Focus on Government Reform

Privatization Watch

Reason

Celebrating 30 Years of Privatization and Government Reform

Vol. 31, No. 4 2007

Ideas in Government Reform... 3

Privatization Watch

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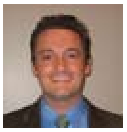

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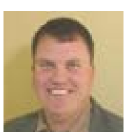

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Privatization Briefs

Japan Postal Privatization Begins

Japan Post underwent the first stage of its 10-year privatization plan on October 1, 2007, when it was officially split into four separate businesses: Japan Post Service Co., Japan Post Network Co., Japan Post Bank Co., and Japan Post Insurance Co. The privatization, which ends more than 130 years of government control over the entity, is a result of reforms instituted in 2005 by then-Prime Minister Junichiro Koizumi. Mail delivery will be handled by Japan Post Service while Japan Post Network will manage the organization's 24,000-plus post offices and its real estate. Although some poor-performing post offices may be shut down, the new company will be required to maintain at least one post office in every city, town, and village.

In addition to mail services, Japan Post provides life insurance and savings depository services. Japan Post Insurance wants to start selling other types of insurance, such as medical insurance, and Japan Post Bank is looking to offer mortgage loans and credit cards. The bank now becomes the world's

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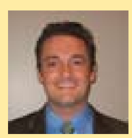
Letter from Editor, Leonard Gilroy



In late July, Reason Foundation released its *Annual Privatization Report 2007,* detailing the latest on privatization and government reform at all levels of government and across a broad range of policy areas. This issue of *Privatization Watch* will give you a sampling of the many topics covered in *APR 2007*, such as federal competitive sourcing, state and local "Google government" initiatives, state lottery privatization, and water privatization. I would invite you to visit www.reason.org/apr2007 to access full-length versions of these and other *APR 2007* articles.

In addition, we're excited to feature a short summary of Reason's recently released occupational licensing study, which documents the extent of state licensing regulations and offers alternatives to them. Many readers will be chagrined to discover that over 1,000 occupations are currently regulated at the state level alone, with even more at the federal and local levels. This article offers yet another glimpse into an expansive regulatory state that increasingly threatens Americans' economic and personal liberties.

Government Transparency Reforms Sweep the Nation

By Amanda Kathryn Hydro

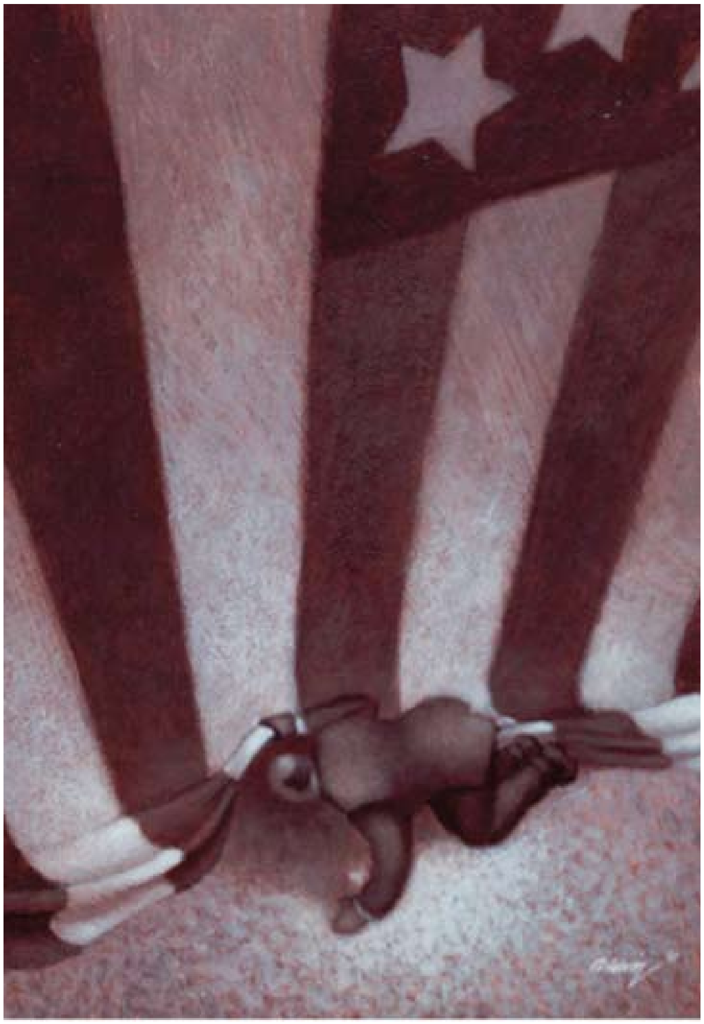
While transparency has always been coveted, new efforts at both the federal and state levels hold promise to shed more light on how government operates. In September 2006, President Bush signed the Federal Funding Accountability and Transparency (FFAT) Act into law. This bipartisan legislation was co-sponsored by Sen. Tom Coburn (R-OK) and Sen. Barack Obama (D-IL) and requires that a free, searchable database be created to include all federal grant and contract funding information on payments over $25,000 (with exceptions for classified information and individuals' federal assistance). This Web site, www.federalspending.gov, will formally be launched in January 2008.

Currently, Reason Foundation is leading a trans-partisan coalition of three dozen organizations, calling on all major presidential candidates to sign the "Oath of Presidential Transparency." The Oath commits the signers, should they become the next president, to issue an executive order during their first month in office instructing the entire executive branch to implement the FFAT Act.

"When government spends the people's money, it must be done with utmost possible transparency," Rep. Ron Paul (R-TX), the first to sign the oath, declared. Said Sen. Obama, "Every American has the right to know how the government spends their tax dollars, but for too long that information has been largely hidden from public view." Added Obama, "This historic law [the FFAT Act] will lift the veil of secrecy in Washington and ensure that our government is transparent and accountable to the American people."

In addition to Rep. Paul and Sen. Obama, other presidential candidates to sign the oath include Sen. Sam Brownback (R-KS), Rep. Dennis Kucinich (D-OH), former Alaska Sen. Mike Gravel (D), and Illinois businessman John Cox (R). The complete text of the Oath of Presidential Transparency, along with the candidates' signed oaths, can be found online at www.reason.org/oath.

As transparency and accountability efforts sweep the nation, a new Web site was launched in April called www.washingtonwatch.com. Designed to give citizens the opportunity to post and track pending federal legislation, this user-friendly site allows for access to regular e-mail alerts, information on how the bills would affect taxpayers if passed into law, and a catalog organized by topic. Although it was just launched by the Sunlight Foundation it is quickly becoming a great tool for activists, lobbyists, and the public policy community.



Government Transparency at the State Level

Over the past few years, there have been many efforts at the state level calling for similar efforts, commonly known as "Google government"-type databases. These Web sites would make state government more transparent by allowing taxpayers access to spending information offering clarity on where their tax dollars are being spent.

The governors of Indiana, Florida, Missouri and Texas have led the most successful efforts on this issue. In 2005, Indiana Gov. Mitch Daniels (R) signed Executive Order 05-07 directing the Department of Administration to post written state contracts on this Web site: www.in.gov/gov/media/eo/EO_05-07_Log_Contracts_On_Internet.pdf.

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Occupational Licensing: Serving the Public Interest or Special Interests?

By Adam B. Summers

This is an excerpt from *Occupational Licensing: Ranking the States and Exploring Alternatives.* The full study is available online at reason.org/ps361.pdf.

America takes great pride in being the "land of opportunity." The whole notion of the American Dream is that with hard work and determination, anyone can take advantage of the freedoms afforded here and make whatever he wants of himself. There is no rigid caste system, and a good entrepreneur can go from poor to rich in a short period of time. We have come to take this right to control and utilize our labor for granted, but, more and more often, people now have to seek the permission of the government to work in the occupation of their choice. Today, over 1,000 occupations are regulated at the state level—and still more are regulated at the federal and municipal levels. Governments require licenses for everyone from doctors and lawyers to florists and fortune tellers. It is time we took a closer look at the costs and benefits of licensing regulations, and why they were enacted in the first place.

Occupational licensing has a significant impact on the labor market, yet it receives very little attention. During the 1950s, about 4.5 percent of the workforce needed to obtain a license to work. That figure has grown to over 20 percent today. By comparison, labor union strength has diminished, as labor union membership has fallen from nearly 35 percent of the workforce during the mid-1950s to just 12 percent today (and only 7.4 percent of the private sector). And minimum wage laws, which price low-skilled workers out of the market, have a direct impact on less than 10 percent of the workforce. Thus, occupational licensing laws directly affect a larger segment of the population than other significant barriers to work, but receive only a small fraction of the attention enjoyed by labor unions and the minimum wage.

To get an idea of the extent of occupational licensing across the country, I conducted a survey of which jobs required licenses in each of the 50 states using data from the Department of Labor, state agencies, news articles, and trade organization and professional association Web sites. According to the survey, states required licenses for an average of 92 occupations. The most regulated state in the nation is Cali-

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Numerous studies have revealed little, if any, improvement in service quality from compulsory licensing. Oftentimes, licensing laws actually reduce service quality and public safety. There are a number of reasons why product or service quality and health and safety may actually be diminished by occupational licensing:

- The costs of regulations reduce competition, thus reducing the pressure on businesses to provide higher-quality services.
- Training requirements may be arbitrary and not necessarily relevant to practical job skills.
- The "club mentality" of licensing boards may lead them to prosecute unlicensed workers, but ignore the indiscretions of fellow licensees.
- The risk that licensing exams test the wrong skills and the reluctance of licensing boards to discipline negligent licensees for their transgressions may provide consumers with a false sense of security, lulling them into being less cautious of those with whom they do business.
- Licensing leads to artificially high prices, which cause more people to take on dangerous do-it-yourself jobs and skip needed medical visits.
- Higher prices may also force some consumers to seek black-market services, which afford them little or no legal protection against incompetent or harmful practices.

States Betting on Lottery Privatization

By Leonard C. Gilroy

Several states, including Illinois, Indiana, and Texas, floated plans to privatize their state lotteries in 2006-07. The plans are fairly similar to toll road concessions: a long-term concession would be signed establishing the guidelines and expectations of both parties, as well as what the state's regulatory role will become.

Since no deal has formally been completed it is not totally clear what a final deal would look like. However, the concessionaire will likely pay an upfront fee (possibly in the billions of dollars) for the right to operate the lottery on behalf of the state. In addition, some states asked for an annual royalty and/or revenue sharing plan on top of the upfront fee.

Like toll roads, there is little doubt that lotteries are valuable assets. They have a fairly stable revenue stream and one that certainly can be maximized under private management. Private operators will likely introduce new, more popular games. Marketing will also be professionalized using the latest technology to target games to markets. Under this arrangement, lotteries may, for the first time, truly operate as a for-profit business function with the goal of generating more sales.

While several states—including California, New York, and Florida—have contracted out certain aspects of their lottery operations, full lottery privatization is new to the United States. However, it is not new to the rest of the world. Leading up to the Athens Olympic Games in 2004, Greece sold off a 5 percent stake in the nation's lottery. Italy's lottery is run under a concession that lasts until 2012. The concessionaire operates 22,000 lottery machines in retail outlets. The machines are also used to pay car taxes, traffic fines, and television license fees. The United Kingdom's lottery also currently operates under a seven-year concession.

In Indiana, 10 companies expressed interest in leasing the Hoosier Lottery. Gov. Mitch Daniels (R) said that at least half of those are "north of a billion and a half," with two offers of at least $2 billion. The state was also requiring concessionaires to commit to an annual $200 million a year in royalty payments.

Funds would be directed toward creation of an ambitious Hoosier Hope Scholarships program. The program would encourage high school students to attend Indiana colleges and

universities and then remain in the state to work for at least three years in order to bring top researchers and professors to Indiana and keep top students in the state. Proceeds would be directed to pay down public employee retirement fund obligations, reduce the excise tax on automobiles, and fund capital building projects.

