Profiting from Public Dollars: ALEC’s Privatization Agenda

The American Legislative Exchange Council has been a major force in pushing for the privatization of public services and assets. They actively promote privatization that allows corporate takeover of public functions. This agenda is evident in ALEC’s model bills. ALEC works with its corporate members to draft model bills that state legislators can introduce and push in their states. Many of these bills create incentives to privatize services and call for the increased use of private financing and control of public infrastructure projects. The bills also have the potential to generate lucrative sources of revenue for ALEC’s corporate sponsors. For example, ALEC bills make it easier to create virtual public schools, encourage states to privatize vital health programs that help vulnerable populations, force state governments to sell public prisons to private corporations, and help other industries take control of public services. As a result, we stand to lose control of critical public services and assets and we risk a weakened democracy.

This backgrounder brief explores ALEC’s privatization agenda in a variety of sectors with a particular focus on what its corporate members stand to gain from increased privatization. It also provides summary highlights from In The Public Interest’s forthcoming report, “Profiting from Public Dollars: How ALEC and its members promote privatization of government services and assets.”

Streamlining the Privatization Process

Council on Efficient State Government Act
Commerce, Insurance, and Economic Development Task Force

ALEC’s hallmark privatization legislation, the Council on Efficient State Government Act, seeks to establish a centralized and independent council to make privatization recommendations to the state, and reviews the privatization process, business case, and cost analyses before a state agency moves forward with a privatization effort. Essentially this legislation allows for one group, comprised of seven members, to serve as an advisory body for the state regarding privatization decisions. This bill promotes greater privatization of government services by making it easier for private companies to influence outcomes of privatization proposals and win lucrative government contracts.
In the States: Legislation that closely resembles the model bill has been introduced in state legislatures across the country, including in Arizona, Georgia, Illinois, Kansas, Maryland, Ohio, Oregon, Pennsylvania, South Carolina, and Virginia. The bill has not passed in any of these states.

Growing Online Learning

Virtual Public School Act Education Task Force

The Virtual Public School Act encourages state to contract with companies to provide virtual educational services to students. These “virtual” or online schools must be recognized as public schools and given the same resources and funding as other public schools in that state.

In the States: This model bill has been introduced in a number of states, including Mississippi, Maine, Tennessee, Massachusetts, Virginia, and Texas. In all of the states, with the exception of Massachusetts, this bill became law. K12 Inc. runs virtual public schools in Tennessee, Texas, and Virginia. After the passage of Tennessee’s virtual public school bill, K12 Inc. won a no-bid contract from Union County School District to create the Tennessee Virtual Academy. Connections Academy exclusively runs the virtual public school network in Mississippi, and runs a program with the Houston Independent School District in Texas. Both companies contract with states and school districts to provide virtual public school services in a number of other states too.

At a Glance: Corporate Gains

Companies that have participated in ALEC: K12 Inc. and Connections Academy

What goods/services they provide: Online education courses for K-12 students

Objective: Increase the number of public school students enrolled in online courses

Industry Overview: In 2010-2011 school year, 250,000 students were enrolled full-time in virtual schools. These companies seek to increase their market share by enrolling many more of the 52 million US public school students. Estimates predict that the K-12 online learning market will grow by 43% between 2010 and 2015, with revenues expected to reach $24.4 billion.

Corporations in our Schools

Pupil Transportation Cost-Effectiveness Act Education Task Force

The Pupil Transportation Cost-Effectiveness Act encourages the privatization of school district transportation services by opening up school bus service to bidding by private companies.

In the States: In 1997, an exact replica of this bill was introduced as SB 100 in South Carolina. In 2012, legislators in South Carolina unsuccessfully tried again to pass comprehensive legislation that would privatize school transportation services.

At a Glance: Corporate Gains

Companies that have participated in ALEC: Laidlaw Transit

What goods/services they provide: Student transportation services

Objective: Increase the number of public school districts that contract with private bus companies to provide student transportation.

Industry Overview: School buses carry 26 million students to and from school each day. Of the 450,000 school buses that operate each day in the US, about 40% are run by private companies. In 2011, the North American school transportation market was estimated at $24 billion.

