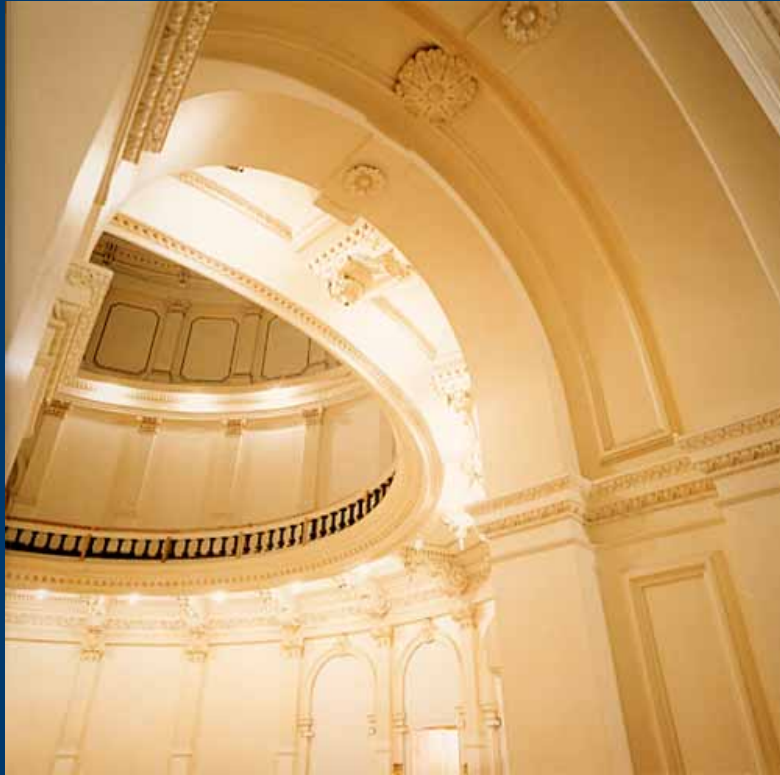


Step by Step



2005 Annual Report

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Our Mission *&* Core Principles

THE TEXAS PUBLIC POLICY FOUNDATION IS A 501(C)3 NON-PROFIT, NON-PARTISAN RESEARCH INSTITUTE ESTABLISHED IN 1989 TO IMPROVE TEXAS BY GENERATING ACADEMICALLY SOUND RESEARCH AND DATA ON STATE ISSUES, AND BY RECOMMENDING THE FINDINGS TO OPINION LEADERS, POLICYMAKERS, THE MEDIA, AND GENERAL PUBLIC.

OUR MISSION IS TO PROVIDE OPINION LEADERS, POLICYMAKERS, THE MEDIA, AND THE GENERAL PUBLIC THE INTELLECTUAL AMMUNITION FOR CONSTRUCTING A BETTER TOMORROW FOR ALL TEXANS.

MESSAGE FROM THE PRESIDENT **B**rooke Rollins

As the premier think tank in the state, the Texas Public Policy Foundation was once again forging a path across the Lone Star State's policy landscape in 2005. Our mission to limit the size and scope of government and win support for free-market policies was not without obstacles along the way. But our vigilance in defending our Texas heritage of limited government, free markets, private property rights, individual liberty, and personal responsibility proved greater than any barriers put before us.

Throughout 2005, the Foundation made great strides in advancing the debate on issues such as education reform, private property rights, health care, and tax reform. Faced with a state budget growing at the alarming rate of 18.7 percent, and special interest groups crying for even *more* spending, taxes, and government, we responded by digging in our heels and holding the line against these tax and spend idealogues.

Our journey began long before the 79th Legislature convened as we set out to ensure that the future of Texas remain free and prosperous. We took steps to provide solid research on the challenges facing the state; publishing nearly 50 independent research reports, perspectives, and briefs. We proposed practical free-market solutions to Texas' economic challenges; testifying 43 times before various committees. And we provided decision-makers with the intellectual ammunition to create sound public policy; hosting numerous panels as part of the Foundation's Annual Policy Orientation, Policy Primer series, and other educational events.

One of the primary goals of the Foundation's Center for Education Policy Studies was to promote fundamental reform to the state's education system. Guiding our efforts was the principle that every child deserves access to a first-rate education and that all parents have the fundamental, moral right to choose the best and safest schools. To this end, we worked closely with the legislature to help craft education policy that would create an efficient, effective system of public education in Texas.

Although the 79th Legislature failed to reach agreement on the education reform omnibus bill before session's end, two of the Foundation's most far-reaching proposals—the 65 percent standard for instructional spending and incentive-based teacher pay—were enacted by executive order.

Another battle raged over the state's tax plan. A number of proposals were brought forward to tax payrolls and business activities that would harm the state's economic growth. Fortunately, the Foundation's vigilance paid off and none of the proposals were enacted. This effort gained national attention, and a



MESSAGE FROM THE PRESIDENT

continued

lead editorial in the *Wall Street Journal* went so far as to say that the Foundation's tax plan was the best option for legislators.

The case of *Kelo v. New London* rightfully raised an outcry across the nation by citizens concerned about protecting private property rights. The Foundation's Center for Economic Freedom responded immediately to this ruling by working with legislators and other property rights advocates to restore and improve the property rights protections during the second called special session that were taken away under *Kelo*.

On another front, the Foundation's long-fought battle to end the tyranny of asbestos lawsuits was won in the 79th Legislature. Legislation passed to rein in cases for which no medical harm exists—which will result in the dismissal of thousands of meritless lawsuits and allow those truly harmed to have their day in court.

The Foundation has long acknowledged the fact that unless serious health care reforms are enacted at the state and national levels, Texas' prognosis for future prosperity is looking very grave. For this reason, we worked to stem the increasing budget fueled by health and human services spending and to highlight the benefits of consumer-directed health care and other market-based reforms to control costs and improve quality.

We championed legislation to curb the rising trend of overcriminalization and institute restorative justice policies that repair the harm done to victims, rebuild community bonds severed by crime, and minimize costs to taxpayers.

Over the course of 2005, the Foundation witnessed unprecedented growth in both staff and the creation of new Centers for policy study. We welcomed Mary Katherine Stout, Bill Peacock, and Marc Levin to direct our Center for Health Care Policy Studies, Center for Economic Freedom, and Center for Effective Justice, respectively. Later in the

year, Jamie Story joined the Foundation as a policy analyst in the Center for Education Policy Studies. These additions provided us with greater depth and breadth to more closely examine Texas' most critical policy issues.

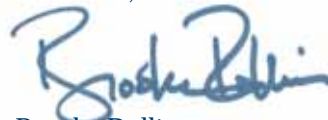
A great coup for the Foundation included adding two influential, former House members, Talmadge Heflin and Arlene Wohlgemuth, to our team. Their legislative track record and seasoned expertise is an enormous asset to the Foundation as our impact with state decision-makers continues to grow.

We launched our 2005 Policy Primer Series with "An Examination of Texas' Economic State," featuring nationally renowned economist and *Wall Street Journal* editorial writer, Stephen Moore. This whirlwind tour brought the state's tax debate to Houston, San Antonio, and Midland—spreading the Foundation's work to areas outside the Capitol city.

Rounding out the primer series, we opened our offices to policymakers, legislative staff, media, and the public. We delved deeper into critical issues facing the state including merit-based teacher compensation, eminent domain, and juvenile justice reforms. These primers sold out within 24-hours to standing-room-only audiences.

We are optimistic about the road ahead in 2006. Our talented and committed staff, in partnership with thousands of generous, dedicated Texans from across the state, give us reason to remain vigilant in our journey to a brighter tomorrow. We will continue our pursuit of limited government, free market principles, personal responsibility, and individual liberty. I hope the following pages confirm our commitment to preserving this heritage and home that we call Texas.

For Texas,



Brooke Rollins

EDUCATION REFORM & OPPORTUNITIES



Foundation president Brooke Rollins discusses education reforms at a June 2005 press conference at the Capitol along with Sandy Kress, partner of Akin Gump Strauss Hauer & Feld, LLP, and former education advisor to President Bush.

THE FOUNDATION'S CENTER FOR EDUCATION POLICY STUDIES established an aggressive agenda to promote fundamental reform to the state's education system. Guiding our efforts is the principle that every child deserves access to a first-rate education and that all parents have the fundamental right to choose the best and safest schools.

To this end, we worked closely with the legislature to help craft education policy that would create an efficient, effective system of public education in Texas. The primary House bill contained a majority of the Foundation's recommendations including: defining state obligations for public schools in terms of academic performance; developing accurate performance measures; increasing school academic and financial accountability while decreasing

regulations; empowering teachers via performance-based incentives; moving school board elections to November; and expanding public and private school choice options.

Many of these reforms, among others advocated by the Foundation, were successfully included in the omnibus education reform bill, which in the final hours of the session—and two special sessions—failed to reach the Governor's desk. With this, the Foundation recommitted itself to the issue and redoubled our efforts to ensure that these critical reforms remained on the table.

In the end, the hard work was realized as the Governor issued an executive order for a 65 percent standard for instructional spending and incentive-based teacher pay.

HIGHLIGHTS & IMPACTS: *Education Policy Studies*

- Helped to define the 79th Legislature’s education reform agenda for policymakers and their staff at the January 2005 Policy Orientation.
- Co-authored the Governor’s Business Council Education Reform Proposal which formed the nucleus of the education reform omnibus bill.
- Participated in 173 personal meetings with legislators and staff in which the Foundation provided research and articulated the arguments for enacting sound education policy reforms.
- Provided testimony 12 times: nine times before the Texas Legislature, twice before the Commissioner of Education, and once before the State Board of Education.
- Published 15 reports on public education which were hand-delivered to 190 legislative and executive offices.
- Produced newspaper commentaries published 51 times with more than 110 media hits, and an advertising equivalency value of \$1.4 million.
- Submitted policy recommendations for Interim Charges to encourage the 80th Texas Legislature to enact reforms not passed by the 79th Legislature. Half of the 10 recommendations were included in the final Interim Charges.
- Sponsored a policy primer with presentations by the House Education Chair and Subcommittee Chair for Teacher Pay Reform.
- Expanded the momentum for school choice by convening a statewide group of organizations.



*Top photo: Education policy director **Chris Patterson** moderates a panel on teacher incentive pay.*

*Second photo: Representatives **Phil King**, chairman of the House Regulated Industries Committee and **Dianne White Delisi**, chairman of the House Public Health Committee, discuss education reform issues before a Foundation primer.*

*Third photo: Panelists Rep. **Kent Grusendorf**, chairman of the House Public Education Committee, Rep. **Dianne White Delisi**, and **Becky Wissink**, Denver teacher’s union, take audience questions at the policy primer “Better Pay for Professional Educators.”*

*Bottom photo: Foundation board member **Brenda Pejovich**, **Dr. Stephen Pejovich**, and Rep. **Kent Grusendorf** discuss education reform at a Foundation event.*

FISCAL RESPONSIBILITY & ECONOMIC PROSPERITY



Foundation chief economist Byron Schlomach (far left); Dr. Eric Hanushek, Hoover Institution of Stanford University; Rep. Bill Keffer; Rep. Kent Grusendorf, chairman of the House Public Education Committee; Sen. Kyle Janek; and Sen. Florence Shapiro, chairman of the Senate Education Committee (not pictured), participate on a school finance panel as part of the Third Annual Policy Orientation.

One of the Foundation’s top priorities for the 79th Session was to preserve the state’s competitive edge in economic growth by staving off efforts to detrimentally change our tax system. Unfortunately, the possibility of true **tax relief** was limited due primarily to spending commitments previously made by the state.

Several proposals were brought forward to implement income taxes and new taxes on business—harming the state’s economic growth. Fortunately, the Foundation’s work paid off and none of the proposals were enacted.

The Foundation remained at the forefront of advocating for an economically viable plan that reduced spending and increased reliance on consumption taxes to off-set a 25-cent reduction in property tax

rates. Our efforts gained national recognition through a *Wall Street Journal* lead editorial that supported the Foundation’s tax recommendations.



HIGHLIGHTS & IMPACTS: *Fiscal Policy Studies*

- Helped to define the 79th Texas Legislature’s tax reform agenda for policymakers and their staff at the January 2005 Policy Orientation.
- Participated in 144 meetings with legislators and staff in which the Foundation provided research and recommendations for sound tax policy.
- Testified six times before the Texas Legislature, including testimony before the House Ways and Means and Senate Finance Committees.
- Published eight reports on tax policy: three comprehensive research reports, two policy perspectives, and three policy briefs. All were hand-delivered to 190 legislative and executive offices.
- Produced newspaper commentaries published 88 times with more than 300 media hits, and an advertising equivalency value of \$11 million.
- Proposed interim charges to encourage the 80th Texas Legislature to carefully consider its appropriations process. Many of the Foundation’s interim charge recommendations were incorporated into the final charges of both the House and Senate tax committees.
- Engaged in a comprehensive review of the Texas appropriations process with former chairman of the House Appropriations Committee, Talmadge Heflin, who was later hired as a Visiting Research Fellow with the Foundation.
- Commissioned a comprehensive research report examining the economic state of Texas with nationally renowned economists, Stephen Moore, Donna Arduin, and Arthur Laffer (former chief economist to President Reagan).



*Top photo: Foundation president **Brooke Rollins** speaks at a press conference addressing tax policy before the start of the special session. **Bill Hammond**, president and CEO of the Texas Association of Business, joins her at the podium.*

*Second photo: Wall Street Journal editorial writer and nationally known economist **Stephen Moore** talks with Jeff Judson (far left), former Foundation president, and other donors during a policy primer examining Texas’ economic outlook in San Antonio.*

ECONOMIC FREEDOM *for* THE LONE STAR STATE



Bill Peacock, director of the Center for Economic Freedom, moderates a property rights panel discussion. Panelists included: Ted Cruz, Solicitor General of Texas; Rep. Frank Corte, chairman of the Defense Affairs and State-Federal Relations Committee; Wright Gore III, Western Seafood of Freeport; and Donald Lee, Executive Director, Texas Conference of Urban Counties.

Following a national outcry for greater **private property rights** protections, stemming from the U.S. Supreme Court's ruling in *Kelo v. New London*, the Foundation's Center for Economic Freedom responded immediately by working with legislators and other advocates to restore and improve property rights protections.

The Foundation's long-fought battle to end the tyranny of **asbestos lawsuits** was won as the 79th Legislature passed legislation that reins in cases for which no medical evidence of harm exists. This historic reform will result in the dismissal of perhaps thousands of meritless lawsuits, providing those truly harmed to have their day in court and an economic boost to the Texas economy.

The major **workers' compensation** legislation passed by the 79th Legislature incorporated the Foundation's recommendation for greater economic freedom in Texas: creating exclusive networks with less regulation over the employer/injured employee relationship and providing transparency on the outcomes of health care providers.

The Foundation worked aggressively to keep consumer prices down within the **telecommunications** market via greater price flexibility and reduced subsidies. Our research and ongoing discussions with legislative members helped to craft better telecom legislation—resulting in significant improvements in Texas telecommunications.

In the area of **homeowners' insurance**, the Foundation was successful in challenging proposed efforts to ban the use of credit scoring in setting insurance rates and increase rate regulation. In addition, great strides were made to educate legislators on the detrimental economic effects of proposed legislation to increase state regulation of **energy** market transactions and increase subsidies.

HIGHLIGHTS & IMPACTS: *Economic Freedom*

- Produced newspaper commentaries published 42 times with more than 50 media hits, and an advertising equivalency of \$234,000.

PROPERTY RIGHTS

- Met with key legislators and staff to promote important property rights protections in the eminent domain bill, SB 7, the Legislature's response to the *Kelo* decision.
- Testified before Senate State Affairs and House Land and Resources Committees, and distributed testimony to all legislative offices.
- Hosted a sold-out policy primer event with key state policymakers.
- Participated on the Texas Conservative Coalition Research Institute's Eminent Domain Taskforce.

TORT REFORM

- Produced a comprehensive review of the history of asbestos litigation in the U.S. and testified before House Civil Practices.

TELECOMMUNICATIONS

- Published multiple policy briefs on pending telecommunications legislation and testified before the Senate Business and Commerce and House Regulated Industry Committees; provided written testimony to the NCSL telecom hearing.



Rep. Frank Corte, chairman of the Defense Affairs and State-Federal Relations Committee and author of eminent domain legislation, with Bill Peacock, the director of the Center for Economic Freedom.

INSURANCE

- Produced a policy brief on SB 14, which would have re-regulated homeowners' insurance pricing. Due in part to the Center's vigilance in this area, the final legislation maintained hard-won free market reforms from 2003.
- Testified before the House Insurance Committee on homeowners' insurance and Senate State Affairs on workers' compensation.
- Presented the Foundation's principles of economic freedom before a national workers' compensation conference in Dallas.

ENERGY

- Co-authored a commentary with the National Center for Policy Analysis (NCPA).
- Produced a fact sheet used by a representative during a renewable energy debate on the House floor.

IMPROVING HEALTH CARE *for* ALL TEXANS



Rep. Myra Crownover; Mary Katherine Stout, director of the Center for Health Care Policy Studies; and Rep. Larry Taylor.

Like every state in the nation, Texas faces many health care challenges. As state spending on health and human services increases and health care regulations in the private health insurance market burden both businesses and individuals, it is increasingly important for the Foundation to bring free market, limited government principles to the forefront of the debate.

The 78th Legislature passed a number of reforms to the state's health and human services system in 2003, but when the legislature convened in 2005, many of those reforms came under attack following months of pressure to restore benefits and reverse the gains made in the previous session. Among the most important reforms that the Foundation fought to keep were those to the CHIP program and a six month period of eligibility in both Medicaid and CHIP. These reforms were designed

to ensure the integrity of the programs. After months of debate, the state continued to use a six month period of eligibility for CHIP and Medicaid, avoiding tremendous cost to the taxpayer and enrollment of ineligible individuals.

The Foundation played a pivotal role in educating policymakers on the benefits of offering Health Savings Accounts (HSAs) to state employees as a way to bring consumer-directed health care to state benefits. Legislation to provide the HSA option to state employees overwhelmingly passed the Texas House, but was ultimately never enacted. The Foundation continues to examine HSAs as a means of providing an enhanced benefit to Texas' state employees, while tying it to the important issues of price transparency and consumer choice in health care.

HIGHLIGHTS & IMPACTS: *Health Care Policy Studies*

- Provided research and information on Health Savings Account (HSA) legislation to the appropriate committees and distributed on the House floor.
- Testified before five different committees, putting the Center’s ideas and recommendations before as many as 43 legislators during the course of the regular session.
- Released numerous policy perspectives and briefs on HSAs, health insurance mandates, and price transparency, in addition to two letters on HSAs and consumer choice plans for distribution on the House floor.
- Produced a commentary published nationally by the UPI for the *Washington Times*. Other commentaries were published in the *Austin American-Statesman*, *Austin Business Journal*, *Houston Business Journal*, *San Jose Business Journal*, *Memphis Business Journal*, *Beaumont Enterprise*, and many other publications. These commentaries generated 20 media hits for an advertising equivalency value of \$402,000.
- Published a policy perspective examining free market principles in health care, “Drug Importation: A Solution to the Cost of Prescription Drugs?”
- Authored a commentary featured in National Center for Policy Analysis (NCPA) policy digests.
- Conducted numerous talk radio, newspaper, and television interviews.
- Invited to participate in a state health care reform work-group led by the Heritage Foundation.
- Initiated a multi-state Medicaid reform project to coordinate a Medicaid reform message and agenda with six other state-based think tanks around the country, and created content for a multi-state Medicaid reform website.



Top photo: Foundation vice president **Michael Sullivan** welcomes Rep. **Rob Eissler** to the HSA policy primer. This was the first policy primer to be held in the Foundation’s new office space—just steps from the Capitol.

Second photo: State Representatives **Larry Taylor** and **Myra Crownover** take questions from the standing-room-only audience at a Foundation primer event.



Commentary by **Mary Katherine Stout**, director of the Center for Health Care Policy Studies, published in the *Washington Times*, March 25, 2005.

RESTORING VICTIMS & CONTROLLING CRIMINALIZATION



State Representatives Dan Flynn, Leo Berman, Jim Jackson, and Bill Zedler visit the Foundation's new offices.

The Foundation champions **restorative justice** policies that repair the harm done to victims, rebuild the community bonds severed by crime, and minimize costs to taxpayers. Many of the Foundation's ideas were incorporated in legislation calling for mandatory restitution and an increase in the number of work restitution centers and residential drug and mental illness treatment facilities for probationers.

