Transportation Authority’s largest client group. A U.S. District Judge signed a consent decree designed to prevent the MTA from favoring rail at the expense of bus. Nearly a decade later, the court-appointed monitor still struggles to get the MTA to purchase enough buses to abide by the consent decree.

### Where’s the demand?

Los Angeles is often regarded as the epitome of American car culture. Many assume that there is simply little demand for transit, and that rail is transit’s only hope. But rail’s barely-there market share suggests that even rail cannot attract large

numbers of choice riders. Even with nation’s second-largest commuter rail system (over 400 miles worth), and decades of light rail construction, only 0.3 percent of Angelinos get to work by rail. (See figure for national perspective).

Even so, there is actually strong demand for transit in L.A.; it just does not come from affluent motorists. It comes from the transit-dependent poor who shoehorn themselves into our nation’s most crowded buses.

And yet rail remains the favored child. After Los Angeles’s latest light rail project, the Gold Line, fell well short of ridership projections, local officials forged ahead with plans for a \$900 million extension. ■



**After 20  
years of light rail ...**

Number of U.S. light rail systems that account for at least 1% of travel: **0**

Number of U.S. light rail systems that account for at least 1% of work-trips: **0**

Percent of trips by transit (all modes): **1.5**

Source: Federal Transit Administration, U.S. Census Bureau, and U.S. Department of Transportation

Continued from Page 2

### L.A. TRANSIT

to get off the train to wait for a bus. Again you are waiting on one that is slow in coming and you're waiting on one that is overcrowded.

*The transit officials would say that's why we need to spend even more money on rail so we can have rail lines all over the place.*

[Laughs] Well, the sad part of that is just to say rail lines all over the place. You're going to have to move people in order to have rail lines all over the place. Now you can't have rail lines going into the heart of the city like the bus. The bus is mobile. It moves when the people move. A train, once you put the track down, the track is down there. You can't just lift it up and move it over this way.

*What happens when a bus line replaced with a rail line?*

[Laughs] What happens then is you are forced to make a longer trip because now you don't have that bus so you are forced to go on the train, go out of your way to connect with the bus again, to get to where you're going.

*Before you could do it with fewer transfers?*

With fewer transfers and less time. Because every time you have to get off of something to wait for something else, you're losing time.

*But in cities that are proposing new rail lines, where people are unfamiliar with how they work, they don't think about the wait time.*

Exactly. And those same people don't think about late at night or early in the morning; it seems forever. I mean 20 minutes waiting on the bus is a long time, but that 20 minutes begins to look like an hour. Especially early in the morning when it's very cold or late at night when it's very cold.

I have to be at work at 8 o'clock in the morning. I have to be at my bus stop at 6 o'clock and the littlest variation—the bus doesn't come, it breaks down, the bus is so overcrowded that it does not stop for you—means now you have to wait for the next bus, and all of this is working on your nerves. It's causing you to be more tense when you get to work and makes your day longer and more exhausting.

*Local officials often say they want to attract "choice" riders to transit, people who have cars. They say that's why we need rail, because a rich person won't get on a bus but he or she will get on a rail car.*

And that's the whole point. Rail is made for choice riders. They have a way of getting to work. So you're going to take subsidies away from the poor to give to the people that have

a choice, that have more and then the people that have less will have even less. You're taking from the crummy system they already have to build a better system for people who have cars.

Choice riders won't ride the bus because we have a crummy bus system. This is one of the things that the Bus Riders Union is fighting for is a first-class bus system so the poor can have a better quality of life. By having a first-class bus system they have more choices regarding opportunities for work. You make a choice now: Wow, there's a good paying job across town, but how long is it going to take me to get there?

And for families, when you're on and off the bus with your kids that is nerve-wracking. I've been there. You're panicky from the time you get off because you're running to catch the bus because you can't be late, because normally at child care you're docked for every five minutes that you're late. You're already in a lower-income bracket; you can't afford to pay any more for child care. Your whole day is full of stress. And yet you may have an opportunity to get a better job, but it's farther away from home. And if you're on the bus you can't take it because you'd probably be late too many times, and even if you weren't late, what about your child care? You'd probably end up paying more because you'd have that extended child care, if you can get it.

*If you could cut your commute to one hour per day would that help your job prospects?*

Oh it would definitely help my job prospects, and it's also a dilemma even now if I have to work overtime. It's like, overtime? [Laughs] It's taking me forever to get home now, and you're talking about working overtime? ■

### How Barbara Gets to Work

- Wakes up at 5:30 am.
- Leaves home by 6:00 am.
- 5 minute walk to bus stop.
- 5-20 minute wait for first bus.
- 40 minute ride on first bus.
- Gets off first bus.
- 20 minute wait for second bus.
- 20 minute ride on second bus.
- 20 minute walk to office.





