



Privatization Watch

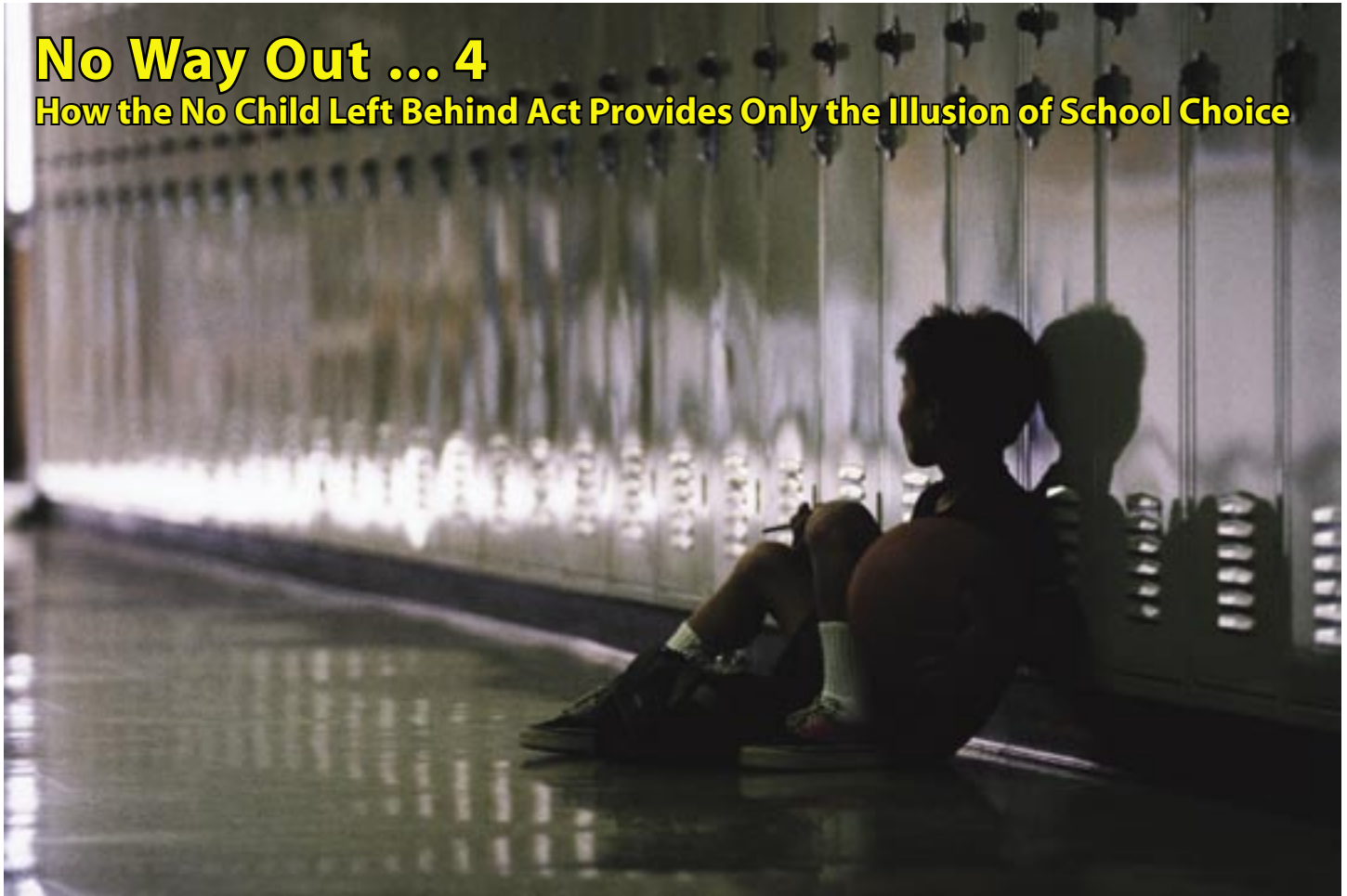
Analyzing privatization developments since 1976

Vol. 28, No. 6, 2004

A Project of Reason Foundation, the World Leader in Privatization

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Privatization Watch

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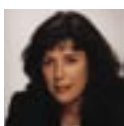
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Published by Reason Foundation

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Privatization Briefs

Study: 78 Percent Not Ready for College

According to a new study by the college entrance testing organization ACT, only 22 percent of the 1.2 million students who took its test this year were ready for college-level work in English, math and science.

The study found that the proportion of students taking a minimum of college preparatory courses—four years of English and three years each of mathematics, science and social studies—had risen only slightly in 10 years, from 54 percent in 1994 to 56 percent in 2004.

The report claims that during the last 10 year we've made "virtually no progress" helping students to become ready for college or jobs. "And from everything we've seen, it's not going to get better any time soon."

Where Teachers' Kids Go to School

Nationwide, about 12 percent of parents send their kids to private schools, but that figure gets bumped up significantly if the parents are public school teachers. In fact public school teachers are almost twice as likely as other parents to choose private schools for their own children, according to a study by the Thomas B. Fordham Institute. See the table below for figures for selected areas.

Metro area	Percentage of public school teachers who send their children to private schools
Washington	28
New Orleans	29
Milwaukee	29
New York-New Jersey	33
San Francisco-Oakland	34
Baltimore	35
Rochester, N.Y.	38
Chicago	39
Cincinnati	41
Philadelphia	44

Paris Airport for Sale

The French transport minister in late September announced that the government will sell a minority stake in Aeroports de Paris to investors in 2005. ADP operates the two major airports

serving Paris and several smaller airports in the capital region. The bill before the French parliament would set the stage by transferring formal ownership of these airports to ADP and organizing it as a company, initially with 100% ownership by the national government. It would also corporatize the major regional airports, such as Nice and Marseille, which would also lay the basis for their subsequent privatization. The government's aim is to get the bill enacted by early 2005

Russia to Build Public-Private Toll Road

Russia's Federal Road Agency has announced plans for a \$6.2 billion toll road between Moscow and St. Petersburg. The new tollway would parallel an existing highway but provide faster travel due to bypassing cities and towns along the way. The government's plan is that half the cost will come from state funds but the other half from investors, who would be repaid out of toll revenues. FRA studies indicate that the average daily traffic of 35-40,000 would permit the tollway to be profitable. There is considerable truck traffic between St. Petersburg and Helsinki, Finland, and the Finnish government is planning to upgrade the highway between the two cities in the same time period. The FRA aims to have up to 20 toll roads completed by 2025.

