

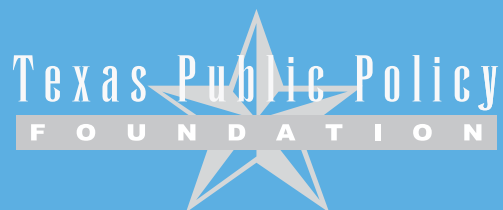


2013 ANNUAL REPORT of the TEXAS PUBLIC POLICY FOUNDATION

# *Faces of Liberty*



# 2013







# LIBERTY CANNOT BE PRESERVED WITHOUT GENERAL

# KNOWLEDGE AMONG *the people.* ~JOHN ADAMS

has the vastly superior benefit of comparative liberty. That's why people come here. They want what we have. And we're happy to share.

Texas is changing, in other words, because liberty proves its case here.

As for what the changing Texas means, there are differing interpretations and approaches to it: different dreams, so to speak, of just how the Lone Star shines in the generation to come. One group holds to the idea that as much of the old order that may be preserved, should be preserved: identity politics for the past. Another believes that the new Texas is a prime opportunity to "turn Texas blue," as they say, and discard our heritage of freedom for a D.C.-crafted model of dependency. You've seen them

and their work. They're pouring a great deal of money into the project—very little of it from Texas, of course—because they understand that we are the prize.

And the Texas Public Policy Foundation? We think a changing Texas is something we've seen before—and we think our state has always emerged with its hopes and heritage intact. That's because our identity is not, in the final account, rooted in ethnicity or extraction or circumstance or class or birth or any of the other determinants that our friends on the other side of the ideological divide believe predestine a man to his fate. We are Texans. Our Declaration of Independence in 1836 explicitly declared our founding in the ideals of the Declaration of Independence of 1776: "that all men are created equal, that they are endowed

by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the pursuit of Happiness."

We welcome a changing Texas, then, because to be Texan is to be grounded in something permanent and unchangeable: the very nature of men and women as created beings with "unalienable Rights." No tidal wave of immigrants seeking liberty will change that. No enormous shift in our living patterns will obscure that. No political agenda from the grasping ambitions of D.C. and the left will defeat that.

The face of Texas changes. The meaning of Texas is permanent. And the spirit of Texas is enduring.

As you read through this 2013 Annual Report of our Foundation, read it in that light. You are holding in your hands the chronicle of a single year in our quarter-century of existence. But though our institution was founded in 1989, our spirit was forged in 1836. We do the hard work of crafting pro-liberty policies, articulating pro-liberty arguments, and defending Texas for ourselves and our posterity. That is our mission. That is our task. But it is not grounded in something about ourselves. Again to borrow from Churchill, "It was the nation ... that had the lion heart. I had the luck to be called upon to give the roar."

Welcome to our Annual Report. It's our story, yes. But it's really the story of Texas, refracted through us. And that makes all the difference.



## *Faces of Liberty*

Past, present, and future: from left to right, original board member L.C. "Chaz" Neely, President Brooke Rollins, Founder and Chairman Emeritus Dr. James Leininger, and Founder and original President Fritz Steiger.

These founding Faces of Liberty have led the fight in the same spirit Churchill described long ago: "It was the nation ... that had the lion heart. I had the luck to be called upon to give the roar."



*Brooke Rollins*

Brooke L. Rollins  
PRESIDENT & CEO



*Wendy Gramm*

Dr. Wendy Lee Gramm  
CHAIRMAN

As the Texas economy recovered strongly from the recession, it generated billions in unanticipated revenue. In 2013, the Center for Fiscal Policy helped shape the budget debate by defining a fiscal baseline that was supported by about one-third of the members of the majority party and *The Wall Street Journal* in the face of intense pressure from leadership, setting the stage for fiscal restraint in future sessions.

### THE BUDGET DEBATE IN THE 83RD LEGISLATURE

The Texas budget process is arcane and opaque, even for many veteran lawmakers. Rarely is there any meaningful public input into the process. Year after year, the size of state government keeps growing.

This time was different. In 2013, the Legislature had \$20 billion more to appropriate at its disposal than it did in 2011, a 24 percent increase. The Foundation developed materials to show just how much additional revenue was available, eventually leading to a remarkable back-and-forth discussion over the Texas budget in the pages of *The Wall Street Journal*, the most influential newspaper in America. When the dust settled, more money was spent than the Foundation and fiscal conservatives preferred, but, about one-third of the members of the majority party voted against their leaders' budget, an unprecedented action, while \$1.4 billion in tax cuts were enacted. This past sessions' high profile budget debate has prepared the ground for more substantive future action on a conservative fiscal plan, including tax cuts, tax reform, and a real spending limit.

### TAKING ACTION

The slow and uncertain economic recovery has also placed a heavy burden on small businesses—one of the greatest drivers of economic growth. Therefore, the Center for Fiscal Policy led the effort to phase out the

margin tax. While not entirely successful, the Center became a key player in the effort to reduce the margin tax burden and make permanent the \$1 million small business tax exemption while providing \$1.4 billion in tax and fee relief, directed mainly at the state's margin tax. Most of Texas' electricity customers also received a reduction in fees as lawmakers began phasing out the System Benefit Fund. However, \$327 million of the tax cut is temporary, leaving \$1.1 billion in permanent tax and fee reductions.

To counter the momentum to spend all the new revenue, the Foundation produced two 30-second radio ads featuring TPPF president Brooke Rollins discussing the need to return surplus funds back to taxpayers in the form of a reduced state sales tax rate. These ads were the sole ads during the session that promoted fiscally conservative principles.