## TX, NC Push Ahead with Toll Roads, PPPs

By Robert W. Poole, Jr.



Recent developments confirm that Texas is the state most aggressively moving ahead to use tolls and public-private partnerships to keep its highway system growing in pace with travel demand.

In June, TxDOT formally requested detailed proposals from three pre-qualified private teams for the 800-mile Mexico-to-Oklahoma Trans-Texas Corridor. The route is designed to parallel (to the east) I-35, a major truck route for NAFTA traffic, while bypassing the major urban areas of San Antonio, Austin, and Dallas-Fort Worth. It is the first of a number of major highway/truckway/rail/utility corridors to be developed under Gov. Rick Perry's long-term Trans-Texas Corridors program. Preparing detailed proposals to design, finance, build, and operate the initial corridor will be teams headed by Skanska, Fluor, and Cintra.

Second in size is a set of new toll roads worth over \$2 billion in the Austin area. In mid-July, the Capital Area Metropolitan Planning Organization voted 16 to 7 to go forward with the plan. Three toll roads are already under construction, and if the full plan is implemented, the new Central Texas Regional Mobility Authority will have 11 in operation within a decade.

Other new toll road projects are on the drawing boards in smaller metro areas. Brownsville, at the border, is close to deciding that its new 8.6-mile West loop beltway will be developed as a toll road, under the auspices of a to-be-formed regional mobility authority. And Texas A&M may get a more direct link to and from Houston, if TX 249 is extended from Houston to Navasota as a toll road, dubbed the "Aggie Pike." Tolling is being studied for the route because otherwise it will "take decades" to finance it, according to a June report on [www.tollroadsnews.com](http://www.tollroadsnews.com).

Meanwhile, under 2003 legislation creating its new Turnpike Authority, the North Carolina legislature authorized three initial toll road projects. The first half of 2004 saw extensive discussion of what those projects should be. As of mid-year, it appears that they will be the Triangle Parkway connecting to I-40 at Research Triangle Park (the Raleigh, Durham, and Chapel Hill metro area), the Garden Parkway in the suburbs of Charlotte, and New Bridge and/or segments of the planned outer loop in Wilmington on the coast. But other possibilities under discussion include the Monroe Bypass in Charlotte

and an airport access toll road in the Piedmont Triad area (Greensville). With highway funding far below what would be needed to fund large new projects, tolling seems to be gaining acceptance as the best way forward. North Carolina's enabling legislation authorizes the Turnpike Authority to enter into public-private partnerships for such projects. ■



### Florida's PPP Law Modernized

What if legislators passed a highway PPP law and nobody made use of it? That's been the fate of the Private Transportation Act, enacted in 1991 by the Florida legislature. Despite an optimistic debut, with much talk of a new era in transportation finance, not a single project has been developed under its provisions. One reason may be that, between the businesslike Florida Turnpike Enterprise and several successful metro-area toll agencies, Florida is already tapping private capital to develop a large number of toll projects.

But two basic flaws in the 1991 act made it a dead letter to the private sector. First, the law required that each and every proposed private project be submitted as a bill to be voted up or down by the legislature. It turns out that no private company is willing to put the time and money into developing a serious proposal that would then be subject to a roll of the dice in a legislative body. The states with successful PPP laws have general enabling laws, delegating the approval process to the state DOT (and sometimes also to lower levels of government). The other problem was the law's insistence that every such project be 100 percent privately financed, rather than permitting a mix of public and private capital. That sounded good in theory, but as California found out with its AB 680 pilot program law, very few projects can be financed on that basis, given the competition from free roads.

In its 2004 legislative session the 1991 act was modernized by striking those two key problem provisions. In addition, the legislature extended the same PPP authority to the state's local toll agencies. This was the third or fourth attempt to fix the old law's manifest defects, and it finally succeeded. Florida may now join the ranks of Texas and Virginia in moving forward aggressively with public-private partnerships for toll roads. ■

## International Spotlight:

### Express Toll Lanes

By Robert W. Poole, Jr.



At least three other nations have begun to consider adding Express Toll Lanes to congested freeways: Germany, Israel, and the United Kingdom. Each is proposing a slightly different version.

Four years ago (September 2000), a federal commission in Germany (the Paellmann Commission) proposed the gradual shift of highway funding from general taxation to tolling. One much publicized first step is the troubled and much-delayed project to implement GPS-based tolling of all heavy trucks on German highways. But less noticed was the enactment of the Private-Sector Funding of Trunk Road Construction Act. It authorizes the government to enter into long-term agreements with private firms to finance, build, operate, and maintain new federal trunk roads, and to improve existing ones, to be paid for by charging tolls. Under this law, 14 segments of autobahn (about 350 miles worth) have been defined as eligible for the addition of privately developed Express Toll Lanes. Proposals will be sought from the private sector.

