



August 5, 2013

NAME

ADDRESS

Dear XXX:

We are writing on behalf of Common Cause and the Center for Media and Democracy, to ask you to review the operation and activities of the American Legislative Exchange Council's "scholarship" fund for legislator travel in [STATE] to ensure that the organization is in compliance with state gift and disclosure laws.

Founded in 1973, the American Legislative Exchange Council (ALEC) is an organization of nearly 2,000 state legislators, including a number of members of the [STATE] legislature, and more than 100 corporations. ALEC operates in [STATE] as a charitable organization and at the federal level has tax-exempt status under section 501 (c)(3) of the Internal Revenue Code.

Common Cause and the Center for Media and Democracy have discovered compelling evidence that ALEC operates a "scholarship" fund in [STATE] that functions to disguise gifts of travel, accommodations, and related expenses from corporate interests and lobbyists to state legislators. ALEC's compliance with state gift and lobbying laws should be reviewed by your office and/or appropriate state regulatory authorities.

On August 5, Common Cause and the Center for Media and Democracy filed a complaint with the IRS Whistleblower Office and a joint letter to the IRS Commissioner, charging ALEC with filing fraudulent tax returns that massively underreported and grossly misrepresented its "scholarship scheme" to the IRS, and for operating the scheme in violation of the group's 501(c)(3) tax exempt status. ALEC claimed to the IRS that it only held the funds in "trust" for donors, while at the same time promising corporations a tax deduction for the money.

We are concerned that ALEC may not be properly disclosing the operation of its "scholarship" fund for legislator travel at the state level as well, or complying with all applicable state lobbying and ethics laws.

ALEC's primary purpose appears to be providing a vehicle for its corporate members to lobby state legislators and to deduct the cost of that activity as charitable contributions. ALEC has bragged internally that each year, nearly 1,000 pieces of ALEC-backed legislation are introduced in statehouses across America and at least 20% become law. ALEC regularly communicates with legislators through emails about legislation it wants adopted, "issue alerts," press releases, "talking points" and other materials to push its legislative agenda and help ALEC-member legislators argue on behalf of ALEC's bills and/or in opposition to bills outside ALEC's portfolio.

ALEC's by-laws declare that its mission is to "formulate legislative action programs" and to "disseminate model legislation and promote the introduction of companion bills in Congress and state legislatures." ALEC also carefully tracks the progress of its legislation in statehouses across America, producing scorecards to measure its effectiveness in getting its bills enacted.

While these activities meet any reasonable definition of lobbying, ALEC insists that it does not lobby and reports zero dollars spent on lobbying on its federal tax returns.

ALEC's members come from the "private sector" and "public sector." Its private sector members include many of the world's largest corporations, such as Koch Industries, Exxon Mobil, Time Warner, Pfizer, AT&T and others, who are primarily represented at ALEC meetings through their lobbyists. Many of these corporations have interests in [STATE] law and employ registered lobbyists in this state. ALEC's public sector members are state legislators of an unknown number in [STATE], because ALEC hides much of this information from the public. Legislators pay \$50 per year for dues (\$100 for two years), while "private sector" members pay thousands in dues, with additional fees to sit on ALEC Task Forces or sponsor meetings. Only about 2% of ALEC's approximately \$7 million in funding comes from legislative membership dues, with the remainder coming from corporate or foundation contributions.¹

ALEC holds several meetings each year to bring lawmakers together to meet with corporations. The largest is the "Annual Meeting," described as a "place for the exchange of ideas and legislation between private businesses and lawmakers," is attended by "approximately 2,000 legislators, business executives, and public-policy experts" to "discuss issues and develop policy." The 2013 Annual Meeting will take place in Chicago, Illinois from August 7-9, and will likely include legislators from STATE.

Many legislators are given "scholarships" to attend these meetings, receiving reimbursement for their travel expenses for themselves, and meals and lodging for themselves and their families. However, these "scholarships" are raised from corporate lobbying principals in the state and from across the nation to underwrite lawmakers' travel. According to ALEC's public bylaws, scholarship funds are raised from corporate and special interests in each state by the ALEC "State Chair" (a legislator) and the "Private Enterprise Chair" (a representative from the

¹ See Lisa Graves, July 19, 2011, "A Special Report on ALEC's Funding and Spending," PRwatch.org, available at <http://www.prwatch.org/news/2011/07/10887/cmd-special-report-alecs-funding-and-spending>

private sector, usually a lobbyist). ALEC's state leaders are also tasked with getting ALEC bills introduced into law.

ALEC does not fully disclose the amount received or spent each year for these "scholarships."

As the [STATE BODY], you are charged with responsibility for ensuring that [STATE] gift and disclosure rules are properly applied and enforced. Considering the evidence that Common Cause and the Center for Media and Democracy have presented to the IRS about how the ALEC scholarship fund operates, we urge you to examine whether the ALEC scheme is in compliance with state gift, lobbying and disclosure laws.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink that reads "Arn H. Pearson". The signature is written in a cursive, flowing style.

Arn H. Pearson
Vice President for Policy and Litigation
Common Cause

A handwritten signature in black ink that reads "Lisa Graves". The signature is written in a cursive, flowing style.

Lisa Graves
Executive Director
Center for Media and Democracy