The Center also served as an advisor to the Texas Comptroller's office, providing data and input on publications in the *Texas, It's Your Money* series. These reports examined taxing authorities, state and local debt, education debt, and pension obligations.

When it came to the state's spending limit, several bills were filed in both chambers that would have improved the state's constitutional Tax and Expenditure Limit (TEL), much of it based on research done by the Foundation. At the invitation of the Governor, the Center



TOP LEFT: Talmadge Heflin answers questions from the media after the Texas Comptroller's release of the state's 2014-15 biennial revenue estimate. RIGHT: Chuck DeVore appears on Fox Business to discuss how Texas' low-tax policies are creating an exodus of Californians, tired of high-tax California policies. BOTTOM: Bill Peacock, Josiah Neeley, Arlene Wohlgemuth, Chuck DeVore, and Talmadge Heflin were among the policy scholars who met one-on-one with legislators and testified 116 times during the 83rd Texas Legislature.

became a lead advocate of the Texas Budget Compact, a set of five fiscally conservative principles to help guide the Legislature on sound fiscal policy.

In addition, the Center for Fiscal Policy worked with as many as 13 other state and national conservative organizations in issuing two major coalition letters urging fiscal restraint in the 83rd session.

The Center for Fiscal Policy will continue to lead the discussion on limiting the growth in government while improving budgetary transparency in both legislative chambers—building on the momentum from 2013's legislative session to make the 2015 legislative session the best yet for Texas taxpayers, job growth, and prosperity.

### HIGHLIGHTS

- The Center published a book authored by Chuck DeVore titled *The Texas Model: Prosperity in the Lone Star State and Lessons for America*.
- Appearing on numerous national outlets, the Center discussed the findings of its report comparing Texas and California governing models, "How Big Government Hurts the Economy," co-authored with Dr. Arthur Laffer, Stephen Moore, and Nicholas Drinkwater.
- The Center's body of research—published book and 17 policy papers—was quoted and/or mentioned in such print and online publications as *The Wall Street Journal*, *Washington Post*, *Fox News*, *Forbes*, *The Daily Caller*, *Dallas Morning News*, *Houston Chronicle*, *Austin American-Statesman*, *San Antonio Express-News*, *Texas Tribune*, and more.
- The Center submitted written and oral testimony on 17 legislative items including the budget, taxes, pension reform, the Texas rainy day fund, and the state's constitutional tax & expenditure limit.



**ECONOMIC FREEDOM**  
Keeping Texas Competitive

When it comes to prosperity in the Lone Star State, the Center for Economic Freedom offers these three words: Keep Texas Competitive. Economic freedom is at the center of the “Texas Miracle” that has made Texas the national leader in job growth for more than a decade.

**ELECTRICITY & ENERGY**

In 2013, the Center for Economic Freedom launched a targeted campaign to try and stop the Public Utility Commission of Texas from re-regulating Texas’ competitive electricity market and imposing a *de facto* \$4 billion a year electricity tax on consumers.

To educate policymakers, consumers, and the media of this real threat to Texas’ nation-leading free market approach to electricity generation, the Center engaged in an aggressive research and media blitz. Since the start of the campaign, the Center published 32,480 words in seven research papers and 14 commentaries and blogs.

A targeted email campaign highlighting the Center’s research findings was sent to legislators and their staff, the media, and the public to shift the debate back to free market principles and to keeping the lights on in the Lone Star State.

The Center’s Bill Peacock and Kathleen Hunker continued outreach efforts with a steady stream of informational meetings with legislators and staff, and targeted meetings with members of the Senate Natural Resources Committee. Bill also testified at a November committee hearing which looked into whether the PUC had the authority to re-regulate the market without the Legislature’s authority and whether a capacity market would hurt consumers.

The Center continues to fight against back-door re-regulation of Texas’ electricity markets via capacity markets.

**PROPERTY RIGHTS**

Policy analyst Kathleen Hunker co-authored an *amicus* brief with the Cato Institute that was filed with the U.S. Supreme Court. The case is an appeal of a Ninth Circuit decision allowing the city of San Rafael, California to regulate away 80 percent of the property value of the Contempo Marin mobile home park and then transfer it to a politically powerful private party.

The Foundation also helped stop increased regulations on land use. Counties tried to make up for their lack of zoning authority with legislation granting authority for localized land use controls. However, as the Foundation has pointed out through testimony, the problem is not that counties don’t have enough land use authority; it is that cities have *too* much. Fortunately, counties didn’t succeed this session.

In 2011, eminent domain was a big issue, with many reforms passing. This session, however, condemnors kept most proposed reforms from becoming law. The good news is that the reforms that *did* pass this session increase protections against eminent domain abuse in cases of local water and special districts, and that several bills that would have taken us a step backwards from previous reforms *did not* pass.

OPPOSITE LEFT: Bill Peacock, director of the Center for Economic Freedom, moderates a panel at the Foundation’s 11th Annual Policy Orientation event in Austin. CENTER: Kathleen Hunker, a recent Columbia Law School graduate, joined the Center as a policy analyst in 2013. RIGHT: Bill Peacock talks to a local TV station on the Texas electricity market.



**IGNITING SUCCESS IN THE LONE STAR STATE**

California and Texas are worlds apart on governing philosophies. The former ardently believes in public investment, redistribution, and a government-centric economy whereas the latter has, for the past decade or so, emphasized a free-market approach characterized by low taxes, limited government, and personal responsibility.

For companies like Software Advice, Texas’ limited government approach is more appealing. So much so, in fact, that the company moved its base of operations to the Lone Star State.

Software Advice, a company specializing in advising software buyers and generating demand for software vendors, was founded in 2005 in San Francisco by CEO Don Fornes. A few years after getting his Bay Area business off the ground, Fornes had a hard time rationalizing staying in California with its high operational costs, burdensome tax system, and tight labor pool. So in 2009, Fornes decided to move his company’s headquarters to Austin, Texas.

Taxes played a major role in Fornes’ decision. With California’s individual income tax rate at up to 12.3 percent—the

highest in the country—Fornes recalls the frustration of not recouping his investment because of having to pay an excessive amount in federal and state taxes.

Since relocating to Texas, Software Advice has experienced a substantial amount of cost savings. In contrast to California, office rental rates are much lower in Texas, which significantly reduces operational costs and allows for more investment in the company. He states, “The money that we’ve been able to keep in the company has allowed us to invest in hiring more people.” With a job growth rate of 1,000 percent, the Austin team has increased from 5 to 55 employees, and is expected to rise. Austin attracts thousands of young adults every year which makes the Capital a prime spot for recruiting and retaining talented individuals.

Two contributing factors of Software Advice’s success are focus and execution. Fornes bootstrapped the business in 2005 with money from his personal savings and has grown Software Advice to \$15 million in revenue, with healthy margins and 75 employees, taking

no outside capital. When the business began, they focused on a specific market opportunity and have since expanded strategically into other markets. Fornes noted, “When you bootstrap a business and are tight on a budget, you are more disciplined about where you place your investments. You lead your business with extreme focus and every dollar spent is carefully considered. We’re not as much focused on brilliant innovations as we are on choosing attractive opportunities and thoughtful implementation. This precision has allowed us to execute very well.”

Since 2009, the company revenue has risen by a whopping 460 percent, which is evidence that Software Advice is thriving. There are thousands of stories like Don Fornes’ that reflect success made possible by the Lone Star State’s pro-business environment.



DON FORNES, CEO



The fight for a competitive private health care market with choice for consumers, lower prices, and quality of care is a fight for the American Dream—and keeping that dream alive for ourselves and future generations is the fundamental mission of the Center for Health Care Policy.

### TEXAS MEDICAID IN CONTEXT

As the largest and fastest-growing program in the state—now nearly 30 percent of the 2014-15 All Funds budget—the future of Texas' Medicaid program in many ways represents the future of state spending as a whole. If Texas expands its Medicaid program in accordance with ObamaCare, forcing an estimated 1.5 million low-income people into the program, Texans should expect the state's share of Medicaid spending to grow significantly, requiring future spending cuts to other budget areas such as education and infrastructure, as well as creating the need for ongoing tax increases.

It is in the context of ObamaCare's Medicaid expansion (which took effect on January 1, 2014, for those states that chose to expand) the Foundation's Center for Health Care Policy went into the 83rd Texas Legislature with the goal of preventing expansion in Texas. A coalition of hospitals, provider groups, chambers of commerce, counties, and school districts emerged early in the session and urged lawmakers to expand Medicaid. These groups were eager for the influx of federal dollars but heedless that expansion would put Texas on the hook for tens of billions of dollars more in state spending on Medicaid in the long term.

### RESISTING EXPANSION

A number of attempts to expand Medicaid were made during the session, but none of them reached the floor of either chamber, including one proposal which was presented as an alternative to Medicaid expansion but was in fact a loose framework for negotiating with Washington for expansion. That proposal, which gained far more attention and support

than any other this session, attempted to set conditions for expansion, but also allowed the Health and Human Services Commissioner to discard those conditions and alter eligibility requirements as needed in order to secure additional federal Medicaid funds. The Foundation was instrumental in providing policy arguments against the alternative, which ultimately failed to gain support.

In addition, TPPF revealed a statutory loophole that would have enabled the governor's office to expand Medicaid in the future without approval from the Legislature. A legislator subsequently added an amendment to a complex Medicaid reform bill to repeal the statute that would have allowed the Health and Human Services Commissioner to negotiate with Washington for Medicaid expansion in the future. Any changes in eligibility beyond current requirements will now have to be approved by the Legislature because of this provision.

### MEDICAID REFORM: THE BLOCK GRANT

Prior to the beginning of the 83rd session, the Center published a report by James C. Capretta, former Bush Administration OMB Director, and Leavitt Partners on how to reform Medicaid long-term care if the state were given a federal block grant. Throughout January and February, the Center's John Davidson worked closely with Capretta to write and publish a March report combining Capretta's Medicaid long-term care paper with two previously-published Center papers on Medicaid reform. The landmark report, "Save Texas Medicaid: A Proposal for Fundamental Reform," represents the first-ever comprehensive breakdown of



Senior health care policy analyst John Davidson is interviewed by KEYE.



TPPF's health care roundtable which included TPPF's Brooke Rollins and Arlene Wohlgenuth, U.S. Senators Ted Cruz and John Cornyn, Gov. Rick Perry, Lt. Governor David Dewhurst, Congressmen Joe Barton and Michael Burgess, and House Public Health Chairman Lois Kolkhorst.

The Honorable Arlene Wohlgenuth discusses the Foundation's Medicaid reforms on "Good Day Austin."

how a state would reform its entire Medicaid program with a federal block grant.

These two reports became the "go to" reference for legislators working to navigate the complex system of Medicaid, providing them with a comprehensive plan for true reform of the state's Medicaid program, without bankrupting the state yet still providing Texans with the quality, affordable, and accessible health care they deserve.