Israel, meanwhile, has announced a project to add a variably priced Fast Lane to congested Highway 1 between Ben Gurion Airport and Tel Aviv. The \$80 million, eight-mile-long project would include a park-and-ride lot and a barrier-separated new lane. Buses and super-high-occupancy (four or more occupants) vehicles would use the Fast Lane at no charge, presumably making use of the park-and-ride lot. All others would pay an electronically collected toll that would vary with the level of traffic. The project will be developed on a build-operate-transfer (BOT) basis, with a franchise term of 20 to 30 years, according to Cross Israel Highway Company, Ltd. Applications were due August 1st and a short list of bidders is to be announced by September 14.

In the United Kingdom, the initial success of the country's first private toll road, the M6Toll near Birmingham, has led the government to explore the next step: expanding the M6 northward to Manchester using tolls. But instead of widening and tolling the existing M6, Transport Secretary Alistair Darling has suggested building a parallel tolled expressway—essentially a set of Express Toll Lanes nearby.

In a government study paper (available at [www.dft.gov.uk](http://www.dft.gov.uk)), the Department for Transport notes that “A new expressway

would provide road users with a choice either to use the existing M6 or to pay to use an M6 (toll) expressway for a faster, more reliable journey. It would be a radical departure from the past. But evidence from the new M6Toll around the north of Birmingham suggests all road users in the area would see improvements.” Drivers on the M6Toll (which is separate from the old M6) are saving a half hour on a trip that used to take more than an hour during peak periods, especially on Friday afternoons. Partly because the new toll lanes would have fewer interchanges, DfT estimates that the new four-lane project would cost less than widening the existing M6. And building the new, separate lanes would be far less disruptive to traffic during the several years of construction.

### Toll Roads

More and more countries are turning to toll roads and privatization to meet growing needs for high-quality highways, thanks to rising levels of auto ownership and truck transport. Argentina, Brazil, and Chile are among the largest practitioners in Latin America, and a number of Asian countries (including China, Malaysia, and the Philippines) have followed suit.

India now appears to be moving strongly in the toll-road direction, according to a presentation at the June technical conference of the International Bridge, Tunnel & Turnpike Association in Miami Beach. The president of India's largest investor-owned toll road company, Consolidated Toll Network Ltd, projected that the fast-growing country could have 28,000 miles of toll roads within a decade. Both the federal government and the various state governments have similar programs. Governments typically provide the land and often a portion of the capital (because governments require there to be free-road competition and local traffic exemptions from tolls). The private sector builds and operates the toll roads, typically on 20- to 30-year franchises. The country thus far has less than 1,500 miles of motorway-standard highway, but plans call for a massive expansion. The near-term goal is for 28,000 miles, nearly all of which will be developed as franchised toll roads. Some 8,900 miles of that is being franchised by the National Highways Authority, and will involve an estimated \$14 billion in project costs.

Australia has been using the private franchise model for the past 15 years to develop nearly all the new expressways in Melbourne and Sydney. It has been the first country to pioneer significant use of shareholder equity investment in toll roads, to the point that investors can now invest in toll road mutual



funds. The newest project in Melbourne, the \$1.5 billion Mitcham-Frankston Tollway, seems likely to be financed in part via a public stock offering. One of the two leading consortia bidding on the project has announced that its financing plan will rely heavily on equity capital. (That model has so far been used only once in the United States, to finance the \$650 million SR 125 toll road in San Diego.)

The British government, while considering a second toll road project is also taking a longer-term look at highway finance. A year-long study commissioned by Transport Secretary Alistair Darling, explores the feasibility of implementing a nationwide tolling system in which every car would be equipped with a GPS-based unit able to record and charge for every mile driven. Prices would vary depending on the type of road, type of vehicle, level of congestion, etc. The study was commissioned to look at a number of alternative ways of dealing with growing traffic congestion, and the tolling scheme is but one of 11 alternatives. Recognizing that if tolling were imposed in addition to what are probably the world's highest fuel taxes, the report suggests that "some, if not all, of the money raised will be offset by cuts in fuel duty," according to a report in *The Observer*. A survey conducted as part of the study found that 60 percent of motorists would accept the shift to tolling if overall taxes/charges did not increase.

Finally, toll roads may be on the agenda for Russia, as well. In his annual State of the Nation address May 26th, president Vladimir Putin said that toll roads are "an urgent priority" for Russia. He called for the government to develop a list of toll projects for all main routes. Transport and Communications Minister Igor Levitin has promised draft proposals by Oct. 1st, and a draft bill is to be submitted to the lower house of the Duma by November, with the intent of enacting a toll roads law in 2005. ■

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## Boosting the Bus

By Ted Balaker



If bread on supermarket shelves were moldy and increasingly expensive, we'd expect fewer people to buy bread. When faced with paying more for a worse product, it's not surprising that more customers simply refuse to buy the product. We should be similarly unsurprised to discover that—after years of fare increases and degraded service—transit's market share continues to fall. Today, Americans use transit for only 1.5 percent of trips.