British Columbia Contracts Out Passenger Rail Service

In 2003 British Columbia privatized BC Rail, selling it to Canadian National Railway Co. Now CN has taken a major step toward revitalized passenger service in BC by contracting with a private rail-tourism company to operate expanded services over former BC Rail and other CN lines. Great Canadian Railtour Company won the CN bid, and will operate a new Whistler Mountaineer train between North Vancouver and Whistler and a new Rocky Mountaineer line from Whistler through Prince George to Jasper, Alberta. GCRC has been operating the highly successful (and profitable) Rocky Mountaineer tourist trains from Vancouver for 15 years.

Jobs Offshored for Cost Savings and Quality

In a recent analysis of 45 companies that practice outsourcing, Columbia University's Earth Institute found:

- A major driver of offshore outsourcing is companies seeking skills they can't find at home.
- Seventy percent of companies that outsource report increases in quality of work.
- Actual cost savings, which remain the primary reason for

outsourcing, were achieved by 67 percent of the companies to the tune of 5 to 50 percent.


- The main downside to outsourcing perceived by American businesses is loss of institutional knowledge, data security, loss of intellectual property rights and political risks.

Governors Hold Strong on Outsourcing

Although precise figures are hard to come by, it's clear that state governments do very little offshore outsourcing. Of course, you wouldn't know that by the political reaction it has received. Dozens of states have moved to ban or limit the practice, but now the tide may be turning. The governors of Maryland and Massachusetts have vetoed anti-outsourcing legislation, and Governor Schwarzenegger recently did the same in California when he shot down five anti-outsourcing bills.

For daily Privatization Briefs, visit: rppi.org/outofcontrol ■

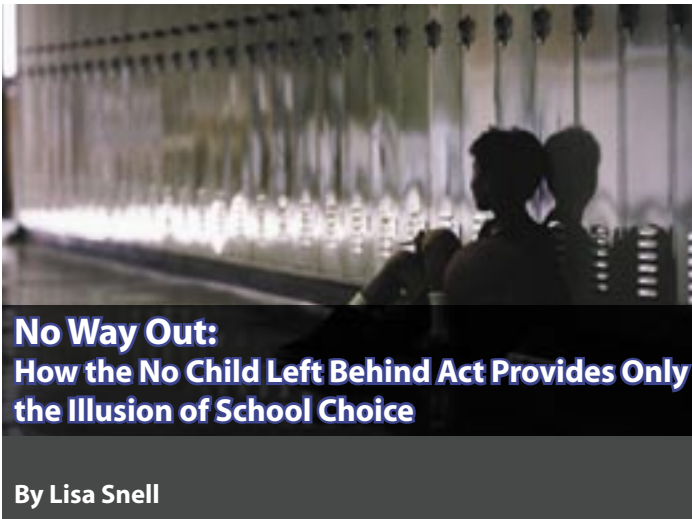
ANNUAL PRIVATIZATION REPORT 2004



**Chronicling developments in privatization,
outsourcing, and government reform for 18 years**

A project of Reason Foundation

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No Way Out: How the No Child Left Behind Act Provides Only the Illusion of School Choice

By Lisa Snell

Like every junior high school student in Camden, New Jersey, 12-year-old Ashley Fernandez attends a school that has been designated as failing under state and federal standards for more than three years. But low expectations were the least of this seventh-grader's problems. In 2004 Ashley's gym teacher became irritated by his unruly class and punished all the girls by putting them in the boys' locker room. Two boys dragged Ashley into the shower room. One held her arms and the other held her legs while they fondled her for more than 10 minutes. The teacher was not present, and no one helped Ashley.

Ashley's principal, who has refused to acknowledge the assault, denied her a transfer out of Morgan Village Middle School. Since the gym incident, Ashley has received numerous threats, including repeated confrontations with male students who grab her and then run away. When Ashley's mother began keeping her home from school, she got a court summons for allowing truancy.

Ashley is not alone. Last year Carmen Santana's grandson Abraham was afraid to go to his classes at Camden High School after two boys hit him in the face, broke his nose, and chipped his teeth. Santana was also charged with allowing truancy while she sought permission for Abraham to complete his senior year studies at home. More recently, Samet Kieng was almost killed at Camden's Woodrow Wilson High School after refusing to give up his chemistry class stool to a latecomer. In all, more than 100 parents have removed their children from Camden schools because of safety concerns. The school district's response: a truancy crackdown.

This situation is exactly the sort of problem that George W. Bush's much-ballyhooed No Child Left Behind Act (NCLB) was supposed to address. As the president said in a January 2001 press conference introducing the law, "American children

must not be left in persistently dangerous or failing schools. When schools do not teach and will not change, parents and students must have other meaningful options. And when children or teenagers go to school afraid of being threatened or attacked or worse, our society must make it clear it's the ultimate betrayal of adult responsibility."

NCLB was supposed to rescue kids like Ashley, Abraham, and Samet. The legislation was passed in December 2001 by a bipartisan coalition led by President Bush and Sen. Ted Kennedy (D-Mass.). Its central components include annual math and reading tests for students in grades three to eight based on state standards; parent-friendly report cards with assessment results broken out by poverty, race, ethnicity, disability, and English-language proficiency; and the promise to offer parents a choice of a better public school when their child's school is designated as dangerous or has failed to meet its state's academic standards for two years in a row.

Three years later, families across the United States are still trapped in failing and dangerous schools. There are many adjectives that describe their relationship with the public school system, but empowered is not one of them.

Since the No Child Left Behind Act was passed, less than 2 percent of parents nationwide have transferred their children to other public schools. Teachers unions, school administrators, and journalists have argued that the low transfer rates prove parents do not want more choices and that they prefer their local schools. But while parents have more information than ever about the quality of their children's schools, in most cases they still have no way out of a failing institution.