## MEDICAID EXPANSION: THE WRONG PRESCRIPTION FOR TEXAS

IN THE DECISION for the Supreme Court case *NFIB v. Sebelius*, states were given the option of implementing the ObamaCare mandate to expand their Medicaid programs to everyone under 138% of poverty. Thus far, about half of the states have elected not to expand. Why would states decline the federal government enticement to pay 100% of the cost for the first three years of expansion? The answer is clear—the Medicaid system is broken and the generous match is a Trojan horse. Medicaid is costly, now consuming almost one-third of the state budget and growing; research has proven the health outcomes of those covered are no better and, in some cases worse, than being uninsured; and Congress is already considering shifting more of the costs of the program to the states. Medicaid must be overhauled before any expansion of the program is considered. We must—and we can—do better. That's why the Foundation has developed a Medicaid block grant proposal and a Health Care Compact. Either initiative would give the states the ability to build a better health care system for Texas.



## K-12 EDUCATION

Choice & Opportunity

### SCHOOL CHOICE

On the public education reform front, Senate Bill 2 took significant steps to overhaul the Texas charter school system. Most significantly, it did a gradual expansion of the cap on public open-enrollment charter schools. Starting in the fall of 2014, the state will add about 15 new charter schools per year, leaving Texas with a cap of 305 open-enrollment charter schools in 2019. This is a significant step toward addressing the ever-growing waitlist of students attempting to attend charter schools, currently numbering more than 100,000 children.

The Foundation's Center for Education Policy and allies such as Texans for Fiscal Responsibility, Americans for Prosperity, and Americans for School Choice held a press conference and rally on the north steps of the Texas State Capitol on February 23rd, in direct response to the teachers union rally taking place on the south steps of the Capitol. While Save our Schools likely spent hundreds of thousands of dollars busing people in from all over the state, erecting a jumbotron, and printing t-shirts, we inserted ourselves into the media narrative with few dollars spent.

This successful event earned 23 media hits and 877,671 media impressions. Coverage included an op-ed in the *Austin American-Statesman* as well as mentions in the *Texas Tribune*, *Bloomberg BusinessWeek*, and on KHOU.

The Foundation continued to drive the school choice debate by partnering with The Heritage Foundation to co-host a major school choice event here in Austin that featured former U.S. Senator Jim DeMint, The Heritage Foundation's Virginia Walden Ford, and the Friedman Foundation's Robert Enlow. A breakout discussion also featured The Honorable Gloria Romero, California State Director



Foundation education policy analyst James Golsan speaks at a school choice rally on the north steps of the Capitol in Austin.

of Democrats for Education Reform. Senator Romero discussed California's struggle for school choice and how Texas must continue to move forward on this important issue of greater choice and opportunity for future generations.

### OPPORTUNITY & ONLINE LEARNING

The other significant win for greater educational opportunity in Texas was the passage of House Bill 1926, which made significant positive reforms to the state's virtual education market. For the first time since the inception of the Texas Virtual School Network, private and non-profit providers of online content will be able to participate in the network without having to partner with an ISD to do so. This should make for a significant reduction in red tape for private providers attempting to provide content, and significantly improve course options for Texas students looking for digital alternatives to their locally provided courses.



## HIGHER EDUCATION

Transparency & Accountability

### TRANSPARENCY

Texas took a major step toward higher education reform in the 2013 legislative session. The session saw a historic expansion of transparency regarding college graduates' average starting salaries, student-loan debt, graduation rates, and tuition costs. The Center for Higher Education saw passage of its highest-priority idea, the "Informed Student Document." The Informed Student Document requires universities to provide prospective students with information about the success of the school and its graduates, employing metrics covering comparative tuition costs, average starting salaries, student-loan debt, and graduation rates.

Another transparency measure resulting from our research, the "Honest Transcript Bill," would blow the lid off grade inflation by requiring that student transcripts provide the average grade given for the whole class alongside the individual student's grade. It was passed overwhelmingly by the House, with only two votes in opposition, but was not heard by the Senate Higher Education committee. However, House



FROM LEFT: University of Texas professor Dr. Brian Roberts, State Rep. Scott Turner, and director of the Center for Higher Education Dr. Tom Lindsay discuss the need for higher education transparency.

champion, Representative Scott Turner, has declared publicly that he intends to bring the idea back in 2015.

The Center's success with the "Informed Student Document" is but the first step in the higher education revolution—opening the door to reforms that bring greater transparency and accountability to higher education practices.

## FINALLY, AN AFFORDABLE COLLEGE DEGREE

The Texas Public Policy Foundation has spent years working to make college more affordable for students like San Antonio's Raymond Hernandez. Raymond is a happy young man these days. He was accepted into Texas A&M-San Antonio's \$10k degree program in Information Technology. Last year, A&M-San Antonio became the first school in Texas to craft a \$10k degree. Today, 13 Texas universities offer such programs, with similar efforts under consideration in Florida, California, Oklahoma, and Washington.

Hoping to land a job someday as a network engineer, Raymond jumped at the chance to get the degree he dreamed of more quickly and less

expensively. He credits his mother, a nurse, and his father, a bus driver, for preparing him for this opportunity. "My mom has been pushing us since we were in high school. She took me every day, at 5 a.m., to the Advanced Technology Center of the Alamo Colleges. It was rough, but totally worth it." Guided by his parents and teachers, Raymond wisely amassed 27 college credits through Palo Alto College while still in high school.

Raymond is now in the final phase of the program—three semesters on the A&M-San Antonio campus, from which he will graduate in December 2014.

The low cost of his degree, coupled with his talent at winning a number

of scholarships, will leave him debt-free when he graduates, whereas the average graduate today leaves college with \$26,000 of student-loan debt. Moreover, San Antonio's vibrant information-technology industry offers him an excellent chance at landing a job in IT—unlike the nearly 50% of current graduates who today are unemployed or underemployed.