From the point of view of those who rely on transit, the problem is customer service. Bus patrons have very straightforward requests: more routes, and faster, more frequent, more reliable service. From the point of view of the taxpayer, the problem lies with incentives. Our current system lacks the incentives to emphasize cost containment.

So what could satisfy both the transit patron and the taxpayer? Often the answer is private sector participation. A recent Transportation Research Board survey notes that—when asked if they had to do it over again—roughly 80 percent of transit managers who chose contracting say they would stick with it a second time.

In the United States and Europe, competitive contracting has reduced operating costs from 20 to 51 percent, with savings of about 35 percent being the norm. And improved service often accompanies lower costs. After decades of subsidies, outside money has become more important to agencies than revenue from fares. And as in any service, when customer patronage is detached from revenue, customer service falters. However, since companies bid for the right to serve bus patrons, competitive contracting can bring customer service back to transit.

### What to privatize?

From accounting to Web site management, agencies can privatize almost any function.

Foothill Transit in Los Angeles has essentially no employees. A management company handles all the central office functions and oversees the contract transit operators. The results: As of 2000, the Foothill buses were operating at a unit cost 42 percent lower than that of L.A. County Metro's publicly operated lines.

Of course, private sector participation is not an all or nothing proposition. An agency may decide to privatize some

See PRIVATE TRANSIT on Page 15

## Chicago to Create 100 Competitive New Schools

By Lisa Snell



This summer Chicago Mayor Richard Daley announced his six-year \$150 million “Renaissance 2010” plan to shut down Chicago’s failing public schools and open 100 new schools by 2010. Mayor Daley has more control over Chicago’s public schools than other urban school leaders because the state legislature gave him legal control of the schools in 1995.

In the 2003-2004 school year, 365 of Chicago’s 600 schools had to offer students the option to transfer to a better-performing school because they had not met federal academic goals under the No Child Left Behind Act. Yet because of a lack of school capacity and overcrowding at higher-performing schools, only 1,100 out of 240,000 students who were eligible to transfer were allowed to do so.

In response to the problem, the mayor’s Renaissance 2010 plan will allow the creation of 30 new charter schools and 30 new contract schools created by private groups that sign five-year performance contracts with the district. The proposal will sell some school buildings and reopen some high schools and elementary schools into new configurations of smaller schools catering to no more than 350 to 500 students each. The plan will also allow 60 of the 100 schools to operate outside the Chicago Teachers Union contract.

The effort will be partially funded with \$50 million in private donations. The Civic Committee of the Commercial Club of Chicago, an organization comprised of the leaders of 75 of the Chicago region’s largest corporations, professional firms, and universities, played a key role in selling schools chief Arne Duncan and Daley on the idea of creating independent schools. The committee is leading the effort to raise \$50 million to cover startup costs at the new schools, half of which has already been committed by the Chicago Community Trust, the Gates Foundation, and others.

About 60 schools will be closed over six years as new models come online, for a total gain of 100 new schools. There will be some new construction, but in most cases—especially in large high schools—the buildings will be divided into several smaller schools.

The plan includes a vision for many different types of specialized schools and the replication of existing successful specialized schools and charter schools.



Some of the proposed schools already online or under consideration include:

- Five new magnet schools that will be supported by a \$9 million federal grant.
- A new public military high school for Chicago’s North Side for fall 2005, through a partnership with the Naval Service Training Command at the Great Lakes Naval Station.
- A new charter school developed by the law firm of Sonnenschein, Nath & Rosenthal scheduled to open in September 2005 in the city’s North Lawndale neighborhood. The firm will spend about \$200,000 a year to start its school with pre-K classes and kindergarten, and then add a grade each year.
- A new “early college” high school linked with DeVry University.

Daley plans to replicate existing charter schools such as Chicago’s Noble Street Charter School, where kids have a longer day and study in smaller classes, and Perspectives Charter School in the South Loop, where every student must land a job or show a college acceptance letter to get a high school diploma.

Other possibilities include partnerships with Catholic schools, universities, nonprofits, social service agencies and the Chicago Historical Society. For example, Chicago public schools officials have invited leaders of the San Miguel Catholic School to run a new public school as part of Renaissance 2010 plan. A not-for-profit secular arm would be established for the contract.

Several other urban school districts have introduced more limited versions of Mayor Daley’s Renaissance 2010 plan. In

See DALEY’S PLAN on Page 13

## Express Toll or HOT Lanes? Competing Concepts Vie for Support

By Robert W. Poole, Jr.



Now that the idea of market-priced congestion-relief lanes seems to have reached critical mass in America, new versions of the concept are gaining support. Several state DOTs are now promoting

Express Toll Lanes rather than High Occupancy Toll (HOT) lanes. In an ETL, all vehicles (except buses and perhaps vanpools) pay the tolls; there are no exemptions for carpools or other favored categories of automobile. By contrast, HOT lanes have always been seen as combining carpool lanes with pay lanes. The rationale for ETLs is twofold:

- 1) Where the specialized lanes must be added to an existing freeway (rather than being converted from HOV lanes), the construction cost is so high that not charging a significant fraction of vehicles dramatically reduces toll revenues needed to pay for building the lanes.
- 2) Enforcement can be fully automated (electronic and video) if all vehicles must carry transponders to use the lanes, and there is no need to count the number of occupants.

Florida and Maryland are leading the way into ETLs, and several others may be joining the parade. In Florida, the setting is especially favorable since the three largest metro areas—Miami/Ft. Lauderdale, Orlando, and Tampa—already have significant toll road operations and relatively small amounts of HOV lane capacity. Hence, moving forward with ETLs can take advantage of pre-existing acceptance of tolling and the absence of a large carpool/HOV constituency. The local toll agency in Tampa is already constructing a reversible, elevated ETL project on its Crosstown Expressway. Florida DOT is promoting the addition of ETLs to congested I-4 in Orlando and the Florida Turnpike in Miami, while the Miami-Dade Expressway Authority is far along with plans to add ETLs to its congested Dolphin tollway. FDOT is also looking into adding ETLs to I-595, the major east-west freeway in Broward County (Ft. Lauderdale). And it also has a feasibility study under way on converting the existing HOV lanes on I-95 in Miami into either ETLs or HOT lanes.

Maryland Transportation Secretary Robert Flanagan in May announced plans to create a statewide network of ETLs, rejecting the alternative of HOT lanes due to both enforcement difficulties and revenue needs for what would be mostly new

construction in a high-cost urban/suburban setting. MDOT is looking at the possibility of ETLs on I-270, I-95, and the Washington and Baltimore Beltways, among other routes. It is also exploring the possibility of public-private partnerships for these projects.

Several other jurisdictions are also involved with ETLs. In Houston, the Harris County Toll Road Authority in May opened its new Westpark Tollway, an all-electronic 8.5-mile toll road providing a congestion-relief alternative to congested east-west arterials. Though not currently using variable tolling, the Westpark can easily shift to that kind of pricing when it starts to get congested. The Port Authority of New York and New Jersey is studying the possibility of adding a second express bus lane approaching the Lincoln Tunnel in New Jersey, but with cars allowed to use its excess capacity by paying a variable toll. Since only buses and paying vehicles would use the lane, it would qualify as an ETL. And the Minnesota DOT is studying a network of FAST lanes for the Twin Cities, based on Rep. Mark Kennedy's (R, MN) concept for electronically tolled congestion-relief lanes added to Interstates. There is no mention of special deals for carpools in Kennedy's amendment, which is included in the House bill to reauthorize the federal surface transportation program. So the result may be a set of ETLs in Minneapolis/St. Paul (though an existing HOV lane on I-394 is in the process of being converted to a HOT lane, expected to open early in 2005). ■



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## Tolls or Taxes? How to finance highways of the future

Commentary by Peter Samuel



The traditional highway lobby—ARTBA (American Road & Transportation Builders Association) and AASHTO (American Association of State Highway & Transportation Officials)—must be pretty demoralized these days. Their big push for

higher gas taxes has collapsed, their fly-ins and hoopla and big ad campaigns all wasted. An increase in the gas tax is simply not discussed by anyone serious on Capitol Hill.

Ron Utt of the Heritage Foundation calls the U.S. highway system the “world’s largest socialist enterprise.” That sounds like a cheap shot, but it’s not. Our transportation system is central planning writ large, with “users” instead of customers and a nearly total absence of market pricing.

The highway/transit system is so riddled with corrupt political deals (“earmarks” is the euphemism) that there is an atmosphere of public anger in which the ARTBA-AASHTO notions of larger tax financing had very little chance of being taken seriously. Eventually, Utt suggests, the whole program with its vast complex of rules and regulations and pork, could collapse under the weight of public exasperation and ridicule. (I think more likely it will simply stagnate, or wither, and be steadily bypassed by tolling.)

ARTBA, AASHTO and their allies persist in the discredited notion that the grab-bag of fuel taxes, license fees and so forth which feed the great slush fund are not taxes but “user fees.” This is a silly semantic game, which the public doesn’t buy. Since everyone is a user of roads, any tax whatever, on anyone, could logically be called a road-user fee.

### Wanted: Use Fees, Not User Fees

What we need are not user fees but use fees—fees not on users but for the use of the road. It is the use of the road by a given motorist which occupies valuable road space and which cumulatively breaks up the pavement and otherwise makes demands on resources, and which should be priced accordingly.