Districts have not made a good faith effort to implement public school choice. Sometimes parents are not notified of their option to change schools at all; other times they're told only after the school year is well under way. Some districts send parents letters discouraging them from transferring their kids. The choices themselves are limited to marginally better schools, with superior institutions often refusing to accept low-performing students.

One Bad School to Another

A February 2004 report by the Civil Rights Project at Harvard found that in 10 urban school districts with large concentrations of children eligible to exercise school choice under NCLB, less than 3 percent of eligible students requested a transfer. Even with the small number of requests, no district in the study was able to approve all or even most of the

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Helping Charter Schools Help Special Ed Students

By Lisa Snell



According to *Education Week's* "Quality Counts 2004: Count Me In: Special Education in an Era of Standards," approximately 6.6 million children receive special education services in the United

States. This means that more than 12 percent of American students in kindergarten through 12th grade are assigned to the special education system. Approximately 67 percent of disabled students have specific learning disabilities (SLD) or speech or language impairments. Fewer than 12 percent have disabilities associated with significant cognitive impairments, such as mental retardation or traumatic brain surgery.

Charter schools in the United States serve a relatively small number of special education students. According to the most recent survey from The Center for Education Reform, about 3,000 charter schools in the United States serve approximately 800,000 children. If special education students represent between 7 and 10 percent of charter school enrollment, this means charter schools are educating between 56,000 and 80,000 special education students.

In a 2003 study of 12 states, the average traditional school enrolled a higher percentage of special education students (except Washington, D.C.) than charter schools did, especially those with the most costly disabilities. Similarly, charter school operators in the U.S. Department of Education's Schools and Staffing Survey reported that 7.8 percent of their students had Individual Education Plans (IEPs) compared to 16.1 percent of traditional public school students. Likewise, in a 2003 charter school study, RAND researchers found that approximately 7.6 percent of California charter schools were given an IEP in contrast to 8.9 percent of students in conventional schools. RAND also found that California charter schools reported that 1.3 percent of their overall student populations were severely disabled. Conventional public schools reported that 1.1 percent of students were severely disabled. Overall, evidence suggests that charter schools may serve slightly fewer special education students, and these lower percentages are often automatically assumed as evidence that charter schools are not serving special education students.

Yet, based on anecdotal evidence, RAND researchers speculate that charter schools may have a philosophical difference and "choose not to give marginal students an IEP out of a belief



Five ways to improve innovation and accountability in charter schools

1. Structure special education funding to follow each child into the charter school.
2. Encourage special education cooperatives and insurance to pool resources among charter schools to achieve economies of scale and higher-quality special education.
3. Implement testing programs to measure individual student achievement.
4. Modify the No Child Left Behind Act's data reporting requirements for small sample sizes so researchers can analyze special education achievement in charter and traditional public schools.
5. Develop charter school "choice" pilot projects that grant charter schools a waiver from IDEA regulations in exchange for accountability.

that the stigma of special education may cause more harm than benefit to the child." Congruently, a Reason Foundation 2003 Survey of California charter schools finds that school directors reported using aggressive early intervention and remediation strategies to help reduce the rate of special education.

In 2004 there has been a renewed interest in better academic outcomes for special education students. In "Quality Counts 2004," *Education Week* examines the issues surrounding special education and accountability. The report notes that "within a decade, federal law requires that all students—including those with disabilities—be performing at the "proficient" level on state tests. This requirement has caused controversial headlines. In December 2003 CNN announced that "Special education students skew test results" and lead

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Bad Schools Threaten Urban Renewal

By Ted Balaker



From billion-dollar light rail lines to subsidies for downtown development, local officials across the nation have tried just about everything to get people to stay in or move to the city. Many cities have even turned to remaking their images with ad campaigns complete with catchy slogans like “City living, D.C. style!” which is part of a campaign designed to bring 100,000 new residents to our nation’s capital.

Unfortunately, “city living” in D.C. and other metro areas often means enduring awful public schools. The poor state of public education has thwarted many urban renewal plans, and has prompted many families to head for the suburbs in search of better schools.

In Washington, young people who moved to the area when they were single are now getting married and having kids. As their children become school age they naturally have more reason to care about the education system. And as their concern about education grows, their ties to the city loosen.

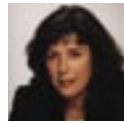
Jill Cashen and Keith Ashdown love their neighborhood on Capitol Hill, but when the young professional couple looks at the public school their 2-year old daughter Audrey would be assigned to they see the reason why they plan to leave the city. “No child should go to school there until some serious changes are made,” Cashen told the *Washington Post*. “It’s certainly not an option for our child.”

In Los Angeles, along with the usual list of features people look for in a house, homebuyers look favorably upon properties that sit outside the domain of the L.A. unified school district. The *Los Angeles Times* recently told the story of Jennifer and Marcus Errico, who purchased their home in Pasadena with two things in mind: affordability and steering clear of the Los Angeles unified school district. “Education and school systems were at the top of our list,” said Marcus Errico, news director for E! Online. “One reason we didn’t look in Eagle Rock is we were terrified of our kids going to LAUSD schools.”

When it comes to thriving neighborhoods, good schools are key says G.U. Krueger, vice president for market research at IHP Capital Partners, a real estate venture capital firm. “The most important variable for people when they are looking for housing is the perception of the schools,” Krueger said. “It doesn’t matter if the housing stock is new or old, people see schools as a reflection of communities.” ■

D.C. Schools May Follow Privatization Trend

By Lisa Snell



The new District of Columbia school superintendent recently announced he would consider privatizing such operations as facilities, purchasing and food service. Clifford B. Janey mentioned the proposal in a discussion with *Washington Post* staffers, in which he also said he would consider closing underused schools and giving students more time to graduate.

“I’ve been enormously disappointed in the lack of sound management policies,” said Janey as he expressed much frustration over the run-down condition of many school buildings and the inefficient food services operation. “There will be some dismissals in response to some of these audits that have just painfully pointed to irresponsible actions on the part of certain staff.”