When asked what grade he would give the \$10k degree program, he responds, "Oh, definitely an 'A.'"

We agree, and we look forward to more good-news stories like Raymond's.



## LOCAL GOVERNANCE

In July 2013, the Foundation launched the Center for Local Governance to promote good governance by educating local policymakers and the public on best practices, efficiency, and transparency in local government.

### LOCAL SPENDING & DEBT

The new Center for Local Governance has a vision of effecting policy change in a number of ways. While policy papers form the foundation of the Center's outreach, our desire to educate a broader audience of local elected officials, local staffers, and grassroots influencers has led us to innovate in how we sell our ideas.

The Center produced a short video about how one Texas school district, Mumford ISD, is successfully educating students without creating debt or administrative bloat. Through the use of creative media techniques, the Center can engage with an audience far wider than just the traditional audience for policy papers. By staying at the cutting edge of new media and diversifying the products it produces, the Center ensures that its policy ideas have the greatest impact on all who affect local policy, whether elected, staff, or citizen activists.



Additionally, the Center worked with the Texas Comptroller to develop a Fiscal Snapshot Index Project, an effort to synthesize and analyze municipal finances—helping to keep Texas' small, local economies running efficiently and effectively.



James Quintero, director of the Center for Local Governance, appears on "Capital Tonight" to discuss the need to reduce the state-local business tax burden and keep Texas competitive.

### TAXES & GOVERNMENT REFORM

Working alongside a near-quorum of city council members in League City, Texas, the Center worked to launch privatization efforts. The Center is also working to highlight Midland's privatization efforts, which are expected to be unveiled later in 2014.

The Center for Local Governance is working to showcase conservative ideas in action, or instances of liberty applied. A great example of this is the small but exceptional town of Von Ormy, Texas and its unique approach to taxation. Rather than operate under the traditional tax-and-spend structure, Von Ormy is creating economic opportunity and vitality by emphasizing the consumption tax and deemphasizing the property tax—and the results have been phenomenal.



## EFFECTIVE JUSTICE

Right on Crime

### A NEW DISCOURSE

The Center for Effective Justice is about creating a new discourse for criminal justice and corrections across Texas, the country, and the world. The reforms that Texas implemented based on the Center's recommendations have helped the Lone Star State avoid at least \$2 billion in new prison costs since 2007—and that's not even counting the savings from overall population declines—and resulted in the lowest crime rate since 1968.

The Center's policy experts testified on dozens of criminal justice bills in the 83rd Texas Legislature, further solidifying its reputation as a valuable resource for legislators. In line with the Center's recommendations, Texas' criminal justice budget saved \$97 million by closing two unneeded prisons, while continuing to provide appropriate levels of funding for probation, drug courts, and other proven interventions for nonviolent offenders.

On September 18, the Center's director Marc Levin testified before the U.S. Senate Judiciary Committee in Washington, D.C. on mandatory minimum sentencing. The testimony was covered by dozens of national news outlets—including *National Review*—and U.S. Senator John Cornyn offered effusive praise of the Center's work on criminal justice reform.

### RIGHT ON CRIME

In 2013, Right on Crime added eight new signatories to its Statement of Principles, including former Texas House Corrections Committee Chairman Jerry Madden, former Colorado legislator B.J. Nikkel, conservative activists Michael Reagan and Monica Crowley, Red State's Erick Erickson, former New Mexico Attorney General Hal Stratton, and others.



LEFT: Vikrant Reddy (right) discusses Right on Crime's successes on Dr. Bill Bennett's nationally-syndicated radio show "Morning in America." RIGHT: Director Marc Levin testifies before the U.S. Senate Judiciary Committee along with Sen. Rand Paul and others regarding mandatory minimum sentences.



After U.S. Attorney General Eric Holder announced that the Justice Department would be pursuing criminal justice reforms at the federal level—broadly matching the kinds of reforms in many "red states" like Texas—news outlets turned to Right on Crime for the conservative perspective. Right on Crime was soon mentioned in *USA Today*, *The Daily Beast*, *Washington Times*, MSNBC, and *U.S. News and World Report*.

Director Marc Levin accompanied two of Right on Crime's signatories to New York, where they met with the editorial boards of *National Review* and *The Wall Street Journal*, prompting *National Review's* Rich Lowry to publish a laudatory column about Right on Crime titled "Reforming the Prison-Industrial Complex."

In June, Right on Crime was the subject of a major front page story in *The Wall Street Journal* titled, "As Prisons Squeeze Budgets, GOP Rethinks Crime Focus." In July, eight members of the British Parliament crossed the ocean to discuss Right on Crime's success and how to parallel efforts in the United Kingdom.

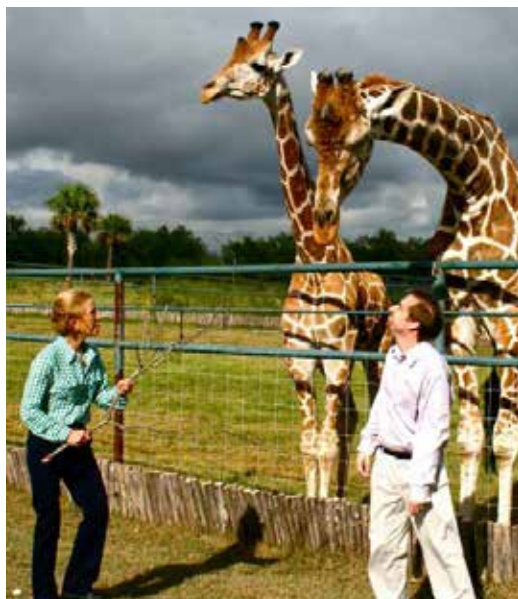


## ENVIRONMENTAL REGULATIONS

The bad news in 2013 was that environmental mandates at the state and particularly at the federal level are growing at an unprecedented pace, and typically without rigorous scientific justification. This push at the federal level for new environmental and energy regulations could ultimately cost Texas millions of jobs, send energy prices skyrocketing, and destroy prosperity for all Texans.

The good news coming out of the 83rd Legislature is what *didn't* happen in the area of energy and environment. Far fewer environmental regulatory bills were filed this session than in the previous two sessions and the majority of the few environmental bills that were filed died in committee.

To push back against regulatory power grabs, the Center for Energy and Environment's work focused on a more proactive approach to environmental policy—putting forth a positive vision for conservative environmental solutions based on sound scientific analyses and justification, rather than the emotions and fears often used on the other side of the debate.



The Center's Kathleen Hartnett White and Josiah Neeley with fellow environmental experts Spot (right) and Stretch at the Texas Disposal Systems Exotic Game Ranch, which provides educational and endangered species conservation programs.



Center director Kathleen Hartnett White provides invited testimony to the full U.S. Senate Committee on Environment and Public Works. She was one of two witnesses invited by the Minority (Republicans).

## WATER: TEXAS' PRECIOUS RESOURCE

Preserving Texas' precious water supply requires natural resource policies based on free market principles. On water policy, the Center injected itself into the debate with a research paper, "Texas Water Policy Options," which provided the Legislature with recommendations on how to remove regulatory impediments to meeting the state's water supply challenges.

The Center was also heavily involved in federal litigation about the endangered whooping cranes that threatens to stop all new water permitting in certain parts of the state. To push back against this egregious federal overreach into Texas water policy, the Center published a paper reviewing the scientific basis for the court decision, submitted an *amicus* brief to the Fifth Circuit Court of Appeals, and attended the Court's oral arguments in New Orleans.

## FEDERALISM

Texas prospers in large part because it rejects the model of big government advanced by Washington, D.C.—resisting D.C.'s attempts to extend its control ever-further into our communities, endeavors, homes, and lives. Our storied reputation of standing up for liberty is the reason so many are seeking refuge in the Lone Star State. One of those people is Karen Lugo, who left California to join TPPF as director of the Center for Tenth Amendment Action.



LEFT: World-renowned economist Dr. Arthur Laffer, TPPF president Brooke Rollins, and director of the Center for Tenth Amendment Action Karen Lugo, discussing Texas' successful economic climate. RIGHT: TPPF's Mario Loyola on NPR radio.



The Center's groundbreaking article "The Federal-State Crack-Up," published in *The American Interest* magazine, argued that "co-operative federalism"—the intermingling of state and federal finances and governing functions—is eroding the Constitution's separation of powers. The result: exploding federal deficits, cyclical state fiscal crises, and loss of accountability in government.

A subsequent report, "Loosening the Federal Straightjacket: What the U.S. Supreme Court's NFIB Decision Means for Federal Funds in State Budgets," explored the Supreme Court's ObamaCare decision in *NFIB v. Sebelius*, arguing that it has potentially far-reaching consequences for the federal government's ability to manipulate state governments by attaching conditions to federal assistance.

## AGENDA FOR STATE ACTION

In the 83rd Legislature, the Center helped to advance two major policy ideas. The first was a non-deputization idea on gun control which would have prohibited state and local officials from cooperating with any federal gun control regime. The measure moved out of the House and the Senate committee, but it was ultimately blocked by a Senate filibuster.

Another proposal that gained traction this past session would have reoriented Texas government—in particular the state attorney general and comptroller—to fight against the "conditions" attached to federal funding programs. This issue passed out of committee, but did not reach final passage due to legislators' concerns about losing potentially valuable federal funding—demonstrating the dire need for ways to escape the federal straightjacket.

The Foundation's chief counsel Mario Loyola met extensively with the offices of U.S. Senators John Cornyn, Ted Cruz, Tom Coburn, Mike Lee, and Marco Rubio, as well as the House Republican Study Committee and Congressman Paul Ryan, on legislative initiatives aimed at shaping future federal appropriations to avoid the impermissible conditions now in jeopardy under ObamaCare.

As Washington, D.C. increasingly uses strings-attached "conditions" to insert itself even further into our every day lives, the Center will continue to provide citizens and state governments with the tools they need to put the federal government back in its constitutional place.

# MESSENGERS *of Liberty*

LIBERTY, WHEN IT BEGINS *to take root*, IS A PLANT OF RAPID GROWTH.

~GEORGE WASHINGTON

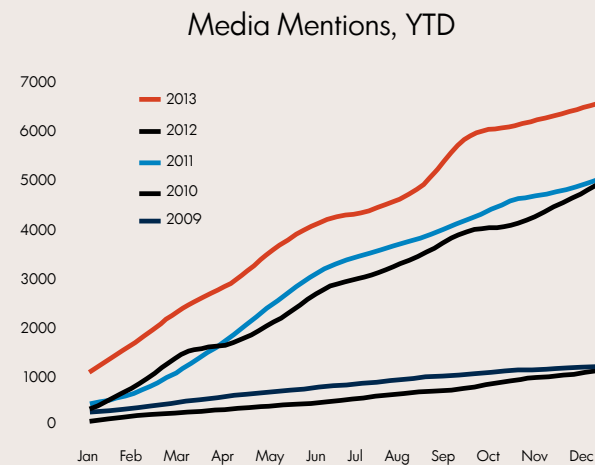
**IN 2013, THE COMMUNICATIONS** team achieved its biggest year to date. Taking our message of liberty, personal responsibility, and free enterprise beyond the halls of government, our communications efforts achieved 6,383 media hits, earning more than 298 million media impressions around the world! These are staggering numbers for a state-focused think tank, deep in the heart of Texas.