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1 http://www.k12.com/schools-programs/online-public-schools
2 http://www.edweek.org/ew/articles/2012/03/01/kappan_underwood.html
4 http://www.thenation.com/article/164651/how-online-learning-companies-bought-americas-schools/?page=full
5 http://www.americanschoolbuscouncil.org/issues/environmental-benefits
**School Board Freedom to Contract Act**  
*Education Task Force*

The **School Board Freedom to Contract Act** encourages school districts to contract out school support services, such as food service, custodial, facilities maintenance, transportation, and technological services.

**In the States:** In 2001, a version of the model bill was introduced in Georgia. This bill did not pass at the time but in 2010, the 11-year old model bill was introduced again as HB 1049. This bill was also unsuccessful.

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<tr>
<td><strong>Companies that have participated in ALEC:</strong> Dell Inc.</td>
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<tr>
<td><strong>What goods/services they provide:</strong> Computers, hardware, technological assessment services, data management, and IT planning services.</td>
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<tr>
<td><strong>Objective:</strong> Increase sales of computers and related hardware to school districts, increase number of school districts that contract out technological services, such as data management and IT planning services.</td>
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<td><strong>Industry Overview:</strong> There are almost 99,000 public schools in the US. Analysts estimate that technology in K-12 public schools represent an enormous business opportunity. The K-12 market for computers and other hardware is around $6.6 billion and data management is $500 million.</td>
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| **Companies that have participated in ALEC:** Coca-Cola, Pepsi, Frito-Lay |
| **What goods/services they provide:** Soft drinks, snacks |
| **Objective:** Increase the number of vending machines that sell snacks and soda in public schools district and increase the volume of snacks and soda sold through traditional lunch service. |
| **Industry Overview:** There are almost 99,000 public schools in the US. Almost all these schools have capacity for vending machines and the sale of sodas and snacks. It is estimated that 43% of elementary schools, 74% of middle schools, and 98% of high schools currently have vending machines that sell sugary sodas and unhealthy snacks. |

**Controlling Vital Infrastructure**

**The Establishing a Public-Private Partnership (P3) Authority Act**  
*Commerce, Insurance, and Economic Development Task Force*

This bill promotes a looser legal and regulatory framework for public-private partnerships by establishing a centralized state authority to identify and establish P3 projects, and approve qualified bidders, requests for proposals, and template contracts.

**In the States:** Since the ALEC model bill was approved in 2011, we can expect it will be introduced in upcoming 2013 state legislative sessions.

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<td><strong>Companies that have participated in ALEC:</strong> Macquarie, Cintra, Transurban</td>
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<tr>
<td><strong>What goods/services they provide:</strong> Construction and development services; financing, raising capital, and investment in infrastructure projects</td>
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<td><strong>Objective:</strong> Create opportunities for private investment and financing in public infrastructure</td>
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<td><strong>Industry Overview:</strong> Experts estimate that major public infrastructure privatization projects could be worth over $100 billion over the next few years.</td>
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7 http://www.legis.state.la.us/billdata/streamdocument.asp?did=689734  
9 http://www.educationindustry.org/assets/thinkequality-k12-report.pdf  
10 http://www.livestrong.com/article/373921-healthy-school-vending-machines/  
11 Figure derived from http://online.wsj.com/article/SB10001424052748703860004575427150960867176.html and “Market Status Report,” Public Works Financing, June 2012.
Reducing Access to Health and Human Services

The Access to Medicaid Act and The Patients First Medicaid Reform Act

Health and Human Service Task Force

The Access to Medicaid Act seeks to replace the Medicaid system with a voucher system, where participants receive a voucher to purchase insurance from for-profit corporations.\(^\text{(12)}\) The Patients First Medicaid Reform Act would establish health savings accounts for Medicaid recipients, and allow them to use the accounts to purchase a high-deductible health policy from for-profit corporations and pay for out-of-pocket expenses. This is an updated version of The Access to Medicaid Act.

In the States: A bill similar to The Access to Medicaid Act in 1994 (HB 4659) and in 1995 (HB 2087) was introduced in West Virginia. The bill was also introduced in Pennsylvania in 1995 (HB 2). None of these bills passed. In 2011, a bill that contained similar provisions to The Patients First Medicaid Reform Act was introduced in Montana as HB 376. The bill did not pass.

At a Glance: Corporate Gains

Companies that have participated in ALEC: Amerigroup Corporation, Blue Cross and Blue Shield Association, Coventry Health Care, Humana Corporation, Medco Health Solutions, Inc., and United HealthCare

What goods/services they provide: Health insurance

Objective: Increase the number of Medicaid recipients enrolled in private health insurance plans; create a mechanism for market to new potential enrollees.

Industry Overview: Total Medicaid enrollment across the US in FY2009 totaled 62,594,979.\(^\text{(13)}\) The Affordable Care Act would expand Medicaid to an estimated 16 million additional individuals.\(^\text{(14)}\)

Companies that have participated in ALEC: Abbott Laboratories, Amgen Inc., Bayer Corp., Bristol-Myers Squibb, Celgene Corporation, Eli Lilly and Company, EMD Serono, GlaxoSmithKline, and Pfizer Inc.,

What goods/services they provide: Pharmaceutical drugs

Objective: Increase access to and sales of drugs to Medicaid recipients.

Industry Overview: Over 3.7 billion retail prescription drugs were filled in 2010. This represents total sales of over $220 billion.\(^\text{(15)}\)

Profiting from Incarceration

Private Correctional Facilities Act

The Private Correctional Facilities Act allows a government agency to contract with a private company for the construction, acquisition, improvement, operation, maintenance, purchase, or management of a prison facility.

In the States: In 1999, Utah introduced and passed a version of the model bill, using the same title and similar provisions. A version of this bill was also introduced in Arizona in 2010 as an amendment to HB 2177. This language which would have made every state prison in the state eligible for privatization, but the bill did not pass. In 2011, Ohio passed HB 153, which provided the legislative authority needed to initiate the outright sale of a state prison to a private company.\(^\text{(16)}\) This “sale” provision is an important component of the ALEC model bill. Many states have contracted out management and operations of their prisons to private companies, but in 2011, after HB 153 became law, Ohio became

\(^{12}\) http://alecexposed.org/wiki/ALEC_%26_Health_Care
^{13}\) http://www.statehealthfacts.org/comparemaptable.jsp?cat=4&ind=198
^{15}\) http://www.statehealthfacts.org/comparemaptable.jsp?ind=266&cat=5
the first state to actually sell a correctional facility. After HB 153 passed, the Lake Erie Correctional Institution was sold to Corrections Corporation of America (CCA), a long-time corporate member of ALEC.

At a Glance: Corporate Gains

Companies that have participated in ALEC: Corrections Corporations of America (CCA)

What goods/services they provide: Prison operation services

Objective: Increase the number of private prisons in the US, increase number of prisoners to ensure full capacity.

Industry Overview: At the end of 2010, 2.4 million people in the US were incarcerated in prison. Since 2000, the number of prisoners held in private federal facilities increased by 120%, while those detained in private state facilities shot up by 33% - even though the same time period showed only a 16% increase in the total prison population.17 In 2009, CCA earned $1.67 billion in revenue with a net income of $155 million.18

No Sanctuary Cities for Illegal Immigrants Act Public Safety and Elections Task Force

The No Sanctuary Cities for Illegal Immigrants Act is a comprehensive immigration bill that, among other provisions, requires law enforcement to arrest anyone who cannot prove they entered the country legally when asked.

In the States: This model bill became known as the infamous Arizona SB 1070. In 2011, the bill was passed in five other states: Alabama, Georgia, Indiana, South Carolina, and Utah.

At a Glance: Corporate Gains

Companies that have participated in ALEC: Corrections Corporation of America (CCA)

What goods/services they provide: Prison operation services

Objective: Increase the number of private prisons in the US, increase number of prisoners to ensure full capacity.

Industry Overview: In 2009, the U.S. government detained approximately 380,000 people in immigration custody at an annual cost of more than $1.7 billion. This amounts to more than 30,000 new people detained per day.19

Please visit www.InThePublicInterest.org to obtain a copy of In The Public Interest’s forthcoming report, Profiting from Public Dollars: How ALEC and its members promote privatization of government services and assets.

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17 http://www.nationofchange.org/profiteers-misery-us-private-prison-industrial-complex-1314288737
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19 http://detentionwatchnetwork.org/aboutdetention

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