Janey said he would consider contracting out “those operations that affect the quality of life of students,” but also cautioned that it would take as long as six years before the improvements became noticeable.

If D.C. schools move ahead with privatization, they will join the ranks of other big city schools that have turned to market reform to revitalize struggling schools. Schools across the country have saved millions through outsourcing, thus directing more resources to classrooms. When the St. Louis school district faced a \$90 million deficit, the school board hired William Roberti and his corporate turnaround firm to fix the district’s financial troubles and return more money to the classroom. A July 2004 report on the corporate management experiment found that in 13 months, Roberti’s team cut \$80 million from the budget, privatized divisions such as maintenance and food services, and fixed the district’s snarled bus system. Among the major services outsourced were payroll handling, warehouse operations, buildings and grounds maintenance, and electronic purchasing. Outsourcing saved the schools \$60 million out of a \$450 million budget, enabling them to add 131 teachers, hire literacy coaches for each school, begin computerized reading tests for students in grades 3-12 and fill vacancies in magnet schools.

Similarly, in 2002, the Philadelphia school district faced a \$28 million deficit. However, by relying on privatized transportation, custodial, food service and other support services, the

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Out of the Red in St. Louis

By Ted Balaker



The St. Louis public school system made history when it hired a corporate turnaround specialist to tend to its financial troubles. After it found itself teetering on the edge of bankruptcy, St. Louis called in the experts, namely William Roberti and his firm, Alvarez & Marsal. Last year, the district had to confront a \$90 million deficit, and although it spent \$11,000 per student (the highest rate in the state), only \$6,000 reached the classroom. A year later, while there's still much work to be done, things are looking up.

The financial overhaul included improving the inventory process, selling over 40 unused facilities and outsourcing non-core functions like payroll processing, and property maintenance (See D.C. Schools May Follow Privatization Trend, page 6). After finding tens of millions in savings, the district has even balanced its budget. Now that the financial chaos has subsided, the district can focus on teaching kids.

Recently, PBS covered the St. Louis turnaround and, in the process, captured some insights from School Board Member, Vincent Schoemehl.



Schoemehl on the problem:

Thirty years ago there were 115,000 kids in the school district. Today we're down to 37,000, 38,000 kids. That doesn't happen by accident.

We knew this place was broken. The H.R. Department didn't work. The I.T. Department didn't work. They couldn't get their bills paid. They didn't have year-to-date financials. I mean, this place was flying blind.

On the plan to fix the problem:

What we've done here is we've tried to take private-sector practices and blend them with a public-sector institution.

Now we have a game plan. We know what needs to get fixed and we know where to begin and we know who the resources are around the country that we need to bring in here to help us.

On the advantages of hiring someone not involved in the political process:

You're buying total independence and the ability for people to make qualitative decisions, not political decisions.

Could it have been done perfectly? No. Did we do it well enough? We did as well as we could.

To read the transcript, visit pbs.org/newshour. ■



The Truth About Competitive Sourcing

By Geoffrey F. Segal with Ade Ifelayo and Chandra Pesheck



Upon entering office, President Bush embarked on an aggressive reform of the federal government. The President's Management Agenda identifies five "pillars" to bring more efficiency and effectiveness to the federal government. One pillar, competitive sourcing, has been more controversial than the others. Fearing competition for their jobs, public employee unions have launched an all-out assault on competitive sourcing. Yet, many of the attacks, critiques, and statements by opponents have not been accurate.

Myth #1—Competitive sourcing is a privatization scheme.

Reality—Competitive sourcing is a process to determine the most efficient and effective source for providing services.

Government employees do participate in the process and often win many of the competitions. In addition, the government maintains control and oversight of operations.

Regardless of who wins, the competition sets a higher bar, making government root out its inefficient and ineffective practices. Decisions to move forward with a competition are founded purely on good management principles that date back to the Eisenhower administration. When competition occurs, the taxpayer wins every time.

Myth #2—Competitive sourcing leads to less accountability and transparency.

Reality—Competitive sourcing not only increases the accountability of the private bidder, but also of the government employees.

Competition brings two very important tools to the table: first, increased transparency, i.e., the bids spell out what and how the work will be completed, which is common in the private sector, but virtually absent in government. Second, con-

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Top-Heavy Education Do public schools need all those administrators?

Commentary by David W. Kirkpatrick



The scientific law that says a body in motion tends to stay in motion applies to human institutions as well, not least of all the public school system and, within that system, the office of school superintendents.

The first superintendent was appointed in Buffalo, New York in 1837 and the office became common within 50 years. As late as 1928 there were 150,000 school districts in the nation, with an average of less than 200 students and ten teachers each. Large districts in major cities contributed to those averages, which means most districts were extremely small. In such districts a superintendent not only knows all of the staff but students as well. The office often was, and is, largely a one-person operation. An example is a 250-pupil one-school, rural district where the superintendent has an office in the school and is the principal as well.

Today, 60 percent of the nation's 14,500 school districts still have less than 1500 students. The 800 districts with 10,000 or more students enroll slightly more than half of the nation's 48 million K-12 students. That such a variety of organizations should have the same superficially similar administrative structure was neither inevitable nor necessary, as is demonstrated by ample evidence.

Within the public sphere, as has been noted before, New York City has more administrators than the entire nation of France, and New York State has more than all of the nations in western Europe combined. Yet we are the ones who pride ourselves on our organizational efficiency and know-how.

In this country, as but one example of many, the New York City public school system, with 1,000,000 students, has a central office staff of 6,000. The Archdiocese of New York with 200,000 has about 35. If the Archdiocese were a public school system it would be among the largest in the nation, all of which have bureaucracies proportional to New York City's rather than the Archdiocese.

Yet there are other large parochial systems, such as Chicago and Philadelphia that are similar to the Archdiocese. They may have a superintendent of schools but the systems are so decentralized that individual schools, or parishes, have considerable autonomy and thus don't need an unwieldy and expensive administrative superstructure. Public schools are top-heavy because of to empire-building and government regulations, not

educational necessity.

