

# Illuminating Ideas



Free Markets  
Limited Government  
Private Property Rights  
Individual Liberty & Responsibility



2003 Annual Report



# Texas Public Policy Foundation 2003 Annual Report

## Our Mission

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 information about state problems and recommending efficient, effective solutions.

Our mission is to provide opinion leaders, policymakers, the media, and general public with the “intellectual ammunition” for constructing a better tomorrow for all Texans.

## Our Core Principles

Free Markets  
Limited Government  
Private Property Rights  
Individual Liberty and Responsibility

**“...dubbed the ‘official think tank of Texas’ by friends and foes...”**

*The Dallas Morning News  
January 30, 2003*



2003 Annual Report

# Message from the President

Fifteen years ago, a small group of civic-minded Texans created the Texas Public Policy Foundation to bring independent, market-based thinking to tackle problems facing state government. Through the years, the Foundation has championed solutions and won support for market-based policies that have made Texas a better place to live and work. While the Foundation has grown increasingly effective with each passing year, 2003 was remarkable. The 2003 Annual Report describes how the Foundation scaled new heights of productivity and effectiveness while facing immense challenges.

We opened the year with the ground-breaking Policy Orientation for the Texas Legislature. The Orientation was unprecedented in size and scope and helped shape the course of the 78<sup>th</sup> Texas Legislature. During the legislative session, we stood by policy leaders as crises threatened the state budget, health care, civil justice, and insurance. We produced data-driven research, proposed practical solutions, brought in technical experts, and popularized market-based reforms on talk radio, with newspaper commentaries and presentations.

As the 78<sup>th</sup> Session concluded, legislators directed their attention to school finance, anticipating a special session in early 2004. We shifted gears and focused our resources on education funding and state taxes. Throughout the remainder of the year, we worked side by side with experts and legislators to improve the performance of public schools and the vitality of our state's economy.

While championing solutions for urgent state problems, we also solved challenges inside the Foundation. Financial reserves, depleted during 2002, were restored by prudent spending, restructuring, and consolidation. We found new ways to accomplish more with less and strengthened our stewardship over the contributions entrusted to us. We closed the San Antonio office in July and concentrated our activities at the Capitol. In Austin, we created two new positions – a chief economist to expand our technical know-how and a research director to align all activities with our primary mission. Michael Quinn Sullivan, director of media and government relations, was transitioned into the vice presidency to provide leadership for the Foundation and the state policy community.

At the close of my first year as president, I would like to express appreciation for the warm welcome given to me and to thank all of you who expressed confidence in the Foundation by funding our work. Together, we achieved many successes in 2003. I expect 2004 to be another banner year. Please continue to stand with us because today, as in 1989, the Foundation is still Texas' only free market think tank and there is much work to do.

For Texas,



Brooke Leslie Rollins  
President of the Texas Public Policy Foundation





# Policy Orientation for the 78<sup>th</sup> State Legislature

The Foundation crossed the political aisle to bring most state legislators, their staff, agency leaders and individuals who work with state government together in a Policy Orientation to open the Texas 78<sup>th</sup> Legislative Session. More than 600 individuals attended the Orientation at the Four Seasons Hotel in Austin on January 28-29 and February 3-4, 2003, and an even larger audience tuned in to a live videocast over the Internet.

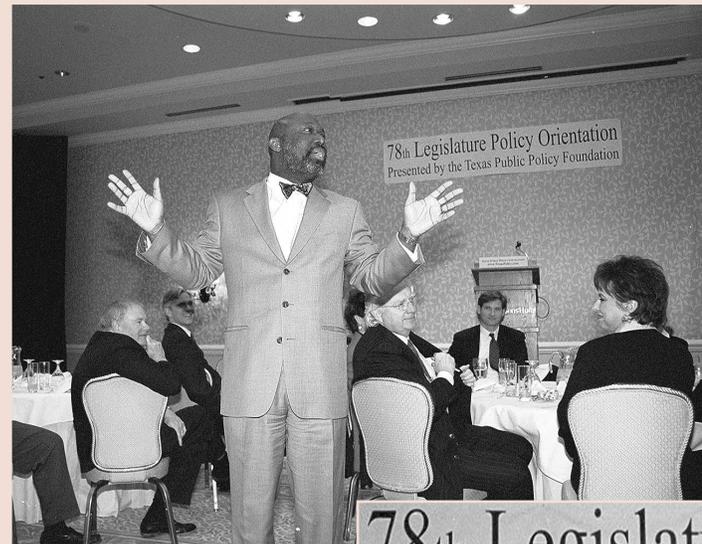
The hottest problems facing Texas were examined: school finance, taxes, insurance, civil justice, school choice, transportation, health care, water, higher education, and border issues. Over 60 legislative leaders were paired with state and national policy experts on panels that debated opposing points of view. Top state leaders stepped to the podium throughout the four days. The Governor, Lieutenant Governor, House Speaker, Attorney General, Railroad Commissioner, Agriculture Commissioner, Secretary of State, and Chief Justice of the Texas Supreme Court identified policy priorities and hailed the 78<sup>th</sup> Session as an unprecedented opportunity to improve Texas with market-based reforms.