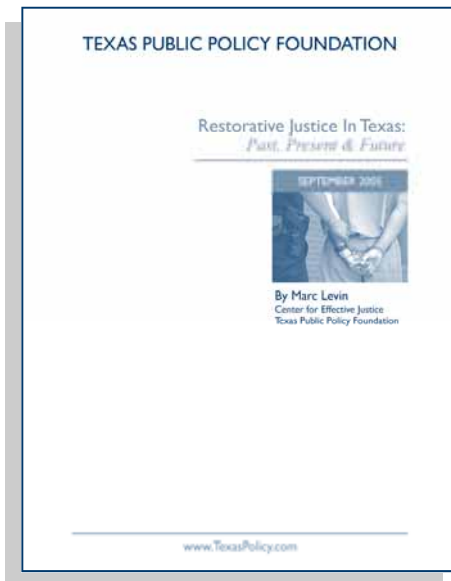
Another Foundation priority was to curb the rising trend of **overcriminalization**. The Foundation worked vigorously to encourage legislators to examine effective justice policies which do not extend criminal law into non-traditional areas such as business regulation; require a culpable mental state for criminal conviction; limit local governments' excessive use of criminal law; and reform school zero tolerance policies.

True to our bi-partisan efforts, the Center for Effective Justice was successful in developing a strong coalition of allies on criminal justice reform. This partnership included groups such as the Texas ACLU which worked closely with the Center in shaping the debate on restorative justice and overcriminalization reforms.

The Center hosted three highly successful policy primers attended by 250 people. These audiences, including legislators and judges, came to the Foundation's offices to hear informative, sometimes highly-charged discussion on issues of probation reform, overcriminalization, and juvenile justice policy in Texas.

HIGHLIGHTS & IMPACTS: *Effective Justice*

- Produced a comprehensive research report, “Restorative Justice in Texas: Past, Present & Future,” a policy perspective, “Aligning Incentives and Goals in the Criminal Justice System,” and a policy brief examining the use of Disciplinary Alternative Education Programs (DAEPs).
- Hosted three sold-out policy primers attended by a total of 250 people, featuring panels comprised of legislators, elected officials, and nationally renowned experts on the issues of probation reform, overcriminalization, juvenile justice, and school discipline.
- Presented oral and written testimony before committees of the Texas Legislature on 11 occasions.
- Produced newspaper commentaries published in the *Austin Chronicle*, *Quorum Report* (online), *Amarillo Globe-News*, *Tyler Courier-Times*, *Mission Progress-Times*, *Marble Falls Highlander*, and many others.
- Began the process of creating a dynamic computerized model of the Texas criminal justice system to demonstrate the impact of proposed reforms on key outcomes such as crime rate and incarceration.



Top photo: Panel members Rep. **Jerry Madden**, chairman of the House Corrections Committee and **Mark Luitjen**, Bexar County District Judge, meet with Center for Effective Justice director, **Marc Levin**, following a policy primer addressing probation reform.

Second photo: **Gene Healy**, Cato scholar and author of “Go Directly to Jail,” addresses the proliferation of criminal laws that regulate business and individual conduct traditionally left to the free market or civil law. Other panel members at this policy primer on overcriminalization included: Commissioner **Jerry Patterson**, General Land Office, and **Bill Hammond**, president, Texas Association of Business.

Third photo: Rep. **Harold Dutton**, chairman of the Juvenile Justice and Family Issues Committee, describes his experience with the juvenile justice system and disciplinary alternative education programs (DAEPs) in Texas.

IDEAS & OUTREACH

Foundation research director Chris Patterson communicates the need for true education reforms in Texas with the Wall Street Journal editorial board at their New York offices.



Disseminating IDEAS & Framing the DEBATE

With an aggressive communications plan for 2005, the Foundation was successful in framing the public policy debate in the direction of timeless, conservative principles of limited government, individual liberty, and personal responsibility.

Through active media outreach, wide dissemination of research and recommendations, and timely articles and policy reviews published in our papers and online newsletters, we reached out to policymakers and the public with an unprecedented depth and breadth of ideas that precipitate important policy reform.

It was a banner year for the Foundation's growing media presence. In 2005, the Foundation had a total advertising equivalency value of \$14,542,034 generated from 550 news stories, commentaries, television appearances, and radio interviews.

Our reach continued to soar with an ever increasing Internet presence. With an average 66,000 page views per month of our website, www.TexasPolicy.com, and a 46 percent growth in subscribers to the e-newsletter *Texas Public Policy News (TPPN)*, it is clear that the Foundation made great strides in capturing the attention of policymakers, media, and concerned citizens across Texas.

PUBLICATIONS & MEDIA

The Foundation's wide array of publications have a practical effect: to achieve more sensible and effective public policy in the Lone Star State.

Our research and policy solutions go straight to the source: the decision-makers and Texas citizens deeply invested in the future of Texas and the generations to follow.

In 2005, we shared this comprehensive body of research with every legislative office in the Capitol, hand-delivering more than 50 reports, perspectives, briefs, and newsletters.

It is the accuracy, credibility, and sound recommendations provided through these publications that has made the Foundation such a force in defining public discussion that precipitate important policy reform.



"...dubbed the 'official think tank of Texas' by friends and foes..."

Dallas Morning News



WWW.TEXASPOLICY.COM
 An indispensable tool for disseminating research and ideas, the Foundation's interactive website averaged 66,000 individual page visits per month in 2005.



TEXAS PUBLIC POLICY NEWS (TPPN)
 Thousands of individuals have signed up to receive the Foundation's bi-weekly electronic newsletter. Subscribers to this timely, comprehensive publication grew 46% in 2005.

“Even the Foundation’s competitors concede the group’s emerging influence.”