Nor are the parochial schools the only representatives of educational efficiency. Some 25,000 nonpublic schools in the nation, including the parochial ones, are largely autonomous if not totally independent. They do very well without administrative complexity.

Then there are the charter schools that have emerged in the past dozen years. They continue to grow in number, there now being more than 3,000 with some 700,000 students. Most of them are not only independent but many were started by teachers, such as the very first one, Minnesota's St Paul Academy, which opened in 1992. Superintendents as rare as the proverbial hen's teeth; many charter schools have no principal.

The U.S. Department of Education does an annual review of charter schools and in its 4th annual report it noted that new ones had an average enrollment of 137 students. As one teacher/founder of the St. Paul Academy has said, when the teachers there have a problem they sit around a table and solve it. Which is as it should be.

The ultimate in decentralization is homeschooling whereby an estimated 1,500,000 or more youngsters are freed from a rigid structure entirely. They are educated at an estimated average cost of \$800 per pupil per year with very positive results.

In other professions, such as medicine, dentistry, and law, practitioners determine the nature of their practice. Only in education are administrators given more authority and money. Few, not least of all public school teachers, recognize this may have much to do with public school problems. They complain of lack of autonomy and respect, yet resist the necessary change—as with other professions—of establishing a system allowing mutual choice between those providing the service and those being served.

David W. Kirkpatrick is a Senior Education Fellow at the U.S. Freedom Foundation. ■

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CHARTER SCHOOLS

to too many failing schools. A January 2004 *New York Times* editorial suggested “Critics of No Child Left Behind want to abandon disabled children by counting them out of the push for higher standards.”

Such media coverage reflects the tension between those educators who worry that schools will be unfairly penalized for the low academic performance of special education students and those educators who are concerned that schools have not been accountable for the academic performance of disabled children.

Several issues surround academic accountability for special education students in charter schools. Some of these issues characterize charter schools alone and some mirror the national debate over providing accountability for all special education students. While special education accountability is difficult for all schools, charter schools face unique challenges. Most charters are small and do not have economies of scale to reduce the cost of special education services. And most charters have fewer special education resources available than traditional public schools. Many charter operators lack oversight and control over the resources that are available to them, thus the quality of their special education services relies on the quality of special education services in their authorizing school district.

Special education accountability has played a role in the closure of a few charter schools nationwide. For example, in 2003 the Illinois State Board of Education revoked the Thomas Jefferson Charter School’s charter when it failed to achieve compliance with federal special education law; in Ohio, the state Department of Education cited the Summit Academy of Canton for special education failures, and the Arizona Department of Education reported that charter schools receive more special education complaints than traditional public schools. Yet, charter schools have also been celebrated for their full inclusion of special education students, their small school size and focus on individual instruction, and their prevention strategies that many parents say helps their children to learn.

Charter schools meet two of the federal government’s most important goals regarding special education students. First, by including special education students in regular classrooms, charter schools successfully provide disabled students with a quality education in the “least restrictive environment.” Second, charter schools use aggressive early intervention strategies to keep students performing at grade level and reduce the

rate of special education by preventing students from being labeled as such in the first place.

Anecdotal evidence, survey data, and preliminary research indicate that California charter schools do a better job of meeting “inclusion” goals by educating disabled students with their non-disabled peers, using individualized curriculum and small class sizes to meet the instructional needs of special education students, and employing early intervention strategies to catch learning problems early and avoid the “wait to fail” special education model. However, most of these outcomes have not been sufficiently validated by control group research or by analyzing student achievement data for special education students enrolled in charter schools. Testing charter school special education models requires structural reforms in special education financing at the charter school level and testing and reporting requirements for small group sizes under the No Child Left Behind federal legislation.

The preceding was excerpted from the full-length study, “Special Education Accountability: Structural Reform to Help Charter Schools Make the Grade,” available at rppi.org/ps319.pdf. ■

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D.C. SCHOOLS

district saved \$29 million over two years and quickly erased its deficit. Philadelphia made these financial cutbacks while running a robust teacher recruitment program and without firing any teachers.

This summer, Chicago Mayor Richard Daley introduced a plan to open 100 of the city’s worst-performing schools to competition. By 2010, Daley intends to make over more than 10 percent of the city’s schools—one-third as charter schools, one-third as independently operated contract schools, and the remainder as small schools run by district officials.

However, not all schools are growing friendlier to market reform. In California, Republicans agreed to drop their demand to revise a 2002 law that largely prohibits schools from hiring private firms for food, transportation, and janitorial and landscaping services.

The law’s survival means that school leaders cannot, for example, decide whether or not a private firm can run their bus system more efficiently. California schools spend more than \$13 billion on non-instructional services. Across the country, school districts typically save between 20 and 40 percent from outsourcing these services. ■

Resisting the NFL's Siren Call

Commentary by Samuel R. Staley



Another National Football League has kicked off without a franchise in the nation's second-largest media market. The NFL, upset with its inability to get a new stadium built in Los Angeles, is now encouraging Anaheim to construct a stadium and chase the NFL dream. While taxpayers across the country continue to be fleeced by leagues and team owners demanding new stadiums, Los Angeles's mantra should continue to be "build it yourself."

Team owners and private investors will step forward. The \$375-million Staples Center in Los Angeles was largely privately financed (the public commitment amounted to less than 20 percent of the total cost). Likewise, the Anschutz Entertainment Group, owners of the Los Angeles Galaxy, privately financed a state-of-the-art complex featuring a soccer stadium, tennis stadium and track-and-field stadium in Carson, California. Yet cities nationwide have dumped hundreds of millions of tax dollars into professional sports, underwriting huge portions of the business in the process.

The Philadelphia Eagles' stadium, which opened in 2003, cost \$512 million, primarily from taxpayer funds. The total for the San Diego Padres' new baseball stadium was about \$449 million, also mostly taxpayer money. In fact, stadiums paid for with taxpayer dollars tend to cost substantially more than privately built arenas. That was the case in Columbus, Ohio. Private investors built Nationwide Arena for 75 percent of the cost that voters turned down when they were asked to build the facility with public money.

