

INNOVATE

POLICY FOR THE FUTURE



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Dear ALEC Members,

February 5, 2015

Solutions to today's problems come from creative thinking and a genuine plan of action. Government should operate in the 21st Century instead of the 1950s, yet long lines, unclear objectives and poor performance are persistently associated with government programs. A government that meets the needs of its people is innovative and held to a high standard.

Innovate: Policy for the Future offers solutions that cut red tape and promote economic growth and competition. Government should facilitate the development of new ideas and innovations, and the policies offered in this book inform and educate the debate on best government practices.

Hard work is needed to break out of the cycle of stagnant ideas and old ways of legislating. ALEC provides a platform for legislators looking to share and find new understanding of the challenges facing their states. Using this book, legislators can start the discussions in their states of how to best streamline government services and create a system that is efficient, effective and accountable.

Hardworking taxpayers deserve a government that respects and protects their time and money. As legislatures set their 2015 priorities, commitment to measureable success and investment in a healthy economy should be the top goals. Good ideas—and the courage to see them through—produce real results, and ALEC supports all legislators looking to lead with break out ideas in the 21st Century.

Sincerely,



Representative Phil King
Texas
2015 ALEC National Chair

ACKNOWLEDGEMENTS

A special thanks to ALEC member legislators, who create model policy and work tirelessly in their states to advance the principles of limited government, free markets and federalism.

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INTRODUCTION

What comes to mind when asked to describe government?

A November 2014 Rasmussen survey found that 8 percent of people think Congress is doing a good job, and only 11 percent “think Congress has passed any legislation that will significantly improve life in America.” Americans are frustrated, and they do not trust the government to meet their needs.¹

Government for the people and by the people should encourage innovation and technological advancements and work with the private sector to invest in growing the economy. And yet, why in the 21st Century does the federal government still process Internal Revenue Service (IRS) forms by hand and rely on technology developed 30 years ago? Why does it take more than 15 years for a new drug to be approved by the Food and Drug Administration (FDA)? Why are new technologies—such as Uber, Lyft and Airbnb—more likely to be outlawed than given permission to operate? Why is government more inclined to say “no” than “yes” to innovation and change?” Government too often stands in the way of technological advancements.

This is not the government our country deserves. The land of the free and the home of the brave deserves a government that is efficient, effective and accountable. The people who work hard to earn a living deserve a government that respects their time and money. The families who are raising the next generation of entrepreneurs, teachers and leaders deserve an education system that supports their children’s endeavors and prepares them for the future that lies ahead. Imagine a government that works for the people and with innovators—that meets the needs of those it serves—and ask yourself, what could be achieved with a more efficient government?

It is time to break out of the old ways of thinking. It is up to state and local leaders who are closer to the people they serve to lead the way, to dig up the framework of the old government and replace it with a newer, stronger, more innovative one.

Innovation does not come from old ways of thinking. Innovation comes from those who have a vision and show leadership to make it a reality.



INTRODUCTION

This publication offers challenges to the current models of government and suggests innovative solutions for those looking to reform the thinking and processes holding back a more efficient and responsive government. Regulatory uncertainty and bureaucracy should not be tolerated, and serious efforts should be undertaken to streamline government services to effectively balance the needs of the people with the limits set by responsible budgeting.

Innovate: Policy for the Future provides answers for lawmakers looking to improve how government operates and how it interacts with the people it serves. A government representative of its people is current with the times, encourages innovation and fosters economic growth. With this publication, lawmakers and others will find ways to help government better meet the needs of the people they serve.



■ INNOVATION IN HEALTH CARE

EXPANDING ACCESS AND LOWERING COSTS WITH TELEMEDICINE

Telemedicine continues to hold tremendous promise as technological breakthroughs are providing nurses, doctors and other health care providers with new and more efficient ways to connect with patients, including those in rural and underserved areas. Nonetheless, telemedicine faces hurdles in many states.

Despite the efficiencies telemedicine offers, just 11 states provide some form of telemedicine coverage under their state employee health plans. Similarly, at a time when Medicaid enrollment is surging, just five states have Medicaid programs that “offer comprehensive coverage, with few barriers for telemedicine-provided services.”² Meanwhile, though telemedicine can technically operate without borders, the ability for physicians to practice across state lines is limited in many cases.



CASE STUDY

CASE STUDY: THE PRIVATE SECTOR LEADS THE WAY

The doctor-patient relationship is rapidly changing. Recently, Rite Aid announced a pilot program to offer private, high-definition videoconferencing kiosks at select retail locations for patients to interact with doctors, complete with digital stethoscopes. Services like “Doctor on Demand” and “MDLive” now allow any patient with a smartphone to connect with a doctor from the comfort of their home, 24/7, for less than the cost of an urgent care visit. While these services are currently limited to common health issues—flu, stomach pain, sore throat, earaches and skin conditions—these issues are responsible for nearly 10 percent of patient visits to physician offices, emergency departments and hospitals.³

Beyond interactions between patients and doctors, advances are also expanding the market for smartphone-connected medical devices. In 2014, at least 23 digital health apps received FDA clearance, including smartphone linked thermometers, inhalers, glucose meters and even a “peel-and-stick, Band-Aid-like vital

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signs monitor” that captures “ECG, heart rate, HRV, respiratory rate, skin temperature, body posture, steps, stress, and sleep staging.”⁴

With more than 6,100 Primary Care Health Professional Shortage Areas across the U.S.,⁵ and just 10 percent of doctors living in rural areas where 25 percent of Americans live,⁶ telemedicine also has significant potential to serve rural and underserved populations. For example, in rural South Dakota, even though a clinic was just 10 minutes from Tom Soukop’s ranch, the physician on duty didn’t have the expertise to treat his back injury. Fortunately, the physician at the clinic was able to connect with a doctor in Sioux Falls via videoconference who walked him through the steps to treat Tom’s injuries.⁷

And while further investigation is needed, a cautiously optimistic RAND study released last year found that patients with coverage for telemedicine experienced increased access and required fewer follow-ups compared to patients who visited a traditional doctor’s office or emergency department.⁸ According to the lead author of the study, “[t]elemedicine services such as the one we studied that directly links physicians and patients via telephone or Internet have the potential to expand access to care and lower costs.”⁹

ALEC supports the use of telemedicine to improve access and reduce costs for patients, and to that end, supports the creation of an interstate compact to improve access to telemedicine by facilitating reciprocity for physicians and reforming the existing reimbursement system.



ALEC MODEL POLICY

Resolution Supporting Efforts of Telehealth Working Group

■ INNOVATION IN HEALTH CARE

DIRECT PRIMARY CARE AND TRANSPARENCY

Anecdotes of confusion surrounding health care charges and disparities in pricing are widespread. One hospital charges \$117,000 to undergo a procedure for which another charges \$26,500; hospitals across the street from each other charge wildly different prices for the same treatments, etc.¹⁰ One of the reasons offered is that the lack of transparency creates a disincentive for consumers to seek competitive pricing.¹¹

Meanwhile, the spread of concierge medicine and direct primary care are offering consumers new choices and transparency not typically seen in health care. While not a solution to all of the challenges facing health care, direct primary care has benefits that extend beyond those participating, including increased, voluntary transparency by competitors, and potential savings for taxpayers.



CASE STUDY

CASE STUDY: OKLAHOMA PROVIDES CONSUMER CHOICE

In 2009, the Surgery Center of Oklahoma decided to do something considered disruptive in the health care market: post its surgery prices online for anyone to see. Patients, doctors and even competitors can go online, choose from the menu of procedures offered, and instantly get prices for a host of available services, ranging from biopsies to knee replacements. Other medical facilities quickly followed.

Local news in Oklahoma City investigated the prices in 2013 and found the following comparisons to the three largest medical centers in the surrounding area:¹²

- Mercy Hospital charged \$16,244 for a breast biopsy; the procedure costs \$3,500 at Surgery Center of Oklahoma.

■ INNOVATION IN HEALTH CARE

- OU Medical Center billed \$20,456 for the open repair of a fracture; the procedure costs \$4,855 at Surgery Center of Oklahoma.
- OU Medical Center billed \$21,556 for a gall bladder removal surgery; the procedure costs \$5,865 at Surgery Center of Oklahoma.
- OU Medical Center billed \$23,934 for an ankle arthroscopy; the procedure costs \$3,740 at Surgery Center of Oklahoma.
- Integris Baptist billed \$37,174 for a hysterectomy; the surgery costs \$8,000 at Surgery Center of Oklahoma.

The Reason Foundation shared the following example of how the Surgery Center is helping working Americans:

June Wietzikoski is a typical patient benefiting from this alternative health care market. She works as a loan officer for a community bank in Groesbeck, Texas... She had carpal tunnel release procedure done at the Surgery Center for the all-inclusive price of \$2,775, which was covered by her employer. Had she gone to a traditional hospital... the discounted bill would have come to about \$7,452 and she would have been personally responsible for the first \$5,299, since she hadn't met her deductible.¹³

And the impacts of direct pay transparency don't just benefit individuals and surgeons in Oklahoma. Dr. Keith Smith, co-founder of the Surgery Center, shares the anecdote of a patient in Georgia who used online prices to negotiate a surgery from \$40,000 down to \$4,000 at his local hospital.¹⁴ There is the potential for government to save money as well—last year Oklahoma County allowed employees to use the Surgery Center, and since making the change, the clerk's offices recorded savings of more than \$573,000 in just the first five months.¹⁵

The Surgery Center of Oklahoma is just one success story of direct pay facilities offering lower prices and greater transparency to consumers. ALEC supports allowing consumers to directly pay for health care, and opposes classifying such arrangements as insurance. Four states, Maryland, Oregon, Utah and Washington, have laws or regulations specifically permitting direct primary care, providing doctors relative certainty that such arrangements will not come under regulatory scrutiny.¹⁶



ALEC MODEL POLICY

Freedom to Purchase Medical Services Act

■ INNOVATION IN EDUCATION

DIGITAL EDUCATION AND HIGH-QUALITY DIGITAL LEARNING

For more than a century, the American education system has looked nearly the same with students crammed into a classroom with a teacher and a black board at the front of the room. Despite advances in technology, this method has basically remained unchanged.

Children are no longer learning the way they have in the past. Brick and mortar schools are no longer effective and seat time is no longer a variable in student achievement. The National Assessment of Educational Progress (NAEP) scores strongly suggest that parental choice in education leads to higher test scores. Digital learning is also a major component of school choice and helps students who traditionally struggle in subjects such as math and reading to learn at their own pace. Additionally, digital learning is a crucial step in the transitioning workforce that puts emphasis on skills and mastery rather than the status quo of a traditional school schedule. Digital learning is inevitable and necessary for the continued growth of America's economy.



CASE STUDY

CASE STUDY: MOORESVILLE, NORTH CAROLINA – LEADING THE DIGITAL REVOLUTION

Defenders of the status quo insist on investing more and more money into the same system, expecting different results. However, educators in Mooresville, North Carolina decided to try a different approach and instead adopted a fully digital education model and equipped each student, grades 3-12, with a laptop computer.

Children in Mooresville still attend school and have a teacher to help them with their work, but many of the similarities stop there. Imagine a math classroom where one student is learning basic algebra and the student next to them is learning advanced calculus. The children are free to learn at their own pace, and advanced students can progress more rapidly while students who need more help can learn at a slower pace and not face the humiliation of failing at a blackboard in front of the whole class.

■ INNOVATION IN EDUCATION

Here is how one child described their digital education experience: “I’m not a very social person, but I have no problem typing on a keyboard. It connected me with other students—opened me up and helped me with talking in public.”¹⁷

The results are not just anecdotal. The New York Times reported the following about academic progress in Mooresville:

“The district’s graduation rate was 91 percent in 2011, up from 80 percent in 2008. On state tests in reading, math and science, an average of 88 percent of students across grades and subjects met proficiency standards, compared with 73 percent three years ago. Attendance is up, dropouts are down. Mooresville ranks 100th out of 115 districts in North Carolina in terms of dollars spent per student—\$7,415.89 a year—but it is now third in test scores and second in graduation rates.”¹⁸

Not only was Mooresville able to increase academic achievement, but they did it with larger class sizes and with fewer staff. In fact, sixty-five jobs were eliminated due to the conversion to digital learning, including 37 teachers.¹⁹

The principal of Mooresville High School, Todd Wirt, said, “To be honest, this school was staffed incredibly well when I first came, so much so that I wasn’t exactly sure what some people did.”²⁰

Digital learning allowed Mooresville to maximize the use of their staff and allowed them to unlock the potential of their students. Academic success in the 21st Century is contingent upon students’ access to high-quality K-12 education. Today’s students have access to the Internet, technology and devices unavailable to previous generations. Excellent educational resources are becoming abundant in digital form, such as online and blended learning.

ALEC supports allowing students in public and charter schools to enroll in online, blended and face-to-face courses not offered by the student’s school. ALEC model policy allows a portion of that student’s funding to go to the course provider.



ALEC MODEL POLICY

Resolution Adopting the 10 Elements of High Quality Digital Learning for K-12

Course Choice Program Act

■ INNOVATION IN ENERGY

HYDRAULIC FRACTURING

As a result of the hydraulic fracturing (or “fracking”) and horizontal drilling revolution of the past decade, the U.S. has seen domestic production of oil and natural gas skyrocket. The technology has existed since the 1940s and since the first well was fracked roughly 70 years ago, fracking has been regulated almost exclusively by individual states. In 2010, Congress directed the U.S. Environmental Protection Agency (EPA) to study fracking to determine if the practice poses any threat to drinking water.

To date, there has not been a single proven case of aquifer contamination as a result of fracking. The EPA’s study will also likely determine whether the agency is afforded wider latitude in regulating the drilling process, so a great deal rests on its results. There are growing concerns that if the EPA starts playing a major role in regulating fracking, then energy development in the states might be negatively affected.



It is important states maintain their existing regulatory authority over energy production and that fracking continues to be employed in an environmentally safe manner.



CASE STUDY

CASE STUDY: NORTH DAKOTA TAKES THE LEAD ON ENERGY AND JOBS

Americans for decades were told they were going to have to learn to live with less. Peak Oil Theory stated the U.S. would reach its peak energy production in the early 1970s and decline from there. Most famously, President Jimmy Carter told Americans the “energy shortage is permanent,” and to live thriftily by turning your thermostat down to 55 degrees at night.²¹

Despite pessimism by some lawmakers, the private sector continued to look for solutions to America’s energy needs. A national fracking boom began in the mid-2000s. In fact, U.S. crude oil production has increased from five million barrels a day in 2008 to more than eight million barrels a day in 2014.²² Additionally, the amount of petroleum the nation imports has fallen from 65 percent in 2005 to 35 percent today.²³

■ INNOVATION IN ENERGY

Nowhere is the positive impact from fracking more evident than in the state of North Dakota. Oil was first discovered in the Bakken formation in 1951, but was mostly unreachable until the recent technological advancements in fracking, which uses pressurized water to break through shale to allow the extraction of hydrocarbons. Fracking, combined with advances in horizontal drilling technologies, have created an oil boom in North Dakota.

North Dakota now produces more than one million barrels of oil a day and is second behind only Texas in oil production.²⁴

Due to revenues from the oil boom, North Dakota has cut income and property taxes, while building new roads and schools. Despite all the spending and tax-cutting, the state still has a surplus of more than \$500 million.²⁵ In fact, North Dakota is projected to receive almost \$10 billion in tax revenue from oil and gas production in the next two years.²⁶ The oil and gas boom has also created jobs, with one in seven jobs now tied to the energy industry.²⁷ North Dakota currently has an unemployment rate of less than three percent.

North Dakota's oil boom has also created jobs and higher wages in other industries within the state. Notably, employees working at McDonald's restaurants in the state often make as much as \$15 per hour in addition to generous signing bonuses. But, not all states have realized the economic benefits of fracking. After a six-year-long moratorium, the state of New York recently banned fracking within the state's borders.

It is difficult—perhaps even impossible—to overstate the importance of readily available access to safe, affordable energy for economic wellbeing and individual prosperity. Energy is an input to virtually everything produced, consumed and enjoyed in society. Since energy is so fundamental to life, government policies and regulations pertaining to the energy industry can have far-reaching effects, both positive and negative, on everyday life. As the North Dakota model reveals, by enacting policies creating an environment in which states can safely and responsibly develop their natural resources, state policymakers can ensure continued job creation, economic growth and plentiful, cost efficient energy for all.



ALEC MODEL POLICY

[Performance Based Permitting Act](#)

[Resolution to Retain State Authority over Hydraulic Fracturing](#)

[The Disclosure of Hydraulic Fracturing Fluid Composition Act](#)

■ INNOVATION IN TRADE

EXPANDING EXPORTS

For years free market policymakers have been working with the private sector to create plans to fix America's trade imbalance and increase exports, and thanks to the efforts of both, the world is witnessing a global explosion of American goods. The iPhone is available around the world, the most recent version enjoying particular popularity in Asia according to Business Insider, and U.S. movies and music are exceedingly popular overseas. However, numerous American goods and products that have potentially lucrative export markets are unable to access them fully because of misguided and often outdated export control restrictions. Liquefied natural gas (LNG), defense and aerospace products with commercial applications and crude oil are among those goods that could gain greater market share with America's trading partners with the removal of excessive restrictions.



CASE STUDY

CASE STUDY: EXPANDING ENERGY EXPORTS

While the laws governing energy exports seemed a prudent step to conserve domestic energy reserves when the nation was reeling from the energy crises of the 1970s, the laws have outlived their usefulness and are desperately in need of reform. Now that the U.S. has become the largest oil producer in the world, these antiquated policies prevent America from capitalizing fully on America's energy boon. In addition to the significant economic opportunities that America's increased energy production presents, the U.S. could leverage it to support important alliances and partnerships.

Recently, some positive developments have emerged in energy export policy. Last year, the Obama administration approved a \$10 billion natural gas export station in Texas, which will help make America a leading exporter in natural gas. These multi-billion dollar facilities condense natural gas into a liquid, which can be put into containers and shipped around the globe. Since May 2011, the U.S. Department of Energy

■ INNOVATION IN TRADE

has approved six natural gas export facilities – three in Louisiana, one in Texas, one in Maryland and one in Oregon. These export facilities will create thousands of jobs and millions in new tax revenue for the states.

Crude oil exports have the same potential to create jobs and spur investment in the energy sector. While the United States can export refined oil products (gasoline, diesel, etc.), crude oil exports have been banned except in very limited circumstances since 1974. However, in June 2014, the U.S. Department of Commerce allowed two Texas oil companies to export condensate, a type of ultra-light oil, and recently the Department released new export guidelines suggesting the White House might favor lifting the ban. The ban can be lifted ad hoc by the Administration or, preferably, by Congressional action, which would result in more lasting policy reform.



CASE STUDY

CASE STUDY: AN INNOVATIVE AGREEMENT TO SPUR EXPORTS (TRANS-PACIFIC PARTNERSHIP)

As a complement to addressing specific export restrictions to boost energy exports, negotiating and finalizing trade frameworks with U.S. trading partners will help grow America's economy. The most innovative of these frameworks is the Trans-Pacific Partnership (TPP). While "innovative" may not be the first adjective that comes to mind to describe a free trade agreement (FTA), TPP is unique and, if negotiated wisely, has the potential to be the trade agreement gold standard for decades to come.

TPP is a trade agreement being negotiated between the United States and 11 other countries (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam) which have a combined population of 482 million people and are responsible for 15 percent of global trade. TPP will remove trade barriers for goods and services, improve intellectual property rights protections and create 21st Century trade rules. Unlike most trade agreements, TPP is built on an expansion model and has added

■ INNOVATION IN TRADE

new partner countries since negotiations began. TPP negotiating partners represent nations on both sides of the Pacific and negotiating partners range from the world's largest economy (United States) to smaller, less developed economies like Brunei and Vietnam. All member countries will be held to the same high standards on everything from definitions of what constitutes a state-owned enterprise to enhanced intellectual property rights protections. The latter is crucial to the U.S. innovation economy, as it needs strong intellectual property rights protections to thrive.

TPP opens new markets in countries that are not currently free-trade partners where the U.S. can remove trade barriers that will facilitate exports. For example, Vietnam's tariff rate on passenger vehicles is up to 83 percent. Imagine how many more American cars will be bought by Vietnamese citizens when this tariff is lifted. Japan's tariff rate on beef is 38.5 percent. Eliminating this tariff could have a major impact on beef exports. Every state in the union will benefit from a TPP that is wisely negotiated.

Ninety-five percent of the world's consumers and 80 percent of the world's purchasing power are beyond U.S. borders, so increasing exports is one of the surest ways to grow the economy—both nationally and in each state. Much work remains to expand American exports, starting with removing outdated export control restrictions—especially those on energy exports—and finalizing the Trans-Pacific Partnership Agreement (TPP).

ALEC model policies, including those listed below, support free market initiatives as they are proven to spur economic growth nationally and in the states. Exports, because of their scope, carry with them an even greater potential for economic growth than most domestic policies. According to the U.S. Department of Commerce, nearly one-third of America's economic growth since mid-2009 has been driven by exports, and since then almost 30,000 businesses have begun exporting for the first time. These are astounding figures, and lifting misguided restrictions on exports and negotiating high standard agreements with trading partners are a sure way to grow America's economy.



ALEC MODEL POLICY

[Resolution for Reform of Counterproductive Export Control Policies](#)

[Resolution in Support of Expanded Liquefied Natural Gas \(LNG\) Exports](#)

[Resolution in Support of Lifting Federal Restrictions on Crude Oil Exports](#)

[Resolution Urging Congress to Pass the Trans-Pacific Partnership \(TPP\) Agreement](#)

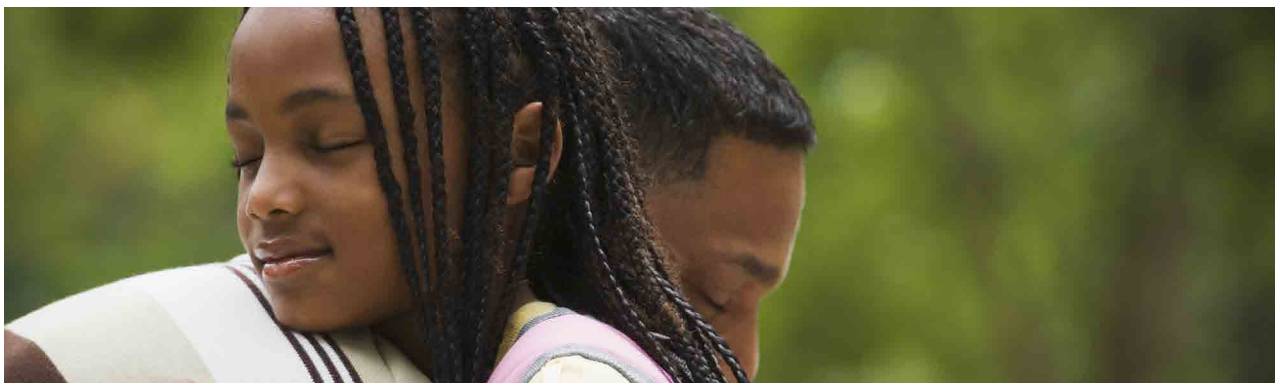
■ INNOVATION IN JUSTICE

BREAKING THE CYCLE OF CRIME

Currently, nearly one in every 100 American adults is behind bars, and once released from prison more than four in ten return within three years. This failing system costs federal, state and local governments approximately \$85 billion, yet does not deliver adequate public safety results for taxpayers and victims. In addition to the enormous budgetary costs, America's current criminal justice system places tremendous human costs on society. ALEC has worked with state legislators from across the nation to reform the broken criminal justice system by implementing evidence-based reforms that are proven to reduce recidivism, lower the crime rate, decrease prison populations and save taxpayer dollars. Limited government-minded state legislators have been at the forefront of this criminal justice reform movement. Policies along these lines have been passed in more than 20 states during the past four years. Some key states include Georgia, Mississippi, North Carolina, South Dakota and Texas.

ALEC criminal justice reform efforts operate on a couple of simple premises:

- Crime at its core is harm to a victim, and the primary purpose of the system should be to repair the harm done by the crime. To this end, victims should be involved in the system as early as possible.
- Policies should be enacted to decrease the number of nonviolent offenders in prison.
- Community correction programs should be held accountable for successes and failures through clear performance measures. Local entities should be incentivized through funding mechanisms to use evidence-based programs proven to work.
- In order to reduce recidivism, it is important to get to and treat the root cause of criminality, which is often addiction or mental illness.



CASE STUDY

CASE STUDY: ALEC MEMBER BRINGS SMART JUSTICE REFORMS TO TEXAS

During the course of 14 years, the Texas inmate population rose from 64,000 to 154,000.²⁸ In 2005, Representative Jerry Madden was named the chair of the Texas Corrections Committee. When he took

■ INNOVATION IN JUSTICE

over the chairmanship, the Speaker gave him one order – don't build any more costly prisons. Madden, an engineer and not a criminal justice expert, began looking for data-driven solutions. One of the first places he looked was across the aisle to his Democrat counterpart in the Senate, Senator John Whitmire. Together, this bipartisan pair convinced the legislature and governor to invest \$241 million in mental health treatment and drug and alcohol rehabilitation instead of building a new prison.

Since their reforms took effect, Texas has saved more than \$2 billion and has its lowest crime rate since 1973.²⁹ Representative Madden then began chairing the ALEC Task Force that dealt with criminal justice reform and Texas-style criminal justice reforms have spread across the nation. These policies focus on evidence-based solutions and treatments, and are saving taxpayer money, reducing crime and giving individuals a second chance.



CASE STUDY

CASE STUDY: SWIFT AND CERTAIN SANCTIONS IN HAWAII

In Hawaii, Judge Steven Alm faced many of the same problems that other judges face: a large number of the people serving probation under his watch were being poorly supervised and getting rearrested at high rates. The prevailing philosophy was that it was cheaper to allow someone on probation to get away with an infraction or two, rather than locking them up in prison at a cost of anywhere between \$20,000 and \$50,000 per year. Unfortunately by doing nothing, the message sent to the criminal offender is that the rules do not apply to them. Judges and probation officers are often left with an all-or-nothing choice—leaving the offender to roam the streets or lock them up in expensive prison cells for years on end.

Judge Alm watched the revolving door of probationers coming in with failed drug tests and missed appointments. Only after offenders had committed a new crime or had multiple infractions were they brought back in front of the judge. Frustrated with the system, Judge Alm created the Hawaii Opportunity Probation with Enforcement (HOPE) program. The simple idea was that if someone on probation committed an infraction, like a failed drug test or missed appointment, they would have to come and see the judge right away and receive a moderate punishment like a weekend in jail or home confinement with GPS tracking. The immediacy and consistency of the punishment is more effective in changing offenders' behavior than the possibility of going to prison for an undetermined sentence at some point in the future.

■ INNOVATION IN JUSTICE

The HOPE program produced fantastic results. Participants were:

- 55 percent less likely to be arrested for a new crime,
- 72 percent less likely to use drugs,
- 61 percent less likely to skip appointments with their supervisory officer, and
- 53 percent less likely to have their probation revoked.³⁰

As a result of Judge Alm's work, similar programs have been enacted in several states and President Obama has proposed \$115 million in grants for states to establish similar smart probation programs. ALEC members have developed a set of model policies that refocus criminal justice spending away from the incarceration of low-level, nonviolent offenders and instead direct funds to more cost-effective community corrections programs like intensive parole and probation, electronic monitoring and drug and alcohol treatment. Technological advances, such as advancements in GPS monitoring and non-narcotic drug treatment options, now allow more offenders to be safely supervised outside the prison walls. The supervision of low-level offenders in the community reserves prison space and resources for the most violent criminals and works to provide a second chance for nonviolent offenders through rehabilitation and personal accountability.



ALEC MODEL POLICY

[Swift Certain Sanctions Act](#)

[Earned Compliance Credit Act](#)

[Recidivism Reduction Act](#)

[Resolution in Support of Evidence-based Medical Treatment for Substance Use Disorders](#)

[Justice Safety Valve Act](#)

■ INNOVATION IN ECONOMIC DEVELOPMENT

PUBLIC PRIVATE PARTNERSHIPS

Public Private Partnerships (P3s) have been growing in popularity as a tool for states to address their major infrastructure challenges. P3s rely on bringing in private capital to fund public infrastructure. P3s transfer risk away from the government and into the private sector, bring in new sources of capital and get projects moving again.

As of February 2014, 22 states have broad P3-enabling legislation and an additional 11 states have limited or project-specific legislation.



CASE STUDY

CASE STUDY: VIRGINIA: INVESTING IN THE FUTURE

Not only can government change the way it delivers services to citizens, it can also change the way it finances those services. For example, since the 1950's, roads have been primarily funded through gas taxes.

Now, however, the advent of electronic tolls and public-private financing brings a new way for states to build roads and infrastructure. Thanks to technology, drivers no longer have to stop at a toll booth and rates can be changed quickly to help control traffic flow. For example, discounts can be applied to those who commute during off-peak hours to help reduce congestion.

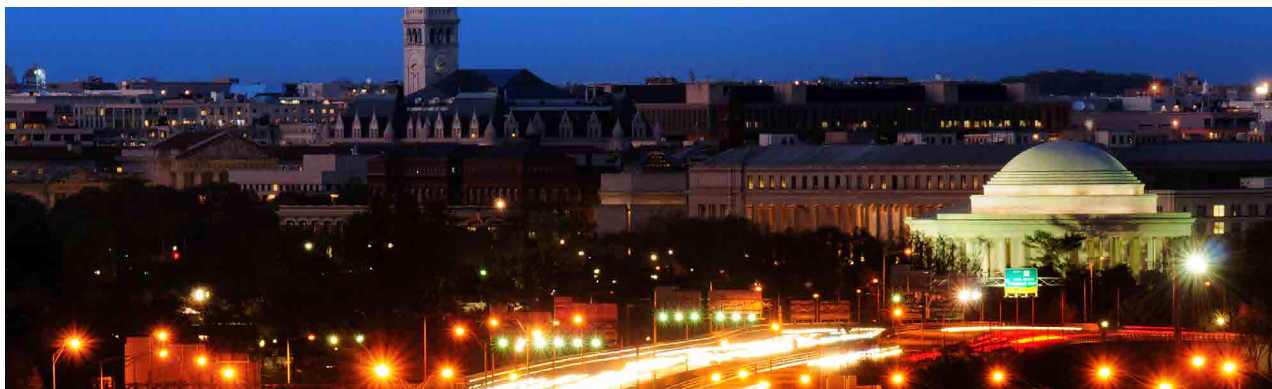
The Washington, D.C. area has some of the worst traffic congestion in the nation. The Beltway that circles D.C. through Maryland and Virginia was completed in 1964, and despite the increase of millions of new citizens, the Beltway has remained essentially the same since its construction. When Virginia lawmakers

■ INNOVATION IN ECONOMIC DEVELOPMENT

lacked the \$1.9 billion funding to add lanes to a 14-mile stretch of the Beltway, they secured a deal with a private financier, Transurban, who agreed to pay \$1.4 billion to build the additional two lanes. In return for building the tolled lanes, Virginia leased Transurban the lanes for 75 years to collect the toll revenue.

The lanes were recently finished and Virginia was able to complete the \$1.9 billion project with only \$400 million in state investments. Virginia has also begun looking at building more public private partnerships as a result of this project, and their neighbors to the north in Maryland recently passed legislation to expand the use of public private partnerships. A safe and updated infrastructure system is vital to a thriving economy, and as federal highway funds look decreasingly likely, states need innovative tools to help them address their increasing infrastructure needs.

ALEC supports P3s as a financing tool for states looking to expand and maintain their infrastructure. P3s benefit governments by leveraging tax dollars, transferring risk away from the government and to the private sector, accelerating delivery schedules and providing an opportunity to innovate.



ALEC MODEL POLICY

Establishing a Public-Private Partnership (P3) Authority Act

■ INNOVATION IN ECONOMIC DEVELOPMENT

THE PERSONALIZATION OF FINANCING: CROWDFUNDING

Technology is changing the way we receive loans and invest. Beginning in the mid-2000's, websites were launched that offered people the ability to fundraise for their own personal projects and ventures. This came to be known as crowdfunding. The crowdfunding site Kickstarter claims to have had more than \$1 billion pledged, from 7.4 million people, to support thousands of different projects on the site. Kickstarter investors back everything from films, music, art and gadgets. In return for investing in these projects, investors do not receive shares in the company but, for example, receive signed albums and t-shirts. [Kickstarter](#) has averted Securities and Exchange Commission (SEC) regulation by operating on a donation basis and only offering trinkets in return for investment.



CASE STUDY

CASE STUDY: CROWDFUNDING IN ACTION

Recently, a group of fans of the music group Foo Fighters raised more than \$60,000 to have the band play at a show in Richmond, Virginia. Fans invested \$50 a piece, and local businesses contributed more. Fans were only charged once the band agreed to play.

Imagine, however, instead of funding music concerts, you could go online and fund the next iPhone or Facebook. There are crowdfunding sites that offer monetary returns on investments. Crowdfunding sites like [EquityNet](#) offer accredited investors the ability to fund startup companies.

Crowdfunding is also spreading to personal lending with sites like [Lending Club](#), which offers investors the ability to directly make personal loans to other individuals. Their website claims their members have made more than \$6 billion in loans to individuals and paid almost \$600 million in interest to investors.

■ INNOVATION IN ECONOMIC DEVELOPMENT

Individual states have passed regulations allowing intrastate crowdfunding for non-accredited investors.³¹ In Texas, companies can now raise up to \$1 million a year, in increments of \$5,000 per person. To avoid SEC regulation, only Texas companies and residents are allowed to take part. Similar laws are on the books in Alabama, Colorado, Georgia, Idaho, Indiana, Kansas, Maine, Maryland, Michigan, Tennessee, Washington and Wisconsin.³² Twelve states are currently working to legalize crowdfunding.

It should be noted there are hesitations to adopt the crowdfunding platform. Federal regulators fear the potential for fraud and as a result are refusing to eliminate many Depression-era regulatory requirements. The JOBS Act, signed by President Obama in 2012, was crafted to open up investment crowdfunding to small startup businesses, but due to the SEC's delay to promulgate regulations for equity crowdfunding, that has yet to happen. To this date, crowdfunding investing is not open nationally to the general public.

Crowdfunding is an innovative way for start-ups to gain funding and individuals to invest in companies in their community. While crowdfunding must have regulatory oversight, this is a promising technology that can open up funding for entrepreneurs. ALEC supports intrastate equity crowdfunding.³³



ALEC MODEL POLICY

Local Investment Made Easy (LIME) Act

■ INNOVATION IN PENSION REFORM

DEFINED-CONTRIBUTION PENSION REFORM ACT

While a large percentage of employees are enrolled in defined-contribution plans in the private sector, the public sector offers unsustainable defined-benefit plans for many of its employees. When the public sector makes pension promises that they cannot afford, state employees, retirees and taxpayers are put at risk. As former Utah State Senator Dan Liljenquist wrote in [Keeping the Promise: State Solutions for Government Pension Reform](#), pension reform is not a partisan issue, but a math issue.

The Defined-Contribution Pension Reform Act promotes security and accountability in state retirement plans. This policy creates a 401(k) style defined-contribution pension plan for new public employees. Unlike the older defined-benefit model, the modern defined-contribution pension plan provides greater choice, mobility and stability for public servants and their families.



CASE STUDY

CASE STUDY: OKLAHOMA REFORMS RETIREMENT PLANS

In the most significant pension reform of the decade, Oklahoma became the third state in the nation to transition new hires into a 401(k) style defined-contribution pension plan. Oklahoma joins Michigan and Alaska in making the switch.

The pension overhaul exempts teachers and public safety employees from the defined-benefit to defined-contribution transition, but all other new state employees, beginning in November of 2015, will be enrolled in the state's defined-contribution plan. The pension reform will not impact current retirees or current employees; the changes will only benefit new workers.

■ INNOVATION IN PENSION REFORM

This ambitious reform will be an essential part of Oklahoma's fiscal health for years to come. Although the state still faces significant unfunded liabilities from its current defined-benefit pension system, it is one of only three states that will no longer accrue these massive liabilities every year. Oklahoma can now work over time to pay off unfunded liabilities, keep its promises to current workers and retirees, and also make sure that future employees will have a stable and sustainable retirement plan.

Oklahoma is the most recent state to recognize traditional defined-benefit plans no longer serve a 21st Century workforce. Hopefully this major reform will not go unnoticed in other states looking for ways to make sure their public servants are taken care of in retirement.

ALEC supports states adopting defined-contribution plans for all new hires. By giving state employees a private retirement account, just like the vast majority of private sector companies, employees will have a legal right to make sure their pensions are adequately funded and protected.



ALEC MODEL POLICY

Defined-Contribution Pension Reform Act

Retirement System Board of Trustees and Employees Prudent Investor Act

CONCLUSION

State lawmakers have the power to transform government and offer innovative ideas to break out of the old way of thinking. Americans deserve a government that encourages economic success and entrepreneurship, and by embracing new and creative ways to govern, state legislators can lead the way to a more efficient, effective and accountable system of state governments.

As true “laboratories of democracy,” states have the unique opportunity to experiment and decide for themselves what system of government best meets the needs of their constituents. In the face of federal inaction and discord, state lawmakers can set the example of how a successful government operates. From improving our system of education to reforming our criminal justice system, states are creating solutions from which others can draw and learn.

As Speaker Newt Gingrich discusses in his book *Breakout*, a new axiom is developing for lawmakers that will be different than the simple right vs. left debate. The new debate will be about future vs. past. Future leaders will embrace technology and reforms that bring government in line with the new world, while leaders who stand for the past will continue to argue for the status quo and push back against reformers.

ALEC is proud to stand with leaders of the future and those who want to bring innovative solutions to their state.

FOOTNOTES

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