The Orientation was acclaimed as a success by policy leaders for prioritizing key state issues, offering an array of practical solutions and identifying technical resources. Widely covered by state news media, the conference accorded the Foundation recognition as the “official think tank of Texas by friends and foes alike,” according to *The Dallas Morning News*.

This success pushed the Foundation to the forefront of policy debates throughout the 78<sup>th</sup> Texas Legislature, and helped outline our goals for research in 2003.

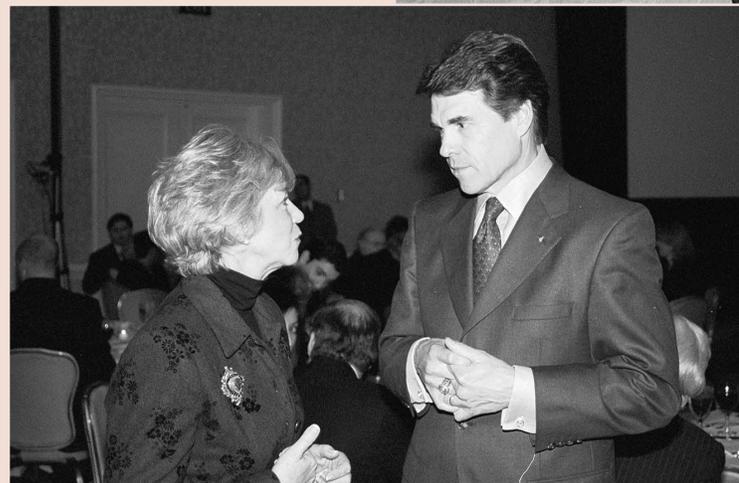
**“The Texas Public Policy Foundation  
provides critical insights to the  
issues facing our state.”**

*The Honorable Greg Abbott  
Attorney General of Texas*



Texas Railroad Commission Chairman Michael Williams (above) took his comments on school choice to the floor of the audience as he spoke at the Policy Orientation for the 78<sup>th</sup> Legislature.

**78<sup>th</sup> Legislat**  
**Presented by the**



Governor Rick Perry and Senator Florence Shapiro (R-Plano) visit prior to his dinner remarks at the Policy Orientation for the 78<sup>th</sup> Texas Legislature.

# Conservative group draws friends, foes to Austin event

Conference aims for broad look at issues, but some see GOP slant

By PETE SLOVER  
Austin Bureau

AUSTIN — After quickly wrapping up the ceremonial stuff Wednesday at the Statchouse, many Texas lawmakers headed to a fancy hotel down the street for a heavier public policy meal.

About half of the 181 legislators indicated that they would attend a four-day issue-fest hosted by the Texas Public Policy Foundation — a conservative group dubbed the “official think tank of Texas” by friends and foes after being endorsed by the state’s top Republican officials.

“It’s a group that has been marginalized to some degree, and now has a potential to have undue influence over Republican leaders,” said Sen. Royce West (D-Dallas).



ERIC H. SCHILLEGEL/Staff Photographer

Harvard professor Caroline Hoxby speaks on a school choice panel at the Texas Public Policy Foundation’s conference.