The amazing thing is that these "public" investments have virtually no effect on a city's economy. Studies show that although a few new restaurants might open near a new stadium, they would probably have opened somewhere else in the city anyway. That means that jobs and dollars are simply reshuffled. New stadiums generate virtually no new money for the city.

Additionally, sports teams rarely account for much more than 1 percent of a county's jobs or payroll. In fact, most teams meet the size criterion used by the U.S. Small Business Administration. They typically earn under \$100 million annually, although premier NFL franchises, like the Dallas Cowboys, can double that.

In the end, when taxpayers take on the cost of building sta-

diums, they're doing little more than helping already wealthy team owners become richer and young athletes become instant millionaires.

Los Angeles, which has flirted with schemes for stadiums and teams since the Rams and the Raiders left town after the 1994 season, shouldn't be swayed in its thinking by the league's new interest in Anaheim. Its economy has done fine without one. The NFL needs L.A. more than L.A. needs the NFL. Strong markets will continue to attract teams whether stadiums are publicly or privately financed.

In fact, Anaheim's taxpayers and elected officials would be wise to learn from L.A. By requiring professional sports teams to finance the full weight of their business, just like other businesses, cities will help restore the accountability and performance that make enterprises outside the sports world thrive.

Samuel R. Staley is a senior fellow at Reason Foundation. A version of this piece appeared in the Los Angeles Times. ■

You block the taxpayer,
I'll grab his wallet.



Private-Sector Airport on Track for Chicago

By Robert W. Poole, Jr.



A long-discussed plan for a third Chicago-area airport, to be located 35 miles south of the Loop at Peotone, took a major step forward in September. Two project developers signed an agreement with what is now called the Abraham Lincoln Airport Commission, representing 30 suburban communities, to develop and operate the airport via a public-private partnership.

The two companies are LCOR, Inc. and SNC-Lavalin. The former is a real-estate development firm that is part-owner of the \$1.2 billion privately developed Terminal 4 at JFK International Airport in New York. The latter is a Canadian firm with global airport development experience. The agreement commits them to finance, build, and operate a \$200 million phase 1 airport on a 4,200-acre site being assembled by the state government. Phase 1 would include a single 10,000-foot runway and an expandable five-gate terminal, plus parking lots and access roads. It could be completed as early as 2009.

The airport project has been championed by Rep. Jesse Jackson, Jr. (D, IL), suburban communities near O'Hare International (the region's largest airport), and communities in the south-suburban area near the airport site. Airlines with large operations at O'Hare and Midway airports (American, United, and Southwest) have generally opposed the third airport, as has the city of Chicago. However, a political deal between city and state officials in 2003 called for the former to agree to the Peotone airport and the latter to support the planned \$15 billion expansion of O'Hare.

The market niche for the new airport would be low-fare airlines that cannot gain access to sufficient gate space at O'Hare or Midway. A business plan has been developed by the Commission's consultant, Infrastructure Management Group.

Several hurdles lie ahead. The government of Will County, where Peotone is located, is putting forward an alternate plan for a more expensive airport, financed via federal airport grants and other traditional sources. The agreement with the development team is contingent on the state completing land assembly and transferring the property to the Commission by December 31, 2004 (though that date could be extended). The Illinois DOT and the FAA both will have to give their approval in order for the project to proceed. ■

After the X-Prize Will space exploration return to aviation's freewheeling roots?

By Ted Balaker



Who could have imagined that a small team would need only three years and \$25 million to send a private astronaut into space twice within one week. Besides fulfilling their own curiosity, the team members behind SpaceShipOne had the extra incentive of the \$10 million Ansari X-Prize, offered by a private foundation. But however inspiring SpaceShipOne's story might be, it is hardly unprecedented.

Aviation began with a great burst of decentralized experimentation, in which inventors' ambitions were stoked by more than 100 private incentive prizes. When Charles Lindbergh crossed the Atlantic alone and without stopping, he collected a privately funded purse, the \$25,000 Orteig prize.

This environment produced all sorts of rickety contraptions, but the good ideas separated themselves from the pack, and the march of progress was brisk. Imagine that only 24 years separated Lindbergh's trans-Atlantic trip from the Wright Brothers' herky-jerky jaunt into history.

Still, many find it difficult to trust small groups of private people to continue such progress into space. Leaving the ground is one thing, they say, but leaving Earth's atmosphere requires the kind of might only government can muster.

Indeed space exploration has proceeded differently from aviation. A presidential declaration spurred Neil Armstrong's moon walk, and space exploration has always been dominated by top-down government control. The recently released Adridge Report, the product of a presidential commission on space policy, notes that "today an independent space industry does not really exist." However, the same report suggests changing course, recommending that:

NASA recognize and implement a far larger presence of private industry in space operations with the specific goal of allowing private industry to assume the primary role of providing services to NASA, and most immediately in accessing low-Earth orbit. In NASA decisions, the preferred choice for operational activities must be competitively awarded contracts with private and non-profit organizations ...

Recalling the spirit of the early days of aviation incentive prizes, the report suggests that the government could offer as

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Denver and Minneapolis Study Express Toll Lane Networks

By Robert W. Poole, Jr.



The Colorado Tolling Enterprise in late August announced the results of a feasibility study on adding express toll lanes to a number of congested freeway corridors, mostly in the Denver area. For most of the Denver-area routes, the study found that toll revenues would pay for 90 to 100 percent of the cost of building the new lanes. The result could be the beginning of a network of such lanes, including the western ring-road, the main route into downtown from Denver International Airport, and the main routes from Denver to Aurora and Boulder. The set of express toll lanes in the Denver area would cost about \$3 billion to construct.

The legislature created the Colorado Tolling Enterprise in 2002 as a division of the state Department of Transportation. Its purpose is to finance, construct, operate, and maintain a system of tolled highways in Colorado. The legislation permits the CTE to make use of public-private partnerships to carry out its tolling mission.