Veteran transportation analyst Kenneth Orski thinks the gas tax will gradually decline in importance as alternatives grow (see [innobriefs.com](http://innobriefs.com)). And he thinks that new highway capacity will be largely funded by tolls—a proposition that he reports is increasingly widely held in the administration,

on Capitol Hill and in a number of states. Orski sees tolls (1) as a revenue raiser, and (2) as a way to use variable pricing to maintain free-flow conditions, by metering out those whose value of time for the trip is less as compared to those for whom its value is more.

### A Third Argument for Tolling

Tolling also provides a financial discipline that can sort out good new road projects from bad ones, and then help keep them customer-oriented and efficient. The management of toll roads mediates between investors wanting a return on investment and motorists wanting road service value.

The plague that afflicts traditional tax-and-grant roads is inherent in the political process that governs taxing and granting. There is an imbalance of power between small groups with a large concentrated interest in a particular road and the multitude who will pay for it. Since each person pays only a small amount for each project, taxpayers have little incentive or ability to scrutinize whether the road represents value for money. So you get thousands of individually indefensible projects and an angry public not knowing where its money has gone, but feeling strongly a lack of value for the gas tax they paid.

In his book, *Home on the Urban Range: an Idea Map for Reforming the City*, Filip Palda put it nicely: “Users are from Mars, payers are from Venus, and wealth disappears in the void in between.” The taxes that pay for unpriced roads and transit “lobotomize voters,” Palda says, because they go into a big government-controlled “pot.” They call it a “trust fund,” but it’s something in which the people increasingly have no trust!

A market in road properties themselves—possible with tolls—will create more economy and more value. It will reward the efficient and those who judge motorists’ needs well. Economies of scale will be achievable through consolidation and joint operations by spreading overheads. Toll roads that don’t work out and cannot service their debt will rarely be closed because operating costs are small. But their investors will take heavy losses, so as to make investors properly wary. Politicians who make decisions about roads rarely take losses on them if they turn out to be wasteful. Toll roads can lift roads out of the mire of interest group politics and make them part of the mainstream market economy.

*Peter Samuel, a Reason adjunct fellow, is the proprietor of [TOLLROADSnews.com](http://TOLLROADSnews.com), on which an earlier version of this article appeared. ■*

## What Happens to a Failed Toll Road?

By Robert W. Poole, Jr.



Critics of privatization in the highway field sometimes raise the issue of bankruptcy. What happens if the private sector grossly over-estimates the traffic on the new toll road and therefore doesn't generate enough revenue to cover the costs of servicing its debt (i.e., making the scheduled payments to those who bought its toll revenue bonds)? Won't the taxpayers be left holding the bag for a white elephant project?

That drama played itself out near Laredo, Texas earlier this year, as the private toll road called Camino Colombia went bankrupt. Opened in October 2000 at a cost of \$90 million, the toll road aimed to capture the majority of truck traffic crossing the border at Laredo to head north on I-35, by providing a direct connection between I-35 and the Colombia-Solidarity Bridge. Unfortunately, several factors combined to produce less than 10 percent of projected truck traffic. First, continuing litigation by U.S. trucking unions kept Mexican trucks from operating long-distance into the United States, as authorized by NAFTA (until the Supreme Court tossed this out in June). That meant trucks crossing the border had to be handled by Laredo-based "drayage" operators, all of them based near downtown Laredo, a good ways from the Colombia-Solidarity Bridge. Second, a new bridge in downtown Laredo opened shortly before the toll road opened; that cut truck traffic on the older bridge from 5,000/day to 1,300. Third, federal and state grants paid for a 2.5-mile freeway connection from the new downtown bridge area to I-35, further undercutting the time-saving rationale for the toll road. And fourth, a promised connecting toll road on the Mexican side was delayed until just recently.

Therefore, late last December, the lenders (New York Life and John Hancock Life Insurance) foreclosed, leading to a bankruptcy auction on January 6, 2004. Hancock bid \$12 million and won control of the toll road, acquiring the project for 13 percent of what it cost to develop. With a much smaller capital cost on which to make a return, and improved long-term prospects thanks to the Supreme Court decision and the recent opening of a connecting toll road on the Mexican side, the road's long-term prospects are arguably positive. With that in mind, the increasingly toll-road-oriented Texas DOT in May announced an agreement with John Hancock to purchase the toll road for \$20 million, and continue to run it as a toll road.

