



Lovellian Education Alternative Program White Paper

Document Abstract

This white paper describes an alternative education program that can be used by any state or applied at the federal level to fund the costs of education (at all levels) without using taxation and without any naked deficit spending. Furthermore, this alternative system provides a built-in accountability structure that fosters competition at all levels, to wit:

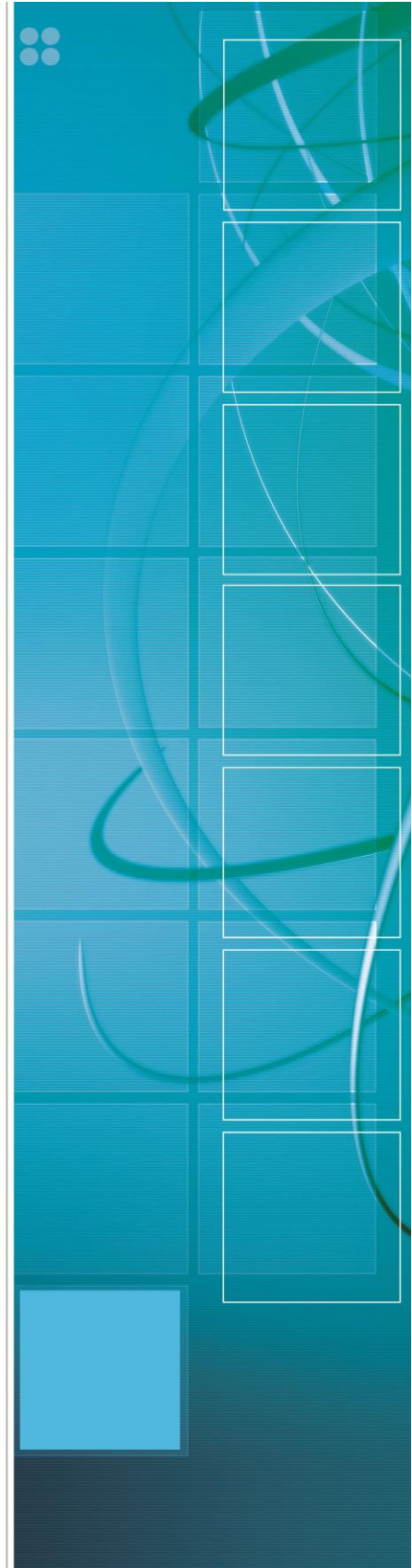
- All schools compete against each other; and
- All grades compete against each other; and
- All classes compete against each other; and
- All teachers compete against each other; and
- All school businesses compete for investment and revenues in the open market where the placement of a pupil is subject to the pupil's choice (or parents' as the case may be).

The resulting analysis of the program structured demonstrates the following outcomes as being the usual and likely outcomes and not the anecdotal or extraordinary outcomes:

- Real school choice can be executed and managed to the benefit of all education system stakeholders.
- Real reductions in the cost of delivering educational services can be expected in the near-term window.
- All units of government have a real opportunity to exit the education business, cease funding education and eliminate their education-related debt loads.

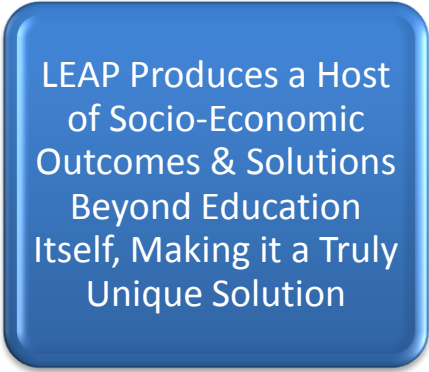
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3,613 Words/10 Pages



Overview

The provision of education includes both educating the young and honing the skills and abilities of everyone else who wants to access education to enrich their lives and increase their vocational appeal to the market. This proposed program (the “Lovellian Education Alternatives Program” or “LEAP”) uses a unique funding approach that provides a direct stimulus to the demand schedule for capital investment and an indirect stimulus to the demand schedule owing to labor. This stimulus occurs while providing a self-sustaining and self-regulating appropriations model that puts an end to the systemic corruption and lack of transparency that has effectively destroyed the education system’s potential for excellence as a routine outcome. In this regard, LEAP provides for the resolution of the following socio-economic policy goals:



LEAP Produces a Host of Socio-Economic Outcomes & Solutions Beyond Education Itself, Making it a Truly Unique Solution

- Stable Housing Market Growth.
- Stable Labor Market Growth.
- Stable Net National Product Growth.
- Reduction of Total Education Industry Costs.
- Broadening Education Access – Adult & Child Education Programs.
- Increased Graduation Rates.
- Decreased Teen Pregnancy Rates.
- Increased College Placement Rates.
- Increased Trade School Placement Rates.
- Increased Adult Literacy Rates.
- Increased Adult Education Participation Rates.
- Increased Economic Opportunity for Education Industry Workers.
- Increased Economic Growth & Education Industry Investment Opportunities.

Phasing In LEAP...

The creator of LEAP realized that reality will intrude into every large-scale plan and flexibility is required so that successful outcomes can be managed. It will take time to implement the privatization scheme that is necessary to fundamentally transform the entirety of the education landscape. One (1) of the cornerstones of LEAP is to immediately replace the current taxation-based funding model with a more efficient funding model that serves the needs of our 21st century society. This means that the new system must be immediately deployable or there has to be some kind of transitional fiscal appropriations process that can be applied until such time as every single school, system, university, college and trade school is sold-off to private business interests that will operate these programs in direct competition with one another on a for-profit basis.

LEAP uses a two-phased approach to make this transition possible:

- During the period of time commencing with adoption of LEAP by a school system until the time when the school system assets are all sold off to the private sector, all activities will be funded by the school system acting on behalf of all students. The school system will be using a special investment income program that will completely replace the tax-driven revenue model on Day 1. Once the school system has sold off all of its assets to the private sector and operational responsibility is transferred to the private market, this program would cease in favor of the permanent funding program initiative below.
- The permanent funding solution that will be adopted by the education market is based upon the education consumer making a contribution (having responsibility – “skin in the game”) to a leveraged investment income program approach that will pay the operating costs and provide the return on investment that will power the private sector program. This will allow the market to set the tuition rates in strict competition and the resulting outcomes will create the exact opposite of outcomes we see in education today.

This means we have to come to understand how the LEAP financing system is intended to function for the benefit of this two-phase approach to funding.

The LEAP Fiscal Appropriations Approach...

At the heart of LEAP we find a funding structure that is based upon a simple premise in capital financing known as “arbitrage” that allows us to use a financial process known as “defeasance” to create an extremely efficient funding program for the benefit of education (and all other fiscal spending to boot). Arbitrage is an economic opportunity where you can buy something in one market knowing that you can resell it at a higher rate in another market, taking advantage of that price differential (called “the spread”) to generate a profit. Defeasance is the practice of investing in a relatively higher-yielding investment that has a high degree of certainty of future payoff to use as the means of paying off a loan obligation. In this regard, arbitrage exists where loan lending rates are relatively low and other investment rates are relatively high, thus creating the spread that becomes the “profit” that can be used for all sorts of things.

A working example will give you a clearer understanding of how this principle works:

The Lincoln County School System knows it can float a 30-year bond at 4.5%, while at the same time the Lincoln County School System has access to a pool of investments that have an average compounded annual rate of return of 7.44%. The spread is the difference between the 7.44% and the 4.5% and how they are compounded. A \$1,000 30-year bond will grow to a \$3,800 obligation that will be require repayment in 30 years. On the other hand, to pay off that \$3,800 in 30 years with an investment that has an average compounded rate of return of 7.44% (today) means the total investment required would be about \$411 – in other words, an investment of \$411 (today) at 7.44% will eventually grow to \$3,800 over the next 30 years, so it has the necessary potential to pay off that future loan obligation today all by itself. The profit would be

the difference between the \$1,000 in borrowings and the \$411 in required investments – the sum of \$589.

There are no monthly payments. The school just spends the \$589 and all funds are accounted for – this is a complete approach.