The enabling legislation, SB 577, passed the Senate 27-20. However, the bill did not get a hearing in the House. Daniels said he is putting off the plans to privatize this year, but that it would be back on the table next year. One issue facing the governor is what to do with proceeds nearly twice the anticipated levels.

In Texas, Gov. Rick Perry (R) suggested using the proceeds from a lottery privatization to develop a host of new government programs in his State of the State speech. With expectations of $14 billion, the governor wanted to use $2.7 billion for health insurance plans and $3 billion for cancer research. The balance would be left, earning interest for public schools. However, the enabling legislation (HB 3973) was not moved out of committee during the 2007 legislative session.

Illinois went the furthest with its effort in 2007. Hoping to attract as much as $10 billion from investors, the state issued

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Trends in Global Airport Privatization

By Robert W. Poole, Jr.

Although airport privatization is scarcely on the radar screen in the United States, it was a banner year for such privatization around the world. According to the Centre for Asia Pacific Aviation, there were 15 major airports or airport groups privatized in 2006, the second-highest ever; 1998 was the highest on record, with 21 such deals.

David Bentley, author of the Centre's *Global Airport Privatization* report, cited two key factors in the growth of this market. In developed countries, privatization helps avoid additional debt on government balance sheets, transfers risks to the private sector, and introduces efficiencies in airport operations that may be difficult to achieve in the public sector. In developing countries, privatization can tap global (as well as domestic) capital markets to fund large-scale projects, reducing the financing requirements on national governments.

Airport privatization began in 1987 when the U.K. government of Margaret Thatcher privatized the British Airports Authority via an initial public offering. That sale of 100 percent of BAA netted the government $2.3 billion. Since then, BAA acquired partial ownership stakes in the overseas airports of Budapest and Sydney, but its principal assets remained the three major London airports. When it was bought by Spain's Ferrovial in 2006, BAA's market value was $18 billion.

The table on the next page summarizes a number of airport privatization transactions from 2001 to 2005 with the value of the airport given in local currency. To provide some indication of how to value airports that might be considered for future privatization, the last column divides the sale price by a financial measure called EBITDA (earnings before interest, taxation, depreciation, and amortization). As can be seen, depending on a number of specifics that are unique to each airport, investors paid anywhere from 7.5 to 31.9 times EBITDA for airports in this time period, with the average being around 15. There has been considerable change since 2000 in the composition of the global airports industry. A number of privatized airports have even become acquirers of stakes in airports being privatized, only to be acquired themselves by other firms (e.g., BAA, Copenhagen). As of 2007, there are six major global airport firms with annual revenues in excess of $1 billion, plus a number of smaller players. The six majors are as follows:

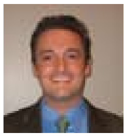
- Ferrovial/BAA ($4.04 billion BAA + $0.9 billion Ferrovial revenues in 2005): This combined company owns Heathrow, Gatwick, and Stansted plus a number of smaller U.K. airports (e.g., Bristol, Glasgow, Belfast City). Since being acquired by Ferrovial, BAA has been selling off its non-UK airports (e.g., Budapest).
- AENA ($2.9 billion in 2005): Although still government-owned, AENA operates commercially. It owns 47 airports in Spain and has ownership stakes and/or management contracts for 29 others in seven countries including several major airports in Colombia and a stake in one of four regional Mexican airport groups, GAP. In a joint venture with Abertis, it bought U.K. airport company TBI in 2004, thereby acquiring airport management contracts in the United States and Bolivia, as well as the U.K.
- Fraport ($2.65 billion in 2005): The parent company of Germany's Frankfurt Airport, Fraport was privatized in 2001 though state and municipal governments still hold stakes. Fraport owns major portions of Hahn and Hanover airports in Germany, Lima airport in Peru, New Delhi airport in India, and one of the Mexican regional airport groups.
- Aeroports de Paris ($1.44 billion): The French government sold a minority stake in ADP in June 2006. The company owns the two major Paris Airports (De Gaulle and Orly) and a part interest in Liege airport in Belgium; it is selling its 33 percent stake in Beijing Capitol Airport. ADP also has management contracts and joint venture interests in other airport services.
- Schiphol Group ($1.17 billion): The previous Dutch government had planned to privatize Schiphol, but did not complete this action prior to losing power in 2006. Schiphol is fully commercialized, owning the airports in Amsterdam, Rotterdam and Lelystad, plus important stakes in Kennedy Airport's Terminal 4 and Brisbane Airport in Australia.
- Macquarie Airports ($1.1 billion): Macquarie owns the large majority of Sydney Airport, and major stakes in Copenhagen and Rome, plus a number of U.K. and continental airports.

Robert W. Poole, Jr., is the Director of Transportation Studies at Reason Foundation. For more on developments in air transportation, visit: reason.org/apr2007/air_transportation.pdf

Market Value of Recently Privatized Airports						
Airport Company	Acquirer	Year	Stake Purchased	Currency	Value (M)	Value/EBITDA
Budapest	BAA	2005	75.0%	Euro	1,957.0	31.9
Copenhagen	Macquarie	2005	37.7%	DKK	15,075.0	10.2
Airport Co. of S. Africa	Public Investment Corp.	2005	20.0%	Rand	8,607.8	7.5
Hochtief European airports	Hochtief Airport Capital	2005	100.0%	Euro	432.3	9.7
TBI	ACDL (Abertis/ AENA	2004	100.0%	GBP	685.0	14.8
Brussels	Macquarie	2004	70%	Euro	1,635.0	12.3
London Luton	TBI	2004	28.6%	GBP	351.3	15.9
Firenze	Acquisizione Prima	2003	29.0%	Euro	99.3	14.3
Belfast City Airport	Ferrovial	2003	100.0%	GBP	35.0	14.5
Hainan Mellan	Copenhagen Airports	2002	20%	HK$	1,907.2	11.3
Aeroporti di Roma	Macquarie	2002	44.7%	Euro	2,680.8	14.3
Sydney	So. Cross (Macquarie)	2002	100.0%	A$	5,588.0	17.7
Auckland	Institutionals	2001	7.1%	NZ$	1,828.3	13.1
Birmingham	Macquarie	2001	24.1%	GBP	417.5	10.1
Newcastle	Copenhagen Airports	2001	49.0%	GBP	293.8	17.5
London Luton	TBI	2001	46.4%	GBP	195.0	26.8
East Midlands	Manchester Airport	2001	100.0%	GBP	241.0	13.8
Bournemouth & Glasgow	Infratil	2001	100%	GBP	40.4	28.4
Bristol	Macquarie	2000	100.0%	GBP	234.0	16.4
Hamburg	Hochtief & Air Rianta	2000	36.0%	Euro	804.5	8.6
Aeroporti di Roma	Leonardo	2000	51.2%	Euro	2,591.6	17.4
Centro Norte (Mexico)	ADP consortium	2000	15.0%	US$	606.7	11.2
Beijing Capital	ADP Management	2000	10.0%	HK$	12,688.0	17.4
High						31.9
Low						7.5
Average						15.6
Median						14.5