## CAPITOL JOURNAL

The conference covered the top issues facing the state in the legislative session: school finance,

The foundation would not disclose the identity or the size of contributions from donors, except to confirm that the top sponsors named on signs at the event were listed in descending order, topped by renamed Southwest Energy Services Company. Sponsors included Henkel Commercial Real Estate, Vins & Associates, a health insurance firm, a health insurance group and the Texas Commercial Insurance Industry.

The foundation’s research includes social studies teaching in public schools, analyzing the civil rights and past racial discrimination content that history textbooks play the contribution of Christian Europeans. Speakers in attendance included Rep. ...

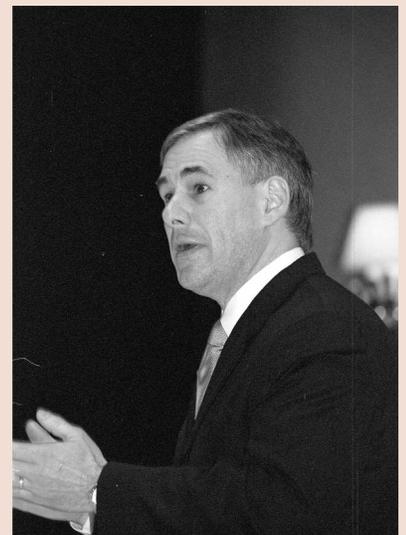
# Policy Orientation Texas Public Policy Foundation



Lieutenant Governor David Dewhurst addresses the Policy Orientation for the 78<sup>th</sup> Texas Legislature.



Former U.S. Secretary of Education Bill Bennett was a featured Policy Orientation speaker and panelist. Here he joins Foundation board member Jeff Sandefur, Senator Royce West (D-Dallas) and Representative Geanie Morrison (R-Victoria) on a panel discussing higher education issues.



Newly elected House Speaker Tom Craddick (R-Midland, above left) offers his thoughts on the Session to attendees at the Policy Orientation for the 78<sup>th</sup> Texas Legislature. Texas Attorney General Greg Abbott (above right) addresses the Orientation.



Representative Glenn Lewis (D-Fort Worth) answers questions during a panel discussion on education at the Orientation.

We commissioned state and national experts to examine the problems and produce reports that: examined facts with intellectual honesty, attended to accuracy, respected the laws of economics, and furnished practical, data-driven solutions. Hard copies of our reports were hand-delivered to legislative and elected offices and provided to leading state policy groups and news media. Unabridged reports were made available to the public on our website.

## First Goal for 2003

### Improve Economic Vitality By Cutting State Spending and Heading Off Tax Hikes

A fiscal crisis awaited the 78<sup>th</sup> Texas Legislature. After several decades of increased spending, a flagging economy and diminished tax revenues produced a nearly \$10 billion deficit in the state budget. Some legislators called for new taxes and massive tax increases to expand the state's largest functions – health and education.

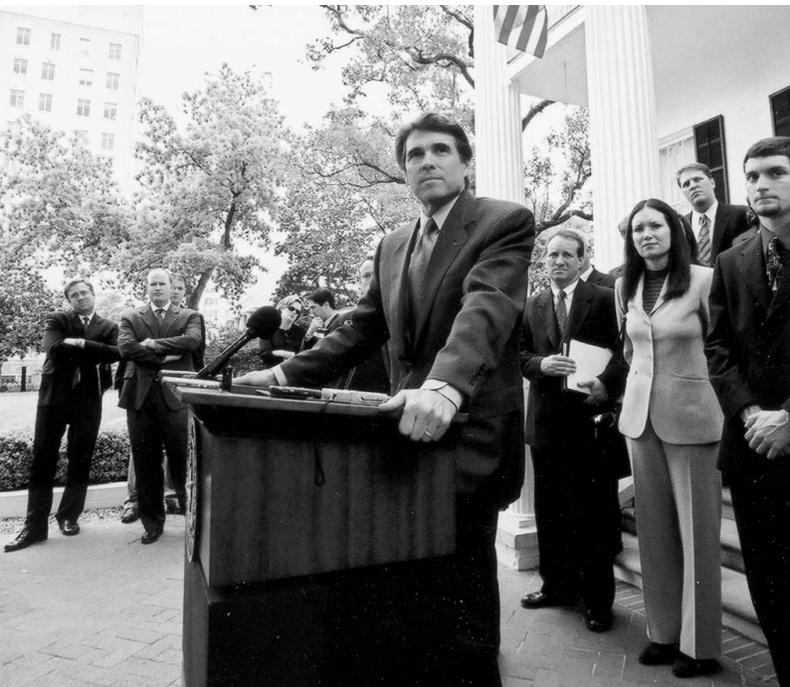
Our research provided data to refute the need for bigger government and identified unnecessary expendi-

tures. We identified practical, cost-saving solutions to improve the quality of government services and give Texans greater control over their lives. Commissioning a poll of voting Texans, we substantiated strong opposition of both Democrats and Republicans to an income tax. **The following research was published to help shape the debate and identify free market solutions.**