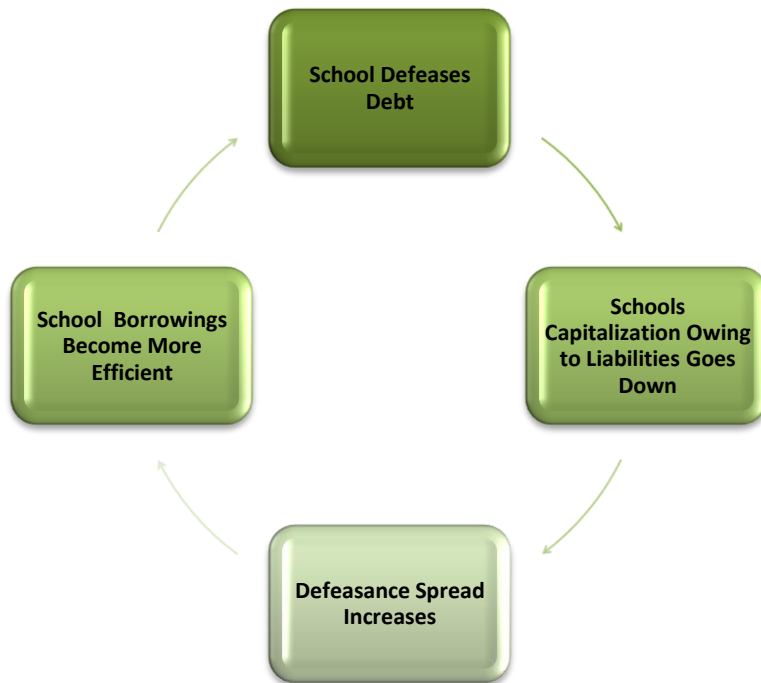
The debt is considered “defeased” and taken off the financial statements of the school system. If this were a real-world deal, Lincoln County School System would borrow \$1,000 from the investing-public and end up with \$589 in “free money” – money that had no corresponding liability assigned to it and that means the money could be spent on whatever the school system decided it wanted to spend money upon.

Now comes the fun part...

If the Lincoln County School System had 20,000 kids and the cost of operating the school system is \$180 million per year (\$9,000 per student per annum), then the system will have to borrow approximately \$306 million to net the \$180 million. Along the way there would be approximately \$125.7 million in new investments being undertaken to support the defeasance of these loans. The \$125.7 million investment represents a direct stimulus to the economy of the best possible kind and the operation of the schools themselves on a for-profit basis also represent a stimulus to the economy. The holders of the \$306 million in loans would receive those \$125.7 million in investment securities that are expected to retire the loans at the end of the 30-year term with a margin to spare. This takes the government’s ability to service debt in the future out of the equation altogether and the local economy that was being taxed to pay the \$180 million in tuition/school operating costs now has the \$180 million restored to it. Restoring the previously taxed income will result in an increase in consumption and an increase in investment and savings activities – all of which are good for the local economy.

This is an incredible double-whammy that has far reaching consequences:

- The change of the system presents huge impacts on the local economy as the tax burden is reduced (in this example) by \$180 million while the economy also receives \$180 million in stimulus from the operations of the schools and \$125.7 million in additional new investment. Under the old way there was \$180 million in taxes and \$180 million in stimulus, a zero net outcome that produces no stimulus, only expense to the economy as a whole. Under the new system the private-sector economy's income increases by \$180 million. There is no taxation; there is \$180 million in stimulus from school operations and an additional \$125.7 million in new investment activity (also a stimulus) for a total of no less than \$305.7 million in net benefit (depending upon how you do the numbers) to the economy.



- The reduction of taxation within the area will have the net impact of making the area more attractive for investment and that investment potential will help create a sustainable demand for housing.

- The reduction of taxation will increase commodities consumption over and above that level that would otherwise be expected when the tax was being levied.

- This approach can be calibrated to also include the refinancing of existing school bonds, thus reducing the school

system's outstanding liabilities with each successive year's appropriations process. This will have the net effect of reducing the interest premium the school system would otherwise have to pay on its debt obligations and that will have a corresponding increase in the spread to the advantage of the system at all levels. This creates a perpetual cycle that feeds itself off of the remaining long-term debt of the school until all the debt is gone.

- The resulting investment will create an indirect stimulus to the demand schedule for labor as the new investment will mainly take the form of new companies that all require employees to be hired and paid.
- The new system allows for expanded access funding to provide more adult education programming, more special needs programming or whatever else the system's stakeholders may require of the new system. This has the indirect impact of increasing adult literacy rates and adult education program participation rates. Consequently, the

additional education level makes the workforce even more productive and competitive, thus making the local economy even more attractive to new investment.