Privatization to Modernize Indiana's Welfare System

By Leonard C. Gilroy



After two years of study, Indiana signed a contract with an IBM-led consortium to reform and modernize the state's welfare system. The 10-year, $1.16 billion contract anticipates saving a half billion dollars on administration over the next 10 years. Savings will increase as fraud and errors are brought down, and could balloon to north of one billion dollars. Before modernization, the application process in Indiana was very paper-intensive. Bankers' boxes full of files and paper literally crowded each of the state's 107 county offices. Each benefit program had its own records and requirements, creating large case files and an extremely laborious process. Client interaction only took place in face-to-face meetings and often required multiple trips. Upon entry into the system, clients were assigned a caseworker, and, regardless of availability, that's the only person they could interact with. It didn't help that the caseworker was the only one who knew where a client's file was.

Under the new operations, a premium will be placed on client services. By moving to an electronic-based system, new internet and phone services will become available. For the first time in Indiana, clients will be able to access caseworkers 24 hours a day, 7 days a week. Governor Daniels said, "no longer will they have to contact the system only at places and times convenient to the bureaucracy, then wait a month or longer for an answer or decision."

The new system will also improve Indiana's high error and fraud rates.

The new system will also improve Indiana's high error and fraud rates. In addition, Indiana has the worst welfare-to-work record in the country. Currently, errors cost Indiana taxpayers $100 million a year, not counting fraud. Simply eliminating that is a major benefit. However, providing a path to self-sufficiency is perhaps even more valuable. The IBM-led team will be responsible for adding new ways for clients to interact with benefits administrators and caseworkers. Additionally, it will be responsible for data collection and electronic storage. Perhaps one of the most important aspects will be the development of new technological improvements around the state's

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World Bank Report Examines Water Privatization

By Adrian T. Moore, Ph.D.

A recently published report from the World Bank, *Private Participation in Water: Toward a New Generation of Projects?*, examined the role of the private sector in international water and sewer investment and development.

While private participation has slowed, it has become more concentrated. In 2005, investment totals amounted to $1.5 billion—comparable to investment levels over the last five years (with the exception of a single $2.5 billion concession in Malaysia in 2004). Private investment was prominent in China and Algeria.

Forty-one projects were finished in 2005—the most since 1990. So even though total investment has declined in terms of dollar value, the private sector remains very active and engaged. There was a shift in the type of investment though: sewer treatment plants saw investment increase significantly relative to water, raising their share of investment from 9 to 35 percent.

There were 36 concessions between 2002 and 2005, with most of them granted in Chile, China, Columbia, and Malaysia. Management and lease contracts have been gaining ground and now constitute about one-quarter of all private activity. The charts on the following page delineate the progression of projects during 2005 and the changing allocations of private activity.

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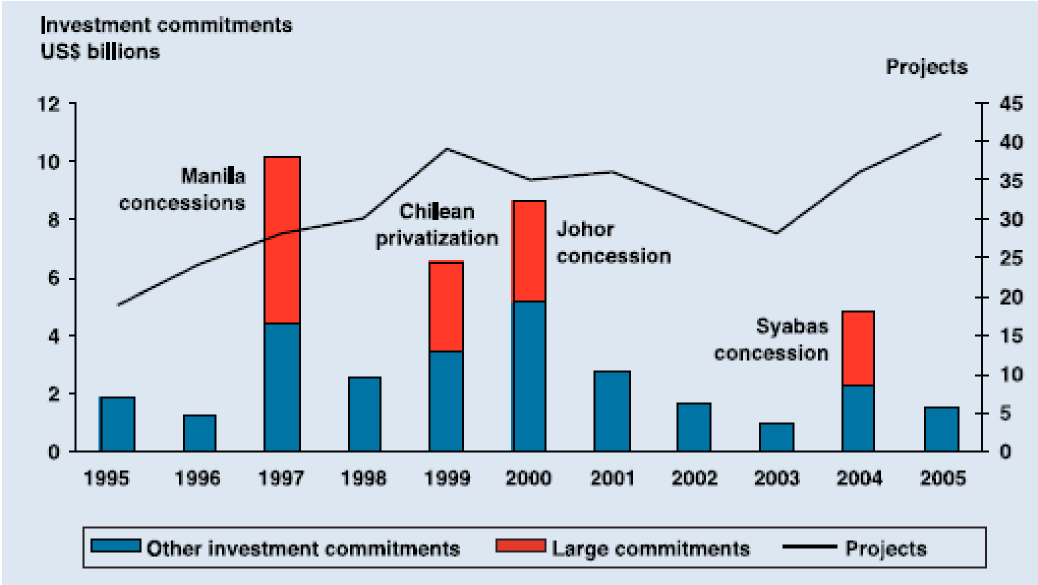
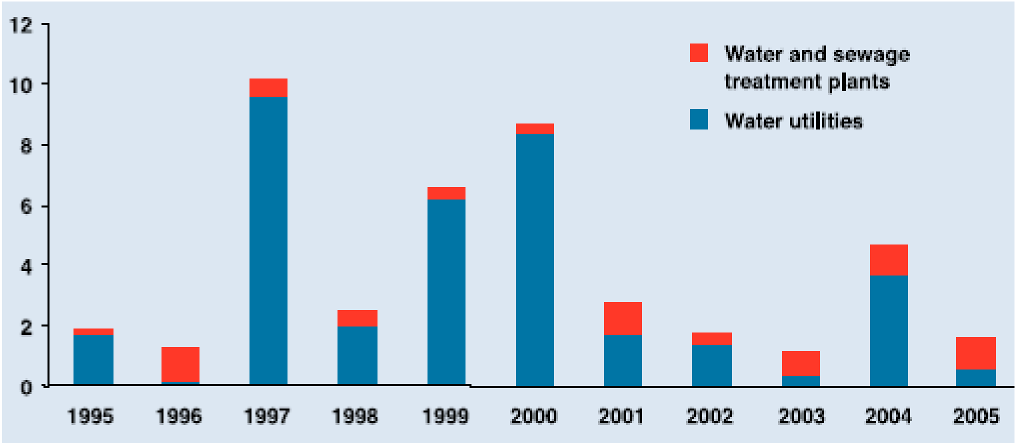
Investment Commitments Slowing, Number of Projects Increasing in Recent Years
(Private Participation in Water Projects in Developing Countries, 1995-2005)



Source: World Bank and PPIAF, PPI Project Database.

A Changing Allocation of Private Activity
(Investment in Water Projects with Private Participation in Developing Countries by Segment, 1995-2005
(US$ billions))



Source: World Bank and PPIAF, PPI Project Database.

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LICENSING

fornia, which requires licenses for 177 job categories, nearly double the average. It is followed by Connecticut, Maine, New Hampshire, and Arkansas. With the striking exception of California, Western states tend to be less regulated than Midwestern and Eastern states.

The survey also indicates that occupational licensing laws are very arbitrary, as evidenced by the disparity in which occupations are licensed and how burdensome the licensing regulations are from one state to the next. For example, there were several cases in which neighboring states had significant differences in the number of licensed job categories: California (177) and Arizona (72), Arkansas (128) and both Missouri (41) and Mississippi (68), New Jersey (114) and Pennsylvania (62), North Carolina (107) and South Carolina (60), Tennessee (110) and Alabama (70), and Florida (104) and Alabama (70). If some places work just fine with minimal or no regulations, why must others be plagued with so many restrictive laws? Are things so drastically different just across state lines that this disparity could be justified? Not likely.

The Problems with Occupational Licensing Laws

While occupational licensing laws are billed as a means of protecting the public from negligent, unqualified, or otherwise substandard practitioners, in reality they are simply a means of utilizing government regulation to serve narrow economic interests. Such special-interest legislation is designed not to protect consumers, but rather to protect existing business interests from competition.

By banding together and convincing governments to impose new or stricter licensing laws, existing practitioners (who typically are exempted from the new laws through grandfather clauses) can raise the cost of doing business for potential competitors. These barriers to entry reduce competition, allowing the existing practitioners to keep prices and profits higher than they otherwise would be in a truly free market. Moreover, since they have less competition, licensed businesses have less incentive to innovate or invest in research and development to stay ahead of their rivals.

This imposes a great cost on the economy. By restricting competition, licensing decreases the rate of job growth by an average of 20 percent. The total cost of licensing regulations is estimated at between $34.8 billion and $41.7 billion per year.

This diminished level of competition also means that consumers have less choice in the marketplace. Their choices are reduced not only by the fact that licensing means there will be fewer practitioners in business, but also because the one-size-fits-all licensing requirements imposed by the government discourage specialization and varying levels of service. It may make sense for some consumers to seek lower-quality services in exchange for cheaper prices, but stringent regulations prevent practitioners from providing these services.

In addition to occupational licensing regulations being harmful for the many practical reasons noted above, they also violate economic liberty. By erecting artificial and arbitrary barriers, licensing regulations prevent people from working in the job of their choosing. A nation that prides itself on its entrepreneurial spirit should allow its citizens the greatest opportunities for starting any business they see fit to invest their money and labor in, not stifle them with paternalistic government regulations.

Sadly, the poor are hardest hit by occupational licensing laws. Those who can least afford it must endure the double whammy of paying higher prices as consumers and being shut out of job opportunities by costly regulations. Laws that make it more difficult for them to obtain certain jobs or start their own businesses only make it that much harder for them to work their way up the economic ladder.

Some may claim that the market does not offer enough protection for consumers, but they underestimate the value of business reputation and the legal system. Simply put, bad service and shoddy products are bad for business. Poor service is just as much a killer for businesses as outrageously high prices.

A number of resources offer consumers information about various products and services. Consider Consumer Reports, the Good Housekeeping Seal of Approval, CNet.com, bizrate.com, and even the American Dental Association, which offers its own certification of products. The Internet has provided the consumer with an even greater wealth of information, including not only expert and consumer reviews of products, but also of services and the merchants that sell them. In the absence of licensing regulations, we could expect an even greater amount of information and more private-sector certification organizations to emerge at no cost to the taxpayer.

When even the best information is not enough, however, and consumers are harmed or mired in disputes with businesses, the legal system serves as a last resort to provide justice. With or without licensing, there will always be some scam artists and shysters, but self-regulation by the private sector and a fair legal system are all that is needed to adequately protect consumers.

Potential Solutions

In light of the enormous economic losses to society inflicted by occupational licensing regulations and the destructive effects these laws have on consumers, aspiring workers, and business owners—not to mention individual liberty in general—occupational licensing laws should be abolished.

Since this may not be feasible in the near term, however, policymakers should consider a couple of "second-best" options that may have a better chance of making a more immediate impact.

Governments should conduct periodic occupational licensing reviews—either through a special commission or an auditing agency—to ensure that regulations pass the "laugh test" (Do we really need to license interior designers and casket sellers?) and analyze licensing board performance by evaluating enforcement actions against licensees. Licensing laws should be subject to removal if:

(a) Few other jurisdictions have seen the need to license the occupation,

(b) Too few practitioners are licensed to financially justify the existence of the licensing board, or

(c) There is a history of little or no enforcement activity, suggesting that either the licensing board is not doing its job or there is no cause for action, and thus that the board is unnecessary.