Austin American-Statesman

IN THE NEWS

Abernathy Weekly Review
 Abilene Reporter News
 Allen American
 Amarillo Globe-News
 Athens Daily Review
 Aubrey Town Charter
 Austin American Statesman
 Austin Business Journal
 Austin Chronicle
 Banner Press Newspaper
 Battalion
 Beaumont Enterprise
 BizRadio 1320: Clanton Show
 Bosque Co. News
 Brazoria County Business Journal
 Brownham Banner-Press
 Brownsville Herald
 Brownwood Bulletin
 Burnet Bulletin
 Caller-Times
 Cameron Herald
 Canton News
 Castro Co. News
 Celina Record Star
 Childress Index
 Chronicle & Democrat-Voice
 Chronicle/Willacy Co.
 Countywide
 Conroe Courier
 Cowboy Country News
 Daily Press
 Daily Texan
 Dalhart Daily Texan
 Dallas Business Journal
 Dallas Morning News
 DCR
 Deer Park Broadcaster
 Del Rio News-Herald
 Denton Record-Chronicle
 Denver City Press
 Devine News
 Dripping Springs Century News
 Eagle
 El Paso Times
 Eldorado Success
 Ennis Daily News
 Focus Daily News
 Fort Worth Star-Telegram
 Friendswood Journal
 Frisco Enterprise
 Galveston Co. Daily News
 Gazette Enterprise
 Gilmer Mirror
 Globe News
 Graham Leader
 Greenville Herald-Banner
 Groesbeck Journal
 Henderson Daily News
 Herald Democrat

Herald-Zeitung
 Hereford Brand
 Herald Democrat
 Houston Business Journal
 Houston Chronicle
 Huntsville Item
 Jacksonville Daily Progress
 KAH! Wigglesworth Show
 KCSR: Morning Show
 Kerrville Daily Times
 Killeen Daily Herald
 KJSE: Flipside Show
 KLBI: Morning Show
 KLBJ
 KLIF: Ankarlo Show
 KLIF: Greg Knappe
 KMSR: Chevis & Joe Show
 KMSR: Gold Show
 KNUS: Andrews America
 KRLD
 KSEV: Edd Hendee Show
 KSLI: Morning Show
 KTEK: Terry Lowry Show
 KTSA: Ricci Ware Show
 KURV: Rankin Show
 KUT
 KWES-TV News
 La Feria News
 Laredo Morning Times
 Liberty Vindicator
 Longview News-Journal
 Lubbock Avalanche-Journal
 Lufkin Daily News
 Lynn Woolley Show
 Lytle Leader News
 Mabank Monitor
 Marble Falls Highlander
 Marshall News Messenger
 McAllen Monitor
 Mexia Daily News
 Midland Reporter-Telegram
 Mission Progress-Times
 Monahans News
 Mount Pleasant Daily Tribune
 Muleshoe Journal
 News8Austin
 NewsHerald
 News-Telegram
 North Lake Travis LOG
 NW Tarrant Co. Times/Record
 Odessa American
 Olton Enterprise
 OpinionJournal.com
 Orange Leader
 Overton Pass
 Paducah Post
 Palacios Beacon
 Palestine Herald Press
 Pampa News

Paris News
 Pilot Point Post-Signal
 Plainview Daily Herald
 Plano Star Courier
 Polk Co. Enterprise
 Port Arthur News
 Pottsboro Press
 Quorum Report
 Ranger Times
 Rankin News
 Right Talk Radio
 Right Talk: Norquist Show
 San Antonio Express-News
 San Marcos Daily Record
 Sealy News
 Snyder Daily News
 Standard-Times
 Stephenville Empire-Tribune
 Sweetwater Reporter
 Tawakoni News
 tehrantimes.com
 Temple Daily Telegram
 Texarkana Gazette
 Texas Monthly
 Texas Observer
 Texas Public Radio
 Lone Star Report
 Washington Times
 Times Guardian-Comel Chronicle
 Times Record News
 TSN: This Week in Austin
 Tyler Courier-Times
 Tyler Courier-Times-Telegraph
 Tyler Morning Telegraph
 Urban Tulsa
 Valley Morning Star
 Valley Tribune
 Van Horn Advocate
 Vernon Daily
 Vernon Daily Record
 Victoria Advocate
 Villager (The Woodlands)
 Victoria Advocate
 Waco Tribune-Herald
 Wall Street Journal
 Waller Co. News-Citizen
 WBAP: David Gold Show
 WBAP: Mark Davis Show
 Weatherford Democrat
 West Texas County Courier
 Whitewright Sun
 Wilson Co. News
 Wimberley View
 Winsboro News
 Wise Co. Messenger
 WOAI-Radio: Charlie Parker Show
 WOAI-TV



Foundation vice president **Michael Sullivan** is interviewed by San Antonio television, WOAI, on the school finance debate.

Austin American-Statesman

COMMENTARY
Patterson: School officials lash out at threat to their power
Chris Patterson, TEXAS PUBLIC POLICY FOUNDATION

Here's a brain teaser: Why should state legislators vote for an education reform bill if school administrators hate it? What administrators aren't saying is that 70 percent of today's education dollar isn't nearly enough to pay the enrichment costs of the new educational tools that constitute a growing part of school budgets. Administrators would be forced to make hard decisions about dropping the remainder of available funds. Between restricted money and administrative costs, school officials will be forced to choose between their own salaries and the salaries of teachers, administrators, and other staff. The Texas Public Policy Foundation has a plan to help school officials make these decisions. We will provide a model of a school district that is committed to the public good and to the success of its students.

The Dallas Morning News

Michael Quinn Sullivan: Perry's on the right track
John H. Garvey

As long as the Legislature has been sending out new bills, school officials have been complaining that a state budget is not being passed. In other words, it's not the proper role of the Legislature to pass a budget. The school officials are wrong. The Legislature is the proper body to pass a budget. The school officials are wrong. The Legislature is the proper body to pass a budget. The school officials are wrong. The Legislature is the proper body to pass a budget.

THE WALL STREET JOURNAL

Editorial
Texas School Lesson

The Texas Legislature did the right thing and struck down the initiative proposal for funding public schools. But what was surprising is not the vote, but the manner in which the Legislature acted. The Legislature acted in a way that was consistent with its duty to the people of Texas. The Legislature acted in a way that was consistent with its duty to the people of Texas. The Legislature acted in a way that was consistent with its duty to the people of Texas.

EVENTS & EDUCATION

THIRD ANNUAL 2005 POLICY ORIENTATION

Keeping in step with our dissemination of ideas and solutions through our research and communications, 2005 was a banner year for events and education—with unprecedented attendance at our many policy forums and primers.

The highly-anticipated Third Annual Policy Orientation set the stage for the 2005 policy debate. The two-day forum brought together leading experts from across the nation to discuss innovative ideas and solutions to the state's most pressing policy issues. Rooted in bi-partisan debate, this event has been hailed as the “must-attend” policy forum of the year—comprehensive in scope, offering opposing voices and ideas, and charting the course for further debate throughout the legislative session.

The Policy Orientation provided a critical bridge between policy experts, policymakers, media, and the public—cultivating innovative policy solutions based on the principles of individual liberty, free markets, and limited government.

Sold out two weeks in advance, more than 500 attendees filled the Driskill Hotel's ballroom in Austin to share in the exchange of ideas on issues ranging from tax and expenditure limits and school finance, to tort reform and the future of Medicaid. The event welcomed almost 300 legislators and legislative staff to help shape the debate for the 79th Texas Legislature.



Top photo: Railroad Commissioner Elizabeth Ames-Jones introduces keynote speaker Gov. Rick Perry.

Second photo: Representative Jim Keffer, chairman of the House Ways and Means Committee, addresses the audience at the sold-out Third Annual Policy Orientation.

2005 POLICY PRIMER SERIES

In 2005, the Foundation launched its Policy Primer Series with the goal of sharing the principles of limited government, free markets, individual liberty, and private property rights across the Lone Star State. We were able to take the show on the road—sharing the knowledge and ideas of national experts, policymakers, and interested citizens with audiences in Houston, San Antonio, Midland, Dallas, and Austin.

The Policy Primer Series was an immediate success. Registration lists filled within 24 hours and waiting lists were established. Our new offices—blocks from the Capitol—provided the perfect venue for hosting timely, cost-efficient primers on the most pressing topics of public policy debate. These primers were well represented, drawing legislators and their staff, elected officials, business leaders, interested citizens, and the media.

These primers addressed some of the most critical issues facing the state, including:

- Health Savings Accounts: Empowering Texans, Controlling Costs (March 2005)
- Looking Beyond Prison Walls (April 2005)
- The Threat of Overcriminalization (May 2005)
- Stephen Moore: Examination of Texas' Economic State (September 2005)
- Professional Pay for Professional Educators (October 2005)
- Eminent Domain: Protecting Property Rights After *Kelo* (November 2005)
- Juvenile Justice: Education or Gateway to Incarceration? (December 2005)



*Top photo: Foundation board member **Bill Jones** speaks with Rep. **Dianne White Delisi**, chairman of the House Public Health Committee after a policy primer event.*

*Second photo: Rep. **Mark Strama** discusses juvenile justice policy with Foundation vice president **Michael Sullivan** following a policy primer at the Foundation's office.*

*Third photo: Foundation board member **Ramiro Galindo** discusses Texas' economic outlook with Wall Street Journal editorial writer **Stephen Moore**, at a policy primer event in Houston.*

SUPPORT & FINANCES



*Left photo: Foundation chairman, **Bill McMinn** and development director, **Shari Hanrahan**, with **Gov. Rick Perry** at a Foundation fundraising event in Houston. **Right photo: Representatives Bill Keffer, Tony Goolsby, Linda Harper-Brown, Jodie Laubenberg, and Ken Paxton** at a donor appreciation event in Dallas.*

Not everyone takes a stand for what they believe in, but in 2005, more Texans made a commitment to the work of the Texas Public Policy Foundation than ever before. Why? Because with the support of our benefactors, the Foundation was recognized by policy leaders and the media as one of the most well-respected think tanks in the nation. With it came the responsibility to increase funding to meet the growing needs of legislators for independent, reputable research and innovative policy ideas.

The contributions of our benefactors truly made a difference. A record-breaking 72 percent renewed their investment in the Texas Public Policy Foundation. This support from hundreds of individuals, foundations, and businesses allowed the Foundation to increase research publication by 64 percent over 2004, and staff five newly established policy centers.

Supporters also understood how important it was to combat the deep pockets of adversaries of freedom, and in 2005 answered urgent requests for special funding. In appreciation for this support and to further share our mission beyond Austin, we held a record number of donor appreciation events across the state for those in our Leadership Council, Capitol Council, and 1876 Society. We also established a new mail program to introduce more Texans to the Foundation's work.

As watchdogs of fiscal responsibility, we demanded the same of the Foundation's budget. We leveraged contributor dollars through media coverage, partnering with like-minded groups, and bringing other state think tanks together to increase our impact.

As more Texans join the Texas Public Policy Foundation family, we can further realize our mission.

“I believe in conservative economic principles, and the Foundation promotes those principles, verifies those principles, studies those principles, and gets information on those principles straight to decision makers.”

*✪ L. Charles “Chaz” Neely
San Antonio businessman & Foundation donor*

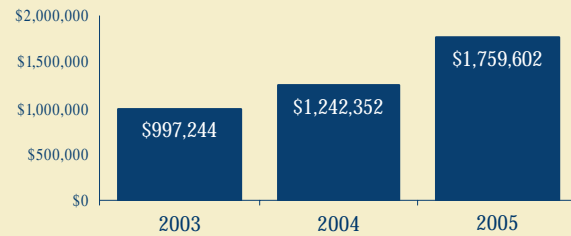
The majority of our giving comes from individuals. Our individual members are uncompromising in their principles, helping guide our agenda and offering financial stability. We count on their support to see us through the years ahead.

There are several membership levels that provide the backbone of Foundation support. Our most well-represented groups—the Leadership Council and 1876 Society—offer the most significant comparative benefits. At the Leadership Council level, you will receive hard copies of our most important research to share with colleagues and friends. 1876 Society members recognize the legacy of their investment and receive exclusive event invitations and the opportunity for direct communications with the Foundation’s president and chairman. If you are not a part of either, please consider joining hundreds of other Foundation supporters who share in a vision and commitment to the future of Texas.

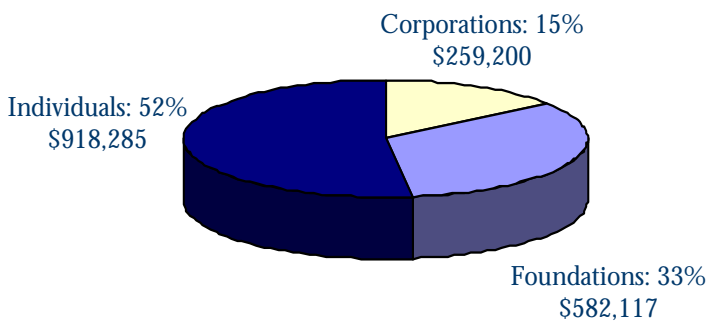
GIVING LEVELS

- STUDENT PATRIOT: \$25
- PATRIOT: \$100-\$499
- LIBERTY CIRCLE: \$500-\$999
- LEADERSHIP COUNCIL: \$1,000-\$2,499
- CAPITOL COUNCIL: \$2,500-\$4,999
- 1876 SOCIETY: \$5,000-\$24,999
- FOUNDER’S CIRCLE: \$25,000 AND ABOVE

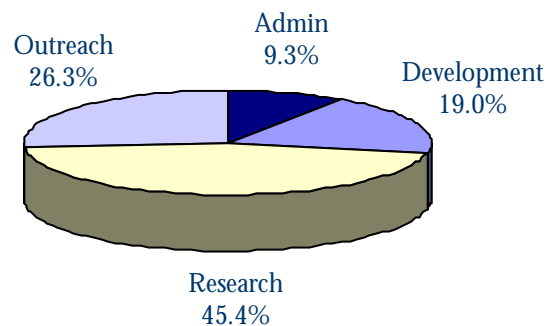
INCREASED GIVING



2005 INCOME



2005 EXPENSES



LOOKING AHEAD **to** 2006

Back row: Mary Katherine Stout, Brooke Rollins, Nathan Thompson, Talmadge Heflin, Marc Levin, Jamie Story, Shari Hanrahan, Nancy Druart. *Front row:* Michael Sullivan, Arlene Wohlgemuth, Byron Schlo-mach, Donna Peterson, Bill Peacock. *Not pictured:* Chris Patterson.

Thanks to a growing base of generous donors—committed to ensuring a freer, more prosperous Texas for future generations—the Texas Public Policy Foundation is making great strides towards this shared vision.

Looking ahead, the Foundation will continue to work vigorously for sound tax policy that answers the Texas Supreme Court's call for more local discretion in how we fund our Texas schools. To this end, we will work with the legislature and the Texas Tax Reform Commission, providing the research and recommendations necessary to craft a fiscally sound tax plan that ensures economic prosperity and educational efficiency across the state.

In an effort to broaden our scope into new areas of public policy critical to the Lone Star State, we will expand our research centers to include natural resources and higher education. These centers will focus on finding free market solutions to the fu-

ture of Texas' water supply and reforms to the system of higher education—delivering desired efficiency and educational achievement gains.

Through communications, we will increase our outreach to all Texans by shifting the debate towards consideration of policies grounded in the principles of limited government and free market solutions. In 2006, we will launch *Texas PolicyCast*, downloadable audio clips that expound on the most timely, critical policy issues facing the state.

Our policy forums and educational events will continue to grow in both size and scope. Our 2006 events will bring in nationally recognized experts and speakers to educate the state's policymakers, media, and public. United by a shared vision and common cause, we will continue to fight—step by step—to leave our children with a Texas heritage grounded in freedom, individual liberty, and economic prosperity.

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