The Denver study, by Wilbur Smith Associates, evaluated 12 possible corridors and assessed the ability of tolls to cover the cost of building the individual new lanes only, the new lanes plus access facilities and other improvements, and a system of toll lanes plus related improvements. It found that for eight of the 12 corridors, tolls would cover the costs of building the lanes plus linking them into the existing freeway system. For the overall network analysis, the study found that a seven-corridor network could be 90 percent paid for by tolls. Besides the



Denver metro area, the study also evaluated tolling to add an additional two-lane tunnel at two locations on I-70 west of Denver and a new toll road in El Paso County.

Meanwhile, a similar study is moving forward in Minneapolis/St. Paul, conducted by Cambridge Systematics and URS. Called the MnPass System Study, it, too, is looking at the feasibility of adding tolled express lanes to major portions of the Twin Cities freeway system, possibly via public-private partnerships as authorized by Minnesota law. Though it's at an earlier stage than the Colorado study, the MnPass study has already screened a large number of corridors and then defined

five possible systems of express lanes. In each case, the system would consist of former HOV lanes converted to HOT lanes plus new lanes developed as Express Toll Lanes. Four of the systems could involve special provisions for bus rapid transit (BRT) use of the toll lanes, and the fifth looks at reconfiguring proposed transitways to include toll lanes for paying autos. The study is due for completion in June 2005.

Other large-scale studies of possible networks of premium toll lanes are under way in Atlanta, Dallas, and the Washington, D.C. metro area. ■

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much as \$1 billion “to the first organization to place humans on the Moon and sustain them for a fixed period.”

Meanwhile, the private sector is already dangling new carrots. The X-Prize Foundation has plans for at least six more competitions, including prizes for the highest altitude and most passengers carried. And the day after SpaceShipOne made its claim on the original X-Prize by reaching a suborbital altitude of 62 miles, hotel magnate Robert Bigelow offered \$50 million to the first private craft that can go four times higher and reach orbit.

Chances are the most lucrative prizes won't be announced in advance, but will be offered by investors eager to get in on a project that shows early promise. British billionaire Richard Branson has already joined with the team behind SpaceShipOne and committed over \$100 million to create his Virgin Galactic space-bound passenger service.

A larger private sector presence in space could also mean more jobs. It's always tricky to predict what sort of job creation figures a given innovation will yield, but if it turns out to be at all analogous to the aviation industry, the space industry gushes with job growth potential.

Over 100,000 Americans get paid to fly planes, but most of those with aviation-related jobs are not pilots, they're engineers, mechanics, airport managers, aviation educators, crew schedulers, and so on. Just one century after the Wright Brothers, the aviation industry employs 2.2 million American civilians. Just as the Wright brothers could not anticipate airport managers or crew schedulers, we cannot know what kind of space-related jobs will someday become commonplace. With the right legal framework, perhaps some day entrepreneurs will offer same-day parcel delivery, super fast transcontinental shuttles or even lunar honeymoon packages. ■

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COMPETITIVE SOURCING

tracts provide mechanisms to define and demand performance. Whether federal employees or a non-governmental vendor win a competition, competitive sourcing requires federal agencies to hold employees accountable or to re-compete the activity. Without competition, government agencies have no need to review their practices in the name of greater efficiency and effectiveness.

Myth #3—Competitive sourcing does not save money.

Reality—Competition has continually been shown to save money.

Recently the Office of Management and Budget (OMB) reported that competitive sourcing efforts in 2003 resulted in an average 15 percent reduction in cost, and projected net savings of \$1.1 billion over five years. In addition, between 1995 and 2000, the Department of Defense completed over 550 competitions, which resulted in an average 34 percent reduction in cost. A 1996 Center for Naval Analysis study of over 2000 Defense Department competitions notes that the average cost savings was projected to be 31 percent.

Myth #4—Competitive sourcing adds to the human capital crunch.

Reality—Often government agencies' efforts to move personnel and tap outside experts to realize huge efficiency and effectiveness gains are hamstrung by their own regulatory environment.

Incorporating competitive sourcing into the broader context of human capital challenges creates links and improves flexibility, helping solve human capital needs. Agencies could move existing staff between agencies or within an agency to activities considered core or mission-critical as needed.

Essentially the focus becomes one where the agency has the internal capacity to manage service planning rather than actually participating in service delivery. Agencies will have to invest additional resources into contract management and acquisition management personnel to ensure the in-house capabilities exist to be managed.

The Department of Education's "OneED" plan has outlined several objectives for improving the strategic management of human capital. Among those objectives is to identify new opportunities for competitive sourcing in order to augment the organization's capabilities. At its core, the plan will get the right people in the right job.

Myth #5—Competitive sourcing leads to less flexibility.

Reality—Competitive sourcing increases flexibility by

enabling agencies to shift resources and focus on core competencies.

Performance-based contracts get both sides working toward a common goal—improving goods and services. In addition, these contracts do not focus on process, but rather on outcomes, enabling contractors and employees to offer new alternatives to standard delivery to bring more flexibility and innovation.

Since competitors submit different bids using various techniques and processes, the bid process also gives managers more flexibility and options.

Myth #6—Competitive sourcing leads to layoffs and is unfair to employees.

Reality—Government employees have been winning competitions at a tremendous rate.

Some have argued that the process bias is actually slanted toward government employees, not against them. Of the 662 competitions completed in FY 2003, in-house teams won 89 percent. Even when federal agencies lose competitions, job losses are slim. The University of Maryland recently completed the most comprehensive study on the subject. The study examined nearly 1,200 Defense Department competitions and found that only 5 percent of the over 65,000 civilian employees whose work was competed lost their jobs as a result. Workers whose jobs were outsourced more commonly were transferred to other government jobs or opted for early retirement.

The preceding was excerpted from the Reason study, "Exposing the Myths and Realities of Competitive Sourcing," which is available online: rppi.org/myth.pdf. ■

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LEFT BEHIND

transfer requests.

Many parents of students in failing schools are not even aware of the right to transfer. A federally funded survey of Buffalo parents by the Brighter Choice Public School Project found that 75 percent of the parents surveyed did not realize their children attended a school designated as in need of improvement, which means it did not make adequate yearly progress in reading or math for two consecutive years. A full 92 percent said they would like to switch schools. A comparable percentage of parents in Albany also were unaware of the transfer option, and a survey by the Boston-based Pioneer Institute revealed similar findings for Massachusetts.