The Foundation's communication efforts were off to a quick start in 2013 with a three-day Policy Orientation conference. The largest policy symposium in Texas began with a first-ever "Movement in the Media" day featuring high profile media experts such as *National Review Online's* Jonah Goldberg, *Texas Monthly's* Ben Domenech and Erica Grieder, and Pulitzer Prize winning cartoonist Michael Ramirez. This prequel resulted in the most media coverage for this event to date, garnering 448 media mentions and 8.8 million impressions.

Taking our message to the airwaves, the Foundation's Chuck DeVore made several appearances on "Fox & Friends" discussing the Golden State exodus, and Fox News highlighting the Foundation's solutions to criminal justice. Within days of penning an op-ed about the relationship between Hollywood and fracking in *Investor's Business Daily*, he was a guest on "The Kudlow Report." Brooke Rollins was a guest on "The O'Reilly Factor" discussing why Texas is economically superior to California. Appearing on "Stossel" and Fox News' "Hannity," she discussed the IRS' targeting of conservative groups.

With the formal launch of the ObamaCare state exchanges on October 1st, the Foundation was once again the "go to" sources of information for policymakers, media, and the public. The communications team joined together with policy experts to provide a rapid-response campaign that included a suite of media engagements from opinion pieces, to media conference calls, to experts' availability.

In 2013, the Foundation once again found itself in the heart of the budget debate during the 83rd Texas Legislature. Concerns about growth in spending were initially addressed in the Foundation's research, but communications efforts doubled down with an infographic and "Texas Goes Sacramento" op-ed in *The Wall Street Journal* that changed the debate by revealing the budget gimmicks being used and uncovering the true levels of state spending.



TOP LEFT TO RIGHT: The Foundation's Chuck DeVore and Arlene Wohlgegmuth flew to the corners of Texas to meet with lawmakers in their home districts. | TPPF's Ellen Bartling lines up with media row to capture the Foundation's message on Texas' strong economic policy at an event featuring Dr. Arthur Laffer and Gov. Rick Perry. | The Center for Effective Justice's Marc Levin discusses criminal justice reforms on National Public Radio. | Senior effective justice policy analyst Vikrant Reddy talks about overcriminalization for Christian Broadcast Network's "700 Club." | The Foundation reaches across the national airwaves, appearing on Fox News' "O'Reilly Factor," Fox Business' "Stossel," "The Kudlow Report," and "Fox and Friends." | TPPF president Brooke Rollins discusses the IRS targeting of conservative groups on "Hannity."

# Investors in LIBERTY

EDUCATE AND INFORM THE WHOLE MASS *of the people...* THEY ARE THE ONLY SURE RELIANCE FOR THE PRESERVATION OF OUR LIBERTY. ~THOMAS JEFFERSON

**IF YOU ARE READING THIS REPORT,** then you too are a Face of Liberty. Your support has made our work possible. We have some of the smartest minds in Texas, and the nation, working to solve the greatest challenges facing the Lone Star State and America through the application of free market and limited government principles. But they simply couldn't do so without the support of thousands of patriots in Texas and beyond who partner with us each year. Private donations create the space, the tools, and the support necessary to generate world-class solutions.

As we have experienced tremendous growth in recent years, raising the support necessary to adequately fund the defense and promotion of liberty has become ever more challenging. As you can see in this report, donors like you have risen to meet the need. However, our vision is even greater, not for the sake of being greater, but because the assault on liberty is endless and is growing.

The Texas Public Policy Foundation has given voice to liberty in Texas for 25 years and we are proudly reintroducing the "American Dream" to America. Liberty has proven to be the greatest gift to civil society. As such, it needs a formidable home in order that those who would seek to grow government can't ignore liberty, and future generations can't forget its impact. Just 300 yards from the State Capitol, our new state-of-the-art headquarters at 901 Congress will provide a presence that big-government politicians cannot ignore. Fundraising has been robust with 65 percent of construction costs raised to date. It is projected that TPPF will occupy the new building in time for the 2015 legislative session.

If you partnered with us in 2013, thank you! You are a Face of Liberty and should take heart that these pages are a testament to your support. So, in the name of liberty, we say "thank you."

“Next to life, liberty is our most precious God-given gift. We support TPPF because it is leading the national fight to protect our liberty and, further, to restore the proper constitutional relationship between the states and the federal government. Through analysis, research, and activism, TPPF also supports conservative policy decisions on a broad range of problems facing our nation.”

~Long-time Visionary Donors Sally and Buddy Sipes

U.S. Senator John Cornyn gives Visionaries Sally and Buddy Sipes a legislative update from Capitol Hill.



TOP LEFT TO RIGHT: TPPF president Brooke Rollins with Foundation supporters and staff, taking a tour of what will be the Foundation's new state-of-the-art headquarters when construction is complete in 2015. | Visionaries Gwyn and Don Sparks attend special VIP programming at the 11th Annual Policy Orientation. | State Rep. Scott Turner talks with TPPF supporters during an exclusive, closed-door meeting. | U.S. Senator Ted Cruz with Foundation Visionary Binky Peters-Stephenson. | Donors have a chance to meet with Texas Gov. Rick Perry during a special tour of the newly renovated Governor's Mansion. | Speaker Newt Gingrich talks candidly with a group of attendees after his Policy Orientation keynote address.

# FINANCIALS

The Texas Public Policy Foundation continued to show financial strength in 2013 thanks to the generosity of thousands of new and renewing supporters. In 2013, gifts to the Foundation totaled more than \$5.5 million. Due to the steadfast commitment of our donors, we have averaged a 16.08% growth rate in revenue over the last 10 years.

## BALANCE SHEET

### Assets

Cash & Receivables	\$2,691,766
Property & Equipment	\$6,050,240
Prepaid Expenses	\$80,613
<b>Total Assets</b>	<b>\$8,822,619</b>

### Liabilities

Current Liabilities	\$97,153
Deferred Revenue	\$355,690
Long Term Liabilities	\$500,000
<b>Total Liabilities</b>	<b>\$952,843</b>

### Net Assets

Equity Prior Years	\$7,128,329
Equity 2013	\$741,447
<b>Total Net Assets</b>	<b>\$7,869,776</b>

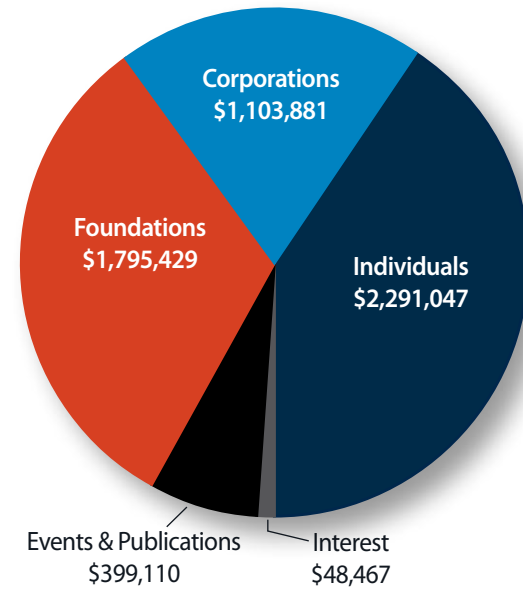
### Total Net Assets & Liabilities

**\$8,822,619**

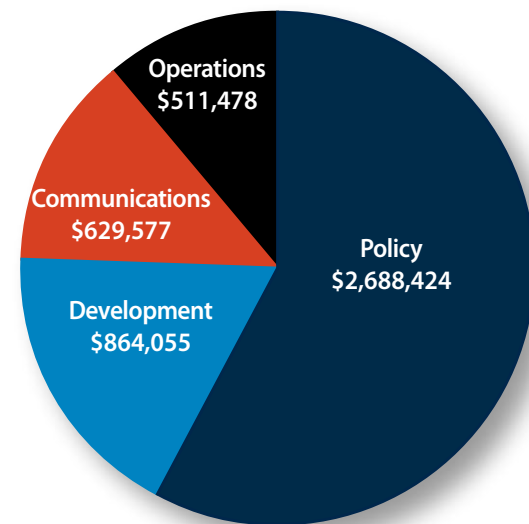
*\*NOTE: Of this amount, \$725,096 is from Capital Campaign contributions.*

*—All financial data subject to review by independent audit.*

## INCOME: \$5,637,934\*



## EXPENSES: \$4,693,534



## 2013 STAFF

**FIRST ROW:** Rikki Risinger, Accounting & Operations Manager; Nancy Druart, Publications & Marketing Manager; Brooke Rollins, President & CEO; Kathleen Hunker, Economic Freedom Policy Analyst; Sarah French, Director of Development; Ellen Bartling, Communications Associate.

**Second Row:** Joshua Treviño, VP of Communications; Shari Hanrahan, VP of Outreach; Fernando Ardila, Development Programs Administrator; James Golsan, Education Policy Analyst; Olivia Gustin, ROC Campaign Associate; Kristen Indriago, Director of Communications; Arlene Wohlgemuth, Executive Director & Director, Center for Health Care Policy; Kathleen Hartnett-White, Senior Fellow-in-Residence & Director, Center for Energy & the Environment.

**Third Row:** David Guenther, Senior Director of Public Affairs; Mike Joyce, Director of Events; Talmadge Heflin, Director, Center for Fiscal Policy; Karen Lugo, Director, Center for 10th Amendment Action; Sarah Rumpf, ROC Strategic Communications Manager; Josiah Neeley, Energy & Environment Policy Analyst; Geoffrey Tahuahua, Donor Relations Manager.

**Fourth Row:** James Quintero, Director, Center for Local Governance; Tom Lindsay, Ph.D., Director, Center for Higher Education; John Davidson, Senior Health Care Policy Analyst; Vance Ginn, Ph.D., Fiscal Policy Analyst; Chuck DeVore, VP of Policy; Vikrant Reddy, Senior Effective Justice Policy Analyst; Greg Sindelar, Director of Operations; Robert Croft, VP of Strategic Partnerships; Bill Peacock, VP of Research & Director, Center for Economic Freedom.

Not pictured: Marc Levin, Derek Cohen, Mario Loyola, Jess Fields.

## BOARD OF DIRECTORS

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THE TEXAS PUBLIC POLICY FOUNDATION is a 501(c)3 non-profit, non-partisan research institute that was established in 1989 to improve Texas by generating academically sound information about state problems and recommending efficient, effective solutions.

The Foundation's mission is to promote and defend liberty, personal responsibility, and free enterprise in Texas by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach. Our goal is to change the nation by blazing a trail for liberty under the Lone Star and beyond.