- The new system can also afford to pay education workers at rates that are competitive with those of other private-sector workers and it offers investors with the opportunity to expand their participation in financing the educational system in a way that creates highly attractive outcomes.

The transition is designed to be smooth as well. As each school converts to private ownership the public will enjoy the resulting economies and efficiencies that private enterprises can create that government-owned enterprises have no reason to produce.

The new system is to be made responsible by having the public pay the cost of defeasance as their tuition contribution to the program. Under this approach there would be the requirement that the user (or parent) pays the tuition as they do now indirectly through their taxes. This has the advantage of tying the user to the outcome and thus allows the impact of the unseen hand of free-market capitalism to work its magic upon the market as a result. This requires that additional financial leverage would be created and this is done by “defeasing the defeasance”. In other words, the system would work with two levels of defeasance to make it all work.

School Tuition Program Financial Analysis	
LEAP - INSTICERT Model	
Assumptions	
Assumed Tuition:	\$ 10,000.00
Assumed Bond/Loan Term in Years:	30
Assumed Bond Interest Rate:	4.50%
Assumed Equity Compounded Rate of Return:	9.00%
First Level of Defeasance	
Total Future Value of Tuition Bond @ Term:	\$38,001.35
Total Present Value Investment Required for Defeasance:	\$2,579.76
Total Investment Required to Sustain Tuition Requirement: \$2,579.76	
Second Level of Defeasance	
Assumed Defeasance Basis:	\$2,579.76
Total Future Value of Tuition Bond @ Term:	\$9,803.43
Total Present Value Investment Required for Defeasance:	\$665.52

A simple example (note spreadsheet) demonstrates a system that \$665.52 would be invested by the parent to obtain \$10,000 in tuition expense for the year. The average 4-year college is around \$9,000 per year, so this simple structure makes college education affordable for practically anyone who has the desire to have it. That’s a giant LEAP forward.

In order for LEAP to work for both phases of funding activities we need a capital market that is much better suited to our needs than the ones that already exist, because; the current crop of stock markets, commodity & futures exchanges and systems have been compromised to the point where they are no more than legalized gambling where the house sets the rules, determines the winners and also plays the game. We can’t have that in the 21st century and we can’t have that sort of set-up and expect LEAP to work as it would be just another corrupt exchange in no time at all and LEAP would fail. We’re not willing to settle for abject failure; we want a guaranteed success so we need to “rig” a new kind of capital market where we get what we want without the

help of investment bankers, commercial banks and the other players who have polluted the other markets.

The primary investment vehicles for LEAP include:

- Fractional Commercial Real Estate Syndications. These are simple real estate transactions where a developer sells a commercial income-producing property to a group of investors (that could include the schools and individuals) and then agrees to repurchase the property back from the group of investors (called a “syndicate”) at a date certain in the future and for a stipulated price. If the developer fails to repurchase the site by the date certain (or otherwise defaults on the deal) the syndicate can sell the property on the open market and still make its money. Almost any type of commercial income-producing property (other than just holding raw land) can be used for this purpose and the structure can be such that everyone’s interest is protected and the government can’t distort the market or the business. This program is generally known as “Real Estate Plus”.
- Fractional Single-Family Housing Real Estate Syndications. These are simple real estate transactions where the syndicate is providing financing pursuant to a program called “Housing Plus” for the purchase of housing by the public. This is much more efficient than mortgage lending and is more ideally suited for the public to use for the purposes of financing the costs of tuition at private school facilities.
- Market Lending. These are bonds in the form of what are known as “zero-coupon bonds” that are originated by the school system and then made subject of a defeasance plan by the families of the children attending the school.

Under this program structure the school system enters the debt markets to borrow funds in what would otherwise be a naked deficit spending scheme (i.e.: all costs of operations and capital expenses are funded from borrowings), except; the school system will be offering the real property interests provided by the parents of all the pupils as the source of future repayment of the obligations. These investments are made with an expected term of 7 years, so the services of another party (the “arranger”) is involved who is empowered to continue to make investments in still more fractional real estate syndications in the future at rates and earnings rates that are sufficient to retire the bond debt in accordance with its original economic proposal.