**Converting Challenges to Opportunities** by the Honorable Maurice P. McTigue, Q.S.O. (Distinguished Visiting Scholar and Director of the Government Accountability Program at the Mercatus Center, George Mason University and former Cabinet Minister of New Zealand). This four-page policy perspective describes how New Zealand eliminated a 23-year deficit, reduced taxes, and increased revenue by results-based spending. Published - February 2003.

**Defined Contribution Health Care Plans: Benefits for Consumers, Employers, Physicians and Insurance Companies** by Haavi Morreim (Heritage Foundation Fellow and Professor, College of Medicine, University of Tennessee). This two-page policy perspective identifies benefits of replacing traditional health insurance with consumer-based plans in which the individual determines the price and type of covered services. Defined contribution health insurance and flexible savings accounts provide the opportunity for individuals to tailor insurance to specific needs, multiply benefit options, improve health services, and control cost. Published - April 2003.

**Securing the Safety Net for Texas Children: Cutting the Budget and Strengthening the Children's Health Insurance Program** by Chris



Governor Rick Perry held a press conference announcing he would oppose any budget that increased taxes on Texans. Invited to attend were the heads of numerous conservative organizations, including Foundation President Brooke Rollins.

# Who are the uninsured?

By CHRIS PATTERSON

Another horrifying announcement from our newspapers a few weeks ago — millions of Americans are uninsured.

# Holding back Texas spending puts state on right path

BY BROOKE LESLIE ROLLINS

Contrary to popular belief, the budget problems facing the Lone Star State were not created by the poor economy or low taxes. While many in Austin are busy hiding behind a sluggish stock market, the \$9.9 billion shortfall is the result of irresponsible lawmakers and

COMMENT



Even over the last decade, spending has jumped 125 percent. That kind of spending

ment that was supposed to limit spending growth. Unfortunately, legislators still had lots of wiggle room, and the limitations are all but meaningless. Now the good news. Our governor and the legislature

Patterson (Texas Public Policy Foundation) and Devon M. Herrick (Research Manager, National Center for Policy Analysis). This 13-page report provides practical ways to control costs of the several hundred million dollar program partially responsible for unbalancing the state budget: focusing health services on the neediest children, enforcing statutory parameters, eliminating services beyond federal requirements, and increasing co-payments. It proposes a larger role for private sector insurance. Channeling state subsidized care through employer health insurance plans and eliminating state restrictions on benefit plans will increase the variety and affordability of health insurance for all Texans. Published - May 2003.

**Public School Employee Health Insurance: Bane or Boon to Balancing the State Budget?** by Dwight McNeill, Ph.D. (Visiting Scholar, Brandeis University). This 16-page report examines the most fiscally vulnerable state program, created by the last legislature and funded for just one year, and identifies how state costs can be reduced by one-third. Introducing cost-sharing provisions, health savings accounts, and giving employees the flexibility to determine the amount of compensation allocated for health insurance will improve the quality of health care while controlling costs. Published - May 2003.

**The Business of Government? Competition Between Texas Governments & the Private Sector** by Wendell Cox (Principal, Wendell Cox Consultancy and Visiting Professor, Conservatoire National des Artes et Metiers in Paris). This 27-page report identifies commercial enterprises performed by state and local governments in Texas, at an estimated annual cost of \$20 billion. These government activities are generally subsidized by taxpayers, expand the size of government, diminish economic efficiency, and suppress economic growth. It outlines how Texas can improve the state's economy and personal

incomes by minimizing government competition in consumer markets. Published - September 2003.

## Second Goal for 2003

### Ensure Texans Can Buy and Own Homes By Shrinking State Regulation of Insurance

The 78<sup>th</sup> Texas Legislature was also faced with a crisis in homeowners' insurance. Between 2000 and 2001, the cost of insurance premiums for homes had increased up to 200 percent and Texans were paying the highest premiums in the nation. At the same time, a growing number of Texans were unable to purchase homeowners' insurance at any price because companies were limiting or stopping sales entirely in the state. To ensure Texans could continue to buy and sell homes, the Department of Insurance created a program of last resort for homeowners who were denied insurance. As the situation worsened, some legislators called for increasing regulation of insurance companies – fixing prices and forcing companies to reduce the cost of premiums.

Our research provided data to refute the need for increased state regulation and furnished evidence that these “solutions” would result in higher insurance rates and make homeowners' insurance even harder to procure. We identified how other states solved this crisis by allowing supply and demand to replace state regulations. **The following research was published to help shape the debate and identify free market solutions.**

**Shopping for a Solution: Effective Consumer Protection through Competitive Regulation of Insurance Rates** by Nathaniel Shapo (former Director of the Illinois Department of Insurance and Partner, Sonnenschien Nath & Rosenthal). This 21-page report identifies how government regulation and price fixing have interfered with the economic law of supply and demand in Texas and other states,

depressing availability and affordability of homeowners' insurance. It describes the success of reforms in Illinois and South Carolina that expand the insurance market and control costs. It proposes that government focus resources on company solvency, market conduct and consumer complaints, and replace mandated forms and rate regulation with reliance on federal anti-trust laws and competition. Published - April 2003.

## Third Goal for 2003

### Increase Availability of Health Care for Texans By Halting Lawsuit Abuse

Interim committees of both the Texas House and Senate identified the growing physician shortage as a crisis that had to be solved by the 78<sup>th</sup> Texas Legislature. In 2002, only 64 primary care physicians treated every 100,000 Texans while up to 80 physicians treated a similar number in other states. Throughout the state, Texans faced routine delays in care, sometimes life-threatening delays when forced to seek care in distant cities. The skyrocketing cost of medical malpractice insurance, primarily the result of frivolous lawsuits and exorbitant payouts, had forced physicians and medical facilities to limit care or close. Some legislators called for the state to fix the price of medical malpractice insurance rates while others called for greater regulation of physician conduct and tougher penalties for negligent physicians.

Our research provided evidence to refute the need for increased state regulation and instead identified the civil justice reforms effectively employed by other states to attract and keep health care providers, and to improve health care outcomes. **The following research was published to help shape the debate and identify free market solutions.**

**Critical Condition: How Lawsuit Abuse Is Hurting Health Care & What Texans Can Do About It** by Chris Patterson (Texas Public Policy

Foundation), Colleen Whalen (Attorney and Counselor at Law and Adjunct Professor of Medical-Legal Issues, State University of New York) and John Pisciotta (Associate Professor of Economics, Baylor University). This 23-page report examines the ineffectiveness of litigation in identifying medical negligence and gives evidence of the impact of frivolous lawsuits in Texas. Describing how lawsuit abuse diminishes the quality and availability of medical care and civil justice reforms introduced by other states, it proposes that Texas cap non-economic damages to increase the supply of medical providers and improve the quality of care. Published - April 2003.

## Fourth Goal for 2003

### Efficient and Effective Funding for Texas Schools By Responsible Taxation and Spending

Before the gavel sounded on the 78<sup>th</sup> Legislature, state leaders pledged to fix or replace the state system of funding public schools, widely known as "Robin Hood." To signal this intent, the House Education Chair filed a bill to terminate the school finance system. The system had been widely criticized by the press and groups across the political spectrum. Homeowners and businesses demanded relief from high and climbing property taxes; since 1980, property taxes had increased 367 percent, a rate comparable to 8.5 percent compounded annually.

New, additional monies above and beyond current levels of funding were needed, claimed educational associations, to meet new state and federal requirements for higher levels of student achievement. Three "property-wealthy" school districts brought charges against the constitutionality of the state school finance system in a suit that many see as the most serious legal challenge to the system ever faced.

Many legislators called for increasing the state's share of education funding and increasing the current level of funding for public schools. Some legislators called for

## New Book Explores School Finance Options

AUSTIN, Texas — A new book published by the Texas Public Policy Foundation explores the issue of public school finance reform from the perspective of twelve ideologically and politically diverse authors. *Putting the Sides Together* is a 222-page work introduced and edited by the Foundation's director of research, Chris Patterson. The book is available for \$10.

of options available for solving it. The importance of school finance reform — for public education, taxation, and the state economy — dictates that Texans engage in a measured and thoughtful debate in which all voices are heard." In her introduction, Patterson notes that despite the vastly different ide-

## Education issues aired

### Think tank's conference talks vouchers, equity

By Lucy Hood  
EXPRESS-NEWS STAFF WRITER

AUSTIN — Two hot-button education issues — school finance and private school vouchers — kicked off a Texas Public Policy Foundation conference as the think tank and its pet initiatives moved from the fringes to the forefront of

that is interested in solutions to public policy issues," Perry said.

Other participants included Senate Education Committee Chairwoman Florence Shapiro, R-Plano, and Rep. Kent Grusen-

dorf, R-Arlington. Lt. Gov. David Dewhurst and House Speaker Tom Craddick, to take part in the conference, which will address health care, transportation and insurance in the next three days. "Look at the leaders

ing to compete."

Grusen-

moderated a voucher panel consisting of two academics; a school board member from Milwau-

the pros and cons of a new school finance trend known as adequacy, which has replaced equity as the guiding force in school funding in some states.

Supported by Shapiro, who chaired the school finance panel, it would require a study to establish the desired amount for per-pupil spending. Then the funding system would be adjusted to meet that goal.

increasing current taxes to provide additional state revenue for public schools. Others called for fundamental tax reform, claiming the current tax system suffers from a "structural deficit" that prevents the state from generating sufficient revenues for all state services, and called for the creation of a personal income tax.

Our research alerted state leaders about the importance of viewing educational funding as a component of the broader system of state finance, and the delicate relationship between taxes and economic health. We revealed state spending, not revenue, as the greater problem facing Texas and showed our current tax system generates sufficient revenue to keep pace with expenses attributable to enrollment growth and inflation in public schools. We produced evidence from other states to show the disastrous consequences of imposing a personal income tax.

Our research found no evidence to support claims that public schools need more money but instead found evidence that more effective allocation of money could improve student performance. We commissioned a poll of Texans to assess voters' opinions of school spending and discovered the majority of Texas voters believe public schools do not make efficient use of current funding. **The following research was published to help shape the debate and identify free market solutions.**

**Guiding Principles for Reforming Texas School Finance.** This single page policy perspective identifies standards for tax and education spending that will shape the Foundation's research and can serve as a resource for changing the state system of public school funding and state taxation. The standards are based on research, economic principles and factual evidence, and argue for: increased fiscal efficiency, stronger accountability for public dollars and educational results, replacing state mandates with local control, the introduction of competition, and effective resource allocation to obviate need for increased dollars to public schools. Published - September 2003.

**Follow the Money: A 50-State Survey of Public Education Dollars** by Chris Patterson, Chad Blevins and Andrew Brown (Texas Public Policy Foundation). This 78-page report identifies how public education dollars fit into the overall financial structure of each of the 50 states and examines the relationship between state spending, revenues, and personal income as a measure of each states' ability to sustain public education funding. For Texas, this report indicates education spending compares favorably to other states but that government continues to grow, state government spends more than annual revenue, and increased taxation will jeopardize the state's economic health. Published - November 2003.

**Texas School Choice: Separate and Unequal** by Kyev Tatum (President, College Preparatory School of San Marcos). This two-page policy perspective describes why a new system of funding public schools should incorporate school choice to improve educational outcomes, particularly of under-served children, and introduce fiscal efficiencies. Published - August 2003.

**Putting the Sides Together: Twelve Perspectives on Texas Public School Finance** edited by Chris Patterson. This 222-page report identifies key voices and ideas on school finance reform in Texas. It provides a market-based framework for the debate: citing research to refute claims that schools require more funding to improve student performance, showing how levels of funding are less important than how money is allocated, describing the evidence that competition improves the fiscal efficiency and academic effectiveness of public schools, and demonstrating the adequacy of our current state tax system to generate sufficient revenues for public schools. Published - December 2003.