Finally, sunset provisions should be included in all licensing laws to improve accountability by forcing occupational licensing boards to periodically justify their existence and forcing policymakers to ensure that regulations have not gotten out of hand.

Adam B. Summers is a Policy Analyst at Reason Foundation.

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LOTTERY

a request for qualifications in January. Under the plan the state would receive a multibillion-dollar one-time payment, and the lottery's new operators would receive all revenue and profit for 75 years.

During his reelection, Gov. Rod Blagojevich (D) called for privatizing the lottery. Under his plan he would provide the schools with $650 million a year for the next 18 years, slightly more than what they received last year in lottery income.

Colorado was the only state to put forward a proposal generated by the legislative branch. Sen. Josh Penry (R-Grand Junction) and Sen. Chris Romer (D-Denver) teamed up to offer legislation to allow the Colorado lottery to be privatized. The legislation would have required an upfront payment of at least $2.2 billion. Of the proceeds, $1.5 billion would be invested in a trust fund while the remaining $700 million would be used for veterans' health care, open space acquisition, and college scholarships.

The bill was scuttled because of an adverse opinion from the state's attorney general.

However, a volunteer lobbyist has given second life to the concept. Marvin Meyers, legislative chairman of the United Veterans Committee of Colorado, has filed the paperwork to pursue a citizen-sponsored initiative that would put lottery privatization on the November ballot. Similar to the Penry-Romer bill, Meyers anticipates that the state would receive between $2.2 and $2.6 billion upfront. Those funds would also go to veterans' services, buy open space, create a college scholarship fund, and fund other projects. The initiative still needs legal approvals, draft ballot language, and more than 76,000 signatures.

Governors in Michigan and New Jersey have also initiated discussions about lottery privatization. Lawmakers in Maryland and the District of Columbia also mulled the idea over without offering concrete plans.

There are serious policy considerations about the use of proceeds from lottery privatization. Again, while similar to road and highway concessions, there are significant differences when it comes to the allocation of proceeds. Many have expressed concerns about proceeds being used to create new programs or fund ongoing operating expenses.

Leonard C. Gilroy is the Director of Government Reform at Reason Foundation. For more on state and local privatization, visit: reason.org/apr2007/local_state_update.pdf

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TRANSPARENCY

In January of 2007, Florida Gov. Charlie Crist (R) issued Executive Order 07-01 which created the Office of Open Government, whose sole purpose is to provide "the Office of the Governor and each of the executive agencies under his purview with the guidance and tools to serve Florida with integrity and transparency." SB 2516 was also introduced by Sen. Rhonda Storms (R) calling for the Department of State to create a "Google government" Web site which is now in the Economic Development Appropriations Committee.

At the end of January 2007, Texas Gov. Rick Perry (R) called for government transparency as one component of his "Five Point Budget Reform Plan," challenging all state agencies to publish expenditures online in a clear and consistent format. Believing in leading by example, the governor has already made all of the governor's office expenditures available online: www.governor.state.tx.us/divisions/press/files/2007Q1_expenditure.pdf. State Comptroller Susan Combs followed suit, posting not only her office's expenditures, but also those of eight other agencies (see www.cpa.state.tx.us).

On the heels of the governor's efforts, the Texas State Legislature unanimously passed HB 3430, mandating the creation of an easy to search, free database listing state expenditures, including grants and contracts.

This will allow Texans to literally open up the state's checkbook and see for themselves where taxpayer dollars are being spent.

Furthermore, Texas House Joint Resolution 19 was unanimously passed in both chambers, giving voters the option of adopting a constitutional amendment requiring a roll-call vote on the final passage of all substantive bills passed through the legislature. If approved by voters on November 6th, no measure could be passed via an anonymous voice vote.

"Missourians deserve openness in state spending. These dollars belong to the people of our state."

Missouri Gov. Matt Blunt (R) issued an executive order to create the Missouri Accountability Portal (http://mapyourtaxes.mo.gov/MAP/Portal/Default.aspx), a Web site containing searchable information on state agency budgets, state contracts, and the distribution of economic development tax credits. Additional plans for the site include providing information about state employee salaries. According to Governor Blunt:

"One of my goals has been to transform state government by using technology to improve efficiency and enhance transparency. The old-way bureaucrats like the paper-based system, which empowers them and is less accountable to taxpayers. Few Missourians can take the time to root through mounds of paperwork in some department to find out where their taxes are going. Missourians deserve openness in state spending. These dollars belong to the people of our state."

In October, South Carolina Governor Mark Sanford (R) issued an executive order creating a free, searchable Web site where taxpayers have access to all appropriated or non-appropriated funds by a state agency in forms including, but not limited to, grants, contracts, and subcontracts. Nebraska State Treasurer Shane Osborn also announced that he will create a similar Web site.

Other states have also attempted to introduce more transparency to their governments:

Arizona has created an online database (www.spirit.az.gov) that provides a searchable database of statewide contracts for its agencies and over 400 colleges and universities, counties, cities, school districts, and qualified non-profits.

Hawaii's Rep. Marcus Oshiro's (D) HB 122 passed, requiring the creation of a searchable Web site. Senate versions SB 157 and SB 1689 would have imposed a $25,000 threshold.

Kansas was the first state in 2007 to sign comprehensive government transparency legislation into law. HB 2457, also known as the Taxpayer Transparency Act, sponsored by Rep. Kasha Kelley (R) in February of 2007, was signed by the governor and became law in April. The Taxpayer Transparency Act requires the Secretary of Administration to develop and maintain an easily searchable Web site containing: (1) certain state and local revenue and expenditures including annual expenditures such as disbursements by state agencies from funds in the state treasury, (2) salaries and wages including compensation paid to individual state employees, (3) contractual services, (4) capital outlays, and (5) commodities.

Additionally, Kansas considered HB 2207, which would have created a comprehensive searchable Web site for the state's expenditures, including grants, contracts, subcontracts, tax refunds, rebates and credits, and payments made under the Kansas Investments in Major Projects and Comprehensive Training Act, as well as expenditures pursuant to any compact between the governor and any federally recognized Indian tribe or nation in Kansas. This bill was left pending in committee.