In the end, though, the problem is not the parents but the law itself. Under NCLB, Title I federal funding—money used to provide extra educational services to disadvantaged students in high-poverty schools—does not follow children to better-performing, non-Title I schools. The result is that better-performing schools have no financial incentive to admit low-performing children.

In practice, children are offered transfers only to other Title I schools. Since most Title I schools are mediocre performers at best, parents have a choice of schools that are only marginally better. Furthermore, the school districts decide which schools parents will be allowed to “choose”; often they offer only one or two alternatives.

Many parents are offered “choice” schools that are just as low-performing as the failing school they are trying to break away from. In the words of school choice advocate Angel Cordero of the New Jersey-based Education Excellence for Everyone, “Camden children are transferred from one bad school to another bad school.”

In Chicago, students in only 50 of the 179 federally identified failing elementary schools would be allowed to move into higher-performing schools. Parents could choose from a list of 90 schools and could not pick a school more than three miles away from home. In 70 of the 90 schools open to transfers, most pupils failed state tests last year.

In October 2003 Connecticut’s *Hartford Courant* described how for months Stacy May fought to transfer her son Taren out of Kinsella Elementary. Hartford school officials confirmed to the newspaper that May was welcome to transfer her son because Kinsella was now labeled a “school in need of improvement.” But the district limited May’s choices to three other schools, all of which had low scores on the state’s

standardized test and all of which are now also designated “in need of improvement.”

Even when parents make direct requests for transfers, districts frequently refuse to grant them. In New York City in 2002-03, more than 278,000 students were eligible for school choice transfers, 6,400 students requested transfers, and the district granted only 1,500 requests. That same year Richmond, Virginia, had just 120 requests for transfer out of 8,000 eligible children, and the district honored only 30.

Transfers are refused because the better schools are at capacity. The federal law ignores the grim reality that many urban districts have few high-performing schools with open slots. As the chief executive of Chicago Public Schools, Arne Duncan, told *Time* magazine in September 2003, “It’s not like we have a lot of high-performing schools at 50% capacity.”

The lack of slots might be less of a problem if Title I dollars could follow children to higher-performing schools. But a better solution is to break up the education dollars to increase capacity, allow more competition, and increase high-quality choices. In June 2004, for example, Chicago Mayor Richard Daley, who is in the unique position of legally controlling Chicago schools, introduced a plan to open 100 of the city’s worst-performing schools to competition. By 2010 Daley intends to recreate more than 10 percent of the city’s schools—one-third as charter schools, one-third as independently operated contract schools, and the remainder as small schools run by the district. Unfortunately, the governance structures of most school districts make it politically difficult to replicate Daley’s plan. They would require approval by a school board or state legislation.

When parents are provided with real choice, demand increases dramatically. Since 1999, the privately funded Children’s Scholarship Fund (CSF) has provided more than

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62,000 low-income children across the nation with scholarships to attend private schools. The first year, more than 1.25 million children applied in 20,000 communities. Since it was launched, the average income of participating families has been \$22,000. The children's new schools may be parochial, denominational, independent, or a home school. They do not have to belong to any organization or meet any other requirement. The choice is left up to each family.

This year more than 24,000 kids are using CSF tuition assistance to attend a wide variety of private schools. In Los Angeles in 2003, only 229 children managed to transfer to a different public school under No Child Left Behind. Yet the Southern California Children's Scholarship Fund placed 1,600 children and has a waiting list of more than 5,000 names. Los Angeles charter schools such as Fenton Avenue Charter School, Camino Nuevo, and Accelerated Learning also have long waiting lists.

Parents may not be getting much choice, but they are getting a big tax bill. In a July study, the Cato Institute's Neal McCluskey notes that federal spending at the more than 36 departments and organizations that run major education programs ballooned from about \$25 billion in 1965 (adjusted for inflation) to more than \$108 billion in 2002. This year funding for the U.S. Department of Education is at an all-time high: \$56 billion, an increase of \$2.9 billion over last year and \$13.8 billion since Bush took office.

The president's 2005 budget would raise education spending still further, to \$57.3 billion. Under No Child Left Behind, Title I aid has risen to \$12.4 billion. Title I spending has increased more during the first two years of the Bush administration than it did during all eight years of Bill Clinton's administration.

Unenforceable Choice

Despite state education leaders' cries that schools cannot afford the choices that NCLB was supposed to enshrine in law, districts are sitting on \$5.8 billion in unspent federal funding from previous years, including nearly \$2 billion in Title I aid. New York ranks first with \$689 million in unspent funds; California is second with \$671 million. Such money could provide many scholarships to better-performing private or public schools. Local districts claim that the unused funding is already obligated to existing programs and that federal funding rules are responsible for the delays.

Camden schools show that more money is not the answer. Camden is one of New Jersey's 30 Abbott districts—districts

with low property-tax bases that receive supplemental funding from the state. As a result, Camden's per-pupil funding is higher than the New Jersey state average of \$10,000 and the national average of \$8,000. The Camden district has revenues of approximately \$15,000 per pupil and receives large portions of federal Title I dollars. Camden schools had more than 1,200 incidents of serious violence in 2001-02, an increase of 300 percent from the previous year. The district has refused to release updated school violence numbers since then, but this year saw several highly publicized incidents, including a foiled Columbine-style plot to shoot students and an increase in the number of schools labeled persistently dangerous.

The paucity of choice reflects another failure of the law: it has no real sanctions for schools that fail to comply. Parents can't even sue the government to compel federal officials to enforce the law. When parents in New York City and Albany sued their districts for denying children their rights to transfer and to receive tutoring services, a federal judge dismissed the suit, ruling that the law did not confer "choice" rights that could be enforced in court.

In the beginning, supporters of No Child Left Behind argued that its problems were just a matter of districts adjusting to the new law. But as we begin the third school year in which kids are supposed to be able to escape failing schools, a lack of meaningful choice appears to be the norm.

A longer version of this piece is available online: reason.com/0410/fe.ls.no.shtml. ■



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