The bottom line is that no toll road gets built unless there is a plausible case that the investment will pay off—long-term, if not short-term. Even in cases where the private-sector forecasters and financiers are way off on near-term revenue (as in this one), the asset still has future value, especially when written down to a more sustainable capital value. The pavement has not been ripped out and carted away. The road is still there to serve current and future traffic. And Texas taxpayers were not left holding the bag. It was the two big insurance companies that gambled and lost. Now TxDOT has picked up an eventually important component of the highway system at just over 20 cents on the dollar, which it hopes to recover from tolls. ■

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### DALEY'S PLAN

Boston, nearly 10 percent of students attend independently run "pilot schools" with the flexibility to decide their budgets, curriculum and school policies. The Boston initiative has attracted millions in private donations from the Gates Foundation and local philanthropies. The Boston Foundation, for example, granted \$50,000 to \$100,000 to schools that converted from traditional to pilot schools.

The pilot schools have higher student attendance rates, lower percentages of students who transfer, and some of the lowest suspension rates. On state tests, the schools score better on average than the district's neighborhood schools. The schools are reviewed every four years, and none has been closed for poor performance since the initiative was launched in 1994.

In Philadelphia, 45 of the cities lowest-performing public schools are managed through contracts with independent firms. Test score data from 2004 reveal that these schools have improved academic achievement for the cities neediest students.

Similarly, in fall 2004 New York City will open eight new charter schools as part of Schools Chancellor Joel Klein's plan to develop 50 new charter schools over the next five years. Three of the new charter schools will open in the Bronx, two will be in Brooklyn, two will be in upper Manhattan and one is planned for Far Rockaway, Queens. Private-sector involvement has been embraced in New York City, where private donors have invested \$41 million to help create 50 new charters in the next five years. In a plan similar to Chicago's, New York school officials will give the charter schools space in their buildings and provide start-up funds. ■

## Building Highways or Bureaucracies?

By Geoffrey F. Segal



A new report compares the nation's five largest Departments of Transportation and finds particularly high costs and inefficiencies at the California Department of Transportation (Caltrans). "State DOT Project Delivery Practices: A Comparative Analysis" concluded that Caltrans has higher overhead and less efficiency in project management compared to Florida, Georgia, New York, Pennsylvania and Texas. Thomas R. Warne, the study's author and former Utah DOT head, points out California's very low use of outside engineering support. Only 5 percent of state dollars are spent on private-sector engineering compared to an average of 64 percent in all other states (see figure below).

In 2000, Reason found that outsourcing infrastructure-related services, such as engineering, had several benefits, including cost-effectiveness, improved delivery of services, innovation in infrastructure projects, access to specialized outside expertise and dealing with peak demand more efficiently

than traditional public-sector efforts. (See *Infrastructure Outsourcing*: [rppi.org/privatization/ps272.html](http://rppi.org/privatization/ps272.html)).