The structure of the syndication deal takes the government out of the equation altogether and forces it to accept the position of a silent investor who cannot corrupt the operations of the companies receiving the investment, nor corrupt any of the homeowners who use the Housing Plus program, nor corrupt the capital marketplace where these interests are traded and exchanged, nor corrupt the lending markets that serve to support the program.

The issue at hand is one of preventing schools from spending enormous sums because there appears to be a potential moral hazard – the school system has no reason to control their spending because they are not paying the bill. If this were left unaddressed, the new system would have the same problems as the old system. The controls come in the form of limitations on investment activities. LEAP requires that every dollar of investment in an enterprise made by the system to be matched with two dollars or private-sector capital investment (a \$2.00:\$1.00 capital investment matching requirement).



This simple expedient has a tremendous amount of impact that ripples throughout the economy:

- The system is self-sustaining. The structure of the loan securities can be made analogous (in terms of future earnings) to those of the equity securities that are purchased to defease those loan securities in a given transaction. This creates equilibrium in the market as the increase in demand in one will create a decrease in demand in the other and this ensures the system is always in a state of relative equality that is based solely upon one consideration; the demand for new investment as a whole. This means that as more and more borrowings are made, the interest rate will start to go up and the spread (remember arbitrage) will start to decrease and less funds will be originated.
- The system is self-regulating. The school system can only undertake capital financing for capital expenses and not the payment of tuition (you can't borrow your revenue like they do now). The tuition is paid by the user and the profits have to be of sufficient substance to attract participation of the investing public. This means the more expensive the schools are to finance, the more expensive the tuition will have to be in order to support

that investment. The result will be that the investing public will indirectly control school spending by virtue of their preference for investing in business enterprises that appear to offer the least amount of risk for the most amount of reward.

The essence of changing the out a quasi-public/private school system in favor of adopting a fully privatized model that uses a public financing scheme to support it and make it cost-efficient is what will create school choice. School choice is a matter of competition and competition can only occur in an open market that is not rigged in favor of one party or stakeholder over the other parties or stakeholders. This will allow the capital markets and labor markets to work in concert to address the market opportunity for primary/secondary education, as well as universities, colleges, trade schools and online programs. Real school choice means the entire universe of education opportunities has to be privatized, but supported in a way that makes it affordable. This is accomplished (as shown above) with the financial investment leverage created by the LEAP appropriations approach. In the end mobility is fostered both for students and for education workers and this impacts performance.

The easiest and most efficient way of ending the nightmare of non-performing schools is to force the schools to compete in a private market setting like parochial and private schools do now. The impact of real school choice means that the school receives tuition reimbursement based solely upon the attendance of the pupil. If the parent takes the child out of the school, then the school ceases to get the revenue associated with that pupil; period the end. By privatizing the school systems the private-sector investment can replace the capital investment model and this means the technology required to validate attendance can be part of every new school that joins the system as nothing short of biometrics (scanners) will prevent people from trying to cheat. LEAP embraces these technologies as being a cornerstone to making non-performing schools something of the past. LEAP requires schools to post actual results that are tracked through the LEAP program server (INSTICERT). This means the criteria between schools and grade levels is made to compete within the universe of school systems and a composite rating for each of these areas is made part of the information every parent would be presented with and it is up to the parents to decide which schools will get their business. On the other hand, as a school business starts to fail from poor management it will reach a point where entrepreneurs will decide what the capital risk is worth and if the effort of starting up a competing operation is called for. The essence of this market competition will serve as one of the methods of ending non-performing schools. Finally, the privatization of the school systems means private investors will be financing the capital costs and will be seeking to maximize their capital investment and maximization of that investment opportunity will be contingent upon (in large measure) the competitive ranking of the school and this will serve to further mitigate against the fear of having a non-performing school.

Additional Information

To find out more about LEAP and its omnibus parent program Education Plus, please contact George L. Ashford at 208.577.6191 or via email at drgla@cableone.net. The additional information available includes the following:

- A system for all entitlement programs – health, retirement insurance, poverty and housing.
- A fiscal appropriations platform that uses these same principles to retire our national debt in approximately 15 years or less.
- A new approach to corrections and justice.
- An end to the burden of taxation.
- An omnibus system of central and commercial banking operations that completely reverse the damage done by our current system.

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