Minnesota's HF 376 and SF 416 were placed in the State

Government Omnibus bill and signed into law by Governor Pawlenty on May 25, 2007. Although grants and contracts to local government units aren't included, the database will allow Minnesotans to search for detailed information on state grants and contracts which are valued over $25,000, starting in 2008. This information will be stored online for 10 years.

Although no legislation has yet been proposed in New Hampshire, Gov. John Lynch (D) has made his monthly spending reports publicly available. Officials expect to make the spending side of the state's budget available soon. Citizens can already track what goes into the budget.

Oklahoma state senators modeled legislation after the federal bill and called for creation of a Web site showing all state spending. This bill—unanimously passed in late May and signed into law by the governor in early June—is known as The Taxpayer Transparency Act. This new "Google government" Web site is scheduled to be launched by January 1, 2008.

In Ohio, citizens are able to look up information pertaining to supplies and services contracts via a variety of search criteria at www.procure.ohio.gov/proc/index.asp.

Following a large turnover in the General Assembly, Pennsylvania has launched www.passopenrecords.org to shine light on the state's expense account records. Currently, the state asks for a burden of proof from a citizen to open a record. This blog points out that the records should be presumed open and that a particular office or agency should have to prove otherwise.

Virginia citizens will soon have access to their own Google-government Web site with access to certain state expenditure, revenue, and demographic information from the ten most recently ended fiscal years.

Additional transparency measures were unsuccessful in states such as Colorado, Connecticut, Georgia, Illinois, Kentucky, Maryland, New Mexico, North Dakota, Tennessee, and Washington. However, with the model legislation recently passed by the American Legislative Exchange Council (ALEC), the nation's largest nonpartisan, individual membership organization of state legislators, transparency and accountability measures are certain to appear clear across the country in the coming legislative session. ALEC's model legislation implements state versions of the Federal Funding Accountability and Transparency Act. In a similar vein, a model bill to require that the public have at least 72 hours to review tax and spending bills before they are voted on was also passed.

Amanda Kathryn Hydro is the Director of Policy Development at Reason Foundation.

Federal Government Performance Reviews Continue

By Leonard C. Gilroy

Fiscal year 2006 brought about another round of performance reviews as the administration implemented its Program Assessment Rating Tool (PART). Each year the U.S. Office of Management and Budget (OMB) analyzes about one-fifth of federal government programs for effectiveness. Every budget submitted by this administration has used this tool to rate programs and use the ratings to determine budget priorities.

Many failing or ineffective programs have been outlined for elimination or reduction in previous budgets; however, Congress has yet to use the ratings or the outcomes in determining funding. In the FY 2008 budget, 91 programs will be terminated for a savings of $5 billion and 50 programs have seen major reductions, providing $7 billion in savings, for a total of $12 billion in savings.

In the fifth year of reviewing government programs via PART, the OMB has now assessed about 96 percent (977 programs) of all federal programs. The following chart outlines the breakdown of PART results.

According to PART standards, the success of federal programs has been growing, as now 75 percent of them are operating "effectively." PART's primary role is to ensure that programs do what Congress mandated them to while being managed effectively, thus providing value for taxpayers. The programs in the bottom 25 percent become candidates for termination or reductions in funding in order to bring about reform. Those that are rated as ineffective "are not using tax dollars effectively," and 22 percent cannot show any impact or results for their efforts or spending because "they have not been able to develop acceptable performance goals or collect data to determine whether the program is performing."

Congress is increasingly paying attention to the PART ratings, as reflected in the number of programs terminated. For example, in FY 2005, only seven of the 65 proposed reductions occurred; in 2006, 91 were terminated. Additionally, OMB launched www.expectmore.gov to shed more transparency on PART. On this Web site, citizens are able to view which programs have been evaluated and their ratings are searchable by keyword, topic, or agency.

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BRIEFS

second-largest bank, with 188 trillion yen ($1.6 trillion) in deposits. Interest on these savings accounts has been notoriously low, and the privatization is expected to encourage people to turn to higher-return investments such as stocks. It is also intended to foster competition and open up financial markets to foreign banks and investment companies.

Initially, the four spin-off companies will be held under a government-controlled holding company, Japan Post Holdings Co. The bank and insurance companies will go public as early as 2009 or 2010, and by October 2017, all shares of the companies will be traded on the market. The government will gradually sell off shares of Japan Post Holdings through 2017, although it will retain control of one-third of these shares.

Public Works Financing Issues *11th Annual Water Privatization Report*

Water and wastewater services continued on their path of expansion, although at a slower rate than in recent years, reports the 11th Annual Water Privatization Report from *Public Works Financing*. The survey is based on a review of the eight largest water utility operators.

The market has grown steadily by 5 to 12 percent a year since 2000 (total dollar value), with 2006 reporting as one of the slowest yearly gains in recent years. There are 1,038 wastewater and 746 water facilities under private operation in the United States. In 2006, a total of 1,463 municipal, state, or federal clients outsourced their water or wastewater operations to the private sector, representing a 4.3 percent increase over 2005.

The industry's contract renewal rate remained high, averaging 95 percent over the last four years.

Study: Toronto Could Save $10 Million Per Year with Private Trash and Recycling Collection

A recent study by the Ontario Waste Management Association shows that the city of Toronto could save at least $10 million a year by contracting out residential waste and recycling collection. Eighty-five percent of the province, including the six municipalities surrounding Toronto, utilizes private-sector collection services, yet 80 percent of Toronto's services are handled by city employees. According to the study, the six neighboring municipalities—Mississauga, Brampton, Vaughan, Richmond Hill, Markham, and Pickering—pay on average $23.73 less per metric ton for trash and recycling collection than Toronto. The report also notes that private-sector waste companies provide the same service for about 20 percent less than the public sector and that the average private-sector waste collection worker is more than twice as productive as the average city of Toronto worker.

New Jersey Studies Privatization Targets

In New Jersey, Gov. Jon Corzine partnered with UBS Investment Bank to conduct an evaluation of state assets, identifying which were most appropriate for privatization and the potential value. The review looked at assets owned by the state and its independent authorities. All assets were considered, including but not limited to toll roads, transit facilities, rights-of-way, buildings, air rights, naming rights, airports, bridges, water facilities, ports, parks, lottery, and the student loan portfolio.

New Jersey currently has the third-highest level of debt per capita in the nation, as well as the highest level of property taxes. The state carries at least $29.7 billion in debt with payments eating 8 percent of state spending. This also does not account for unfunded pension liabilities. Given this, the state is looking to generate new value to have a significant reduction in existing debt, allow new capital investment, and deliver new efficiencies and quality to existing services.

Tier 1 assets have a sound commercial viability and a meaningful value to the state. These assets are early candidates for privatization:

- Atlantic City Expressway
- Development rights at New Jersey Transit stations
- Garden State Parkway
- New Jersey Lottery
- New Jersey Turnpike

UBS also identified several Tier 2 assets. Essentially, these are assets that would likely be successful, but there just isn't enough information at this time.

- Atlantic City International Airport
- Fiber Optic Network
- High Occupancy Toll Lanes
- Naming Rights
- Newly-Tolled Facilities
- PNC Bank Arts Center

Of the assets, the lottery and Atlantic City Expressway scored the highest in terms of viability. Closely behind those two were the NJ Turnpike, Garden State Parkway, HOT Lanes, newly tolled facilities, development rights at train stations, naming rights and the PNC Bank Arts Center.

Ohio Studies Asset Divestiture

Ohio State Treasurer Richard Cordray has proposed creating a central inventory of state properties, with a goal of weeding out unused or under-utilized land. An initial review of just 20 counties representing 36 percent of Ohio's population found 7,364 state-owned properties. Of these properties, 446 (approximately 6 percent) remain unimproved or unused, and appear to be suitable for divestiture and private development.

Cordray wants government to reduce the amount of vacant land it owns and restore those properties to the tax rolls. Indeed, Cordray suggested that the state should "feel an obligation to ensure that state-owned properties are being utilized to their maximum potential."

The proposal includes a "defining principle" for the state's property policy:

> *If the State owns land that is non-productive, and if there is no immediate plan to make that property productive, then the private sector and community groups should be given the opportunity to propose one or more plans to improve and utilize that property, and the presumption should favor any such proposal that results in the disposition or use of the land to create value, jobs, tax revenue, and community improvement.*

Pennsylvania Considering Privatization of Prison Guards at State Mental Hospitals

In Pennsylvania, the Department of Public Welfare (DPW) is pondering the privatization of prison guards that supervise patients at three state mental hospitals. The department is looking to reduce the cost of operating hospital "forensic units," which house mentally-ill people who are facing criminal charges but are awaiting evaluation to see if they are fit to stand trial.

According to Joan Erney, deputy secretary of DPW's Office of Mental Health and Substance Abuse Services, the costs to run the state's forensic units far exceed the costs of most other states. It costs Pennsylvania $713 a day per patient to operate the units, compared to a national average of $388 a day. "Given the disparity between what Pennsylvania is spending compared to the rest of the nation, and in order to be good stewards of the Commonwealth's money, it was necessary to find ways to control costs, bring our costs in line, and maintain the level of quality services that are necessary to operate the facilities."

At present, the state employs 332 prison guards to oversee 199 patients at the facilities. The state prison guards' union vehemently opposes the privatization proposal.

The Welfare Department has received three bids from private contractors—MHM Forensic Services Inc., GeoCare Inc., and Liberty Forensic Recovery Systems Inc.—to operate the forensic units.

The Welfare Department has not announced a time line for deciding on privatization, but it has been speculated that a decision could be made by late January.

Virginia Considers Ports Privatization

In Virginia, legislators are contemplating the privatization of operations at the Virginia Port Authority. Del. Harry Purkey has proposed forming a bipartisan commission comprised of port interests, financial experts, and academics to spend one year studying the pros and cons of privatization, as well as the different kinds and degrees of privatization.

Revenues from privatization may be a strong selling point, as the state is currently struggling to balance the budget and selling the rights to operate the ports would likely provide a significant cash infusion to state coffers. Purkey is pushing a deliberate approach to the issue in order to avoid making any impulsive decisions.

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WELFARE

current core computer system.

IBM offered employment to all existing state employees, too. And not just employment, but better pay, benefits, pensions, and career prospects than the state plan. Furthermore, employees will be able to spend more time helping people and not just pushing paper.

The modernization will be phased in over several stages, as the next stage cannot begin until the previous stage is completely and successfully transitioned.

Leonard C. Gilroy is the Director of Government Reform at Reason Foundation. For more on state and local privatization, visit: reason.org/apr2007/local_state_update.pdf

Who, What, Where

Reason Studies

Streamlining San Diego: Achieving Taxpayer Savings and Government Reforms Through Managed Competition, September 2007, By Geoffrey F. Segal, Adam B. Summers, Leonard C. Gilroy, and W. Erik Bruvold

Occupational Licensing: Ranking the States and Exploring Alternatives, August 2007, Policy Study 361, By Adam B. Summers

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16th Annual Report on the Performance of State Highway Systems (1984-2005), June 2007, By David T. Hartgen and Ravi K. Karanam

Innovators in Action 2007, July 2007, Edited by Geoffrey F. Segal

Leasing State Toll Roads: Frequently Asked Questions, March 2007, Policy Brief 60, By Peter Samuel

Building New Roads Through Public-Private Partnerships: Frequently Asked Questions, March 2007, Policy Brief 58, By Leonard C. Gilroy, Robert W. Poole, Jr., Peter Samuel, and Geoff Segal

Enabling Public-Private Partnerships for Transportation in California, September 2006, Policy Brief 50, By George Passantino

Reason Foundation research including policy briefs and studies are archived at reason.org/policystudiesbydate.shtml

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

Conferences

Transportation Research Board, TRB 87th Annual Meeting, January 13-18, 2008, Washington, D.C.

National Council for Public-Private Partnerships, PPPs for Federal Properties: Opportunities & Challenges, February 6, 2008, Washington, D.C.

2nd Annual National Public-Private Partnership Symposium, March 3 -5, 2008, Huntington Beach, California

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