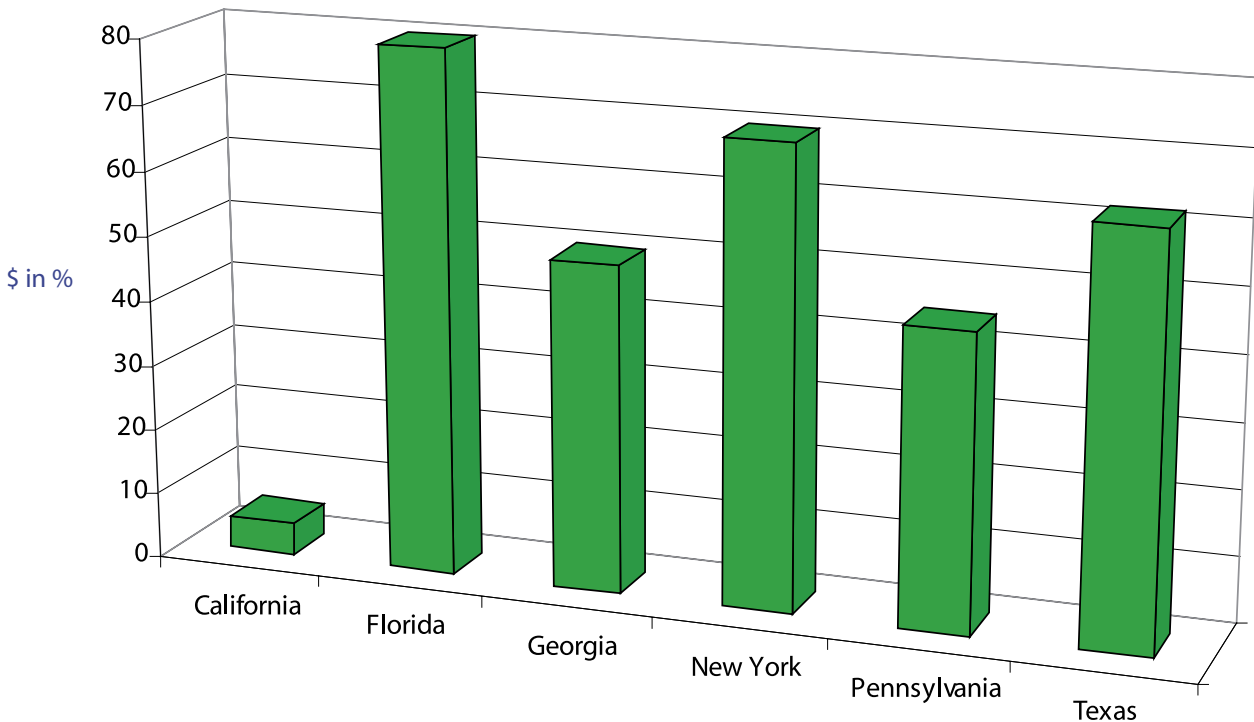
### Staying In-house

Historically, state DOTs have used federal highway money, as well as their transportation funds, to build in-house capabilities in surveying, mapping, engineering and planning. Often, the Federal Highway Administration (FHWA) has actually encouraged the states to build in-house capabilities rather than contract to the private sector.

Many states have their own crews, equipment and capabilities that duplicate services available from private firms. States often own airplanes and cameras for mapping aerial photography, analytical stereoplotters (mapping computers), GPS satellite surveying receivers, LIDAR systems, photographic laboratories and other expensive equipment to perform services already available from private firms.

Some state DOTs even market these services outside their own agency, performing work for other state agencies, city and county government, and even non-government organizations, in direct competition with the private sector. For example, the Washington State DOT advertises its services on the Internet,

### Use of Private-Sector Engineering by State DOTs





complete with a price list (<http://www.wsdot.wa.gov/maps-data/geoservices.htm>). This not only perpetuates inefficient bureaucracies, but puts government in direct competition with private, taxpaying companies and their employees.

How much the states avail themselves of the expertise and efficiency of private engineering firms is in dispute. The FHWA does not monitor state compliance with current federal law and does not conduct audits or in any way perform oversight of state transportation agencies, which are expending federal funds, to determine if these programs are being operated in the most efficient and cost-effective manner.

A provision in current law, 23 USC 306, encourages the use of the private sector for federally funded highway projects. Since 1956, it has required the Secretary of Transportation to “wherever practicable, authorize the use of photogrammetric methods in mapping, and the utilization of commercial enterprise for such services.” The law was amended in the 1997 National Highway System Act to require the Secretary to “issue guidance to encourage States to utilize, to the maximum extent practicable, private sector sources for surveying and mapping services for projects.”

While the 1997 Act was expected to be a significant step forward in recognizing the benefits of government agencies using the private sector for surveying and mapping services, enactment of TEA-21 had exactly the opposite effect. It was expected that states would increase use of the private sector not only because a tremendous expertise and capability exists in the private sector, but because contracting saves money, more efficiently applies limited transportation resources, creates private-sector jobs, and expands each state’s tax base. Rather, states have used federal highway funds to purchase even more equipment, increase the size of their in-house staffs and continue with business as usual.

In some states, DOTs perform their own engineering, surveying and mapping necessary to meet state highway requirements, thus denying contracting opportunities by private firms. The requirements of the federal Office of Management and Budget’s Circular A-76, which requires “competitive sourcing” to determine whether in-house or private providers render the best value to the taxpayers, do not apply to grant-in-aid programs. Few states have comprehensive competitive sourcing programs of their own, so the efficiency of these DOT activities is unknown and untested.

Stronger federal legislation could require efficiency, enhance quality and lower costs, implement accountability, as well as stretch highway dollars to meet pressing transportation infrastructure needs. ■

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#### PRIVATE TRANSIT

functions and keep others in-house, and certainly these decisions will vary from agency to agency.

Also, the key distinction isn’t so much private vs. public, but competition vs. monopoly. Private transit operators that are shielded from competition have shown that they will become inefficient, while public agencies exposed to competition have improved efficiency. Competition prods service providers to offer an appealing product, and local oversight ensures the fulfillment of performance measures.

When the transit-dependent poor and handicapped have better access to education and employment, they are better able to pull themselves up the economic ladder and realize greater personal fulfillment. So the bus can serve a very important role, and private sector participation can help it become the best it can be. ■

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## Who, What, Where

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HOT Networks: A New Plan for Congestion Relief and Better Transit, Robert W. Poole, Jr. and C. Kenneth Orski. Policy Study No. 305: [rppi.org/ps305.pdf](http://rppi.org/ps305.pdf)

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2004 National Summit on Charter School Innovations, Performance Institute, Washington, D.C. Nov. 30-Dec. 1: [performanceweb.org](http://performanceweb.org)

16th Annual Public-Private Ventures in Transportation Conference, American Road & Transportation Builders Association, Washington, D.C., Dec.8-9: Visit [www.artba.org](http://www.artba.org) or call Ed Tarrant at 1-888-821-9653, ext. 119.

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