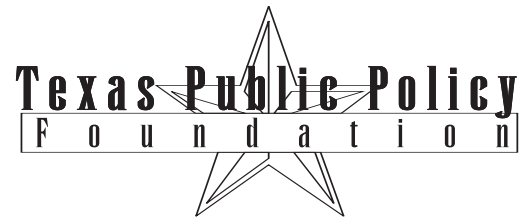


**Significant Issues.  
Significant Impact.**



**2004 ANNUAL REPORT**

# LETTER FROM THE PRESIDENT

Fifteen years ago, a group of San Antonio businessmen had an idea. They thought it was time for our great state to have its own think tank, dedicated to making Texas a better place to live and work. With this idea, the Texas Public Policy Foundation was born. Our beginnings were modest, with just one employee, and our arrival was unrecognized by a single newspaper headline. But something big came from this idea. Today the Texas Public Policy Foundation is a powerful force for free market thinking that helps shape the future of Texas.

Thanks to our remarkably generous donors, the Foundation has become the state's premier, free market think tank. Truly, the Foundation is more than just a think tank. Our ideas and solutions move from the printed page to the halls of the Capitol and into state legislation. The key to our effectiveness is a deeply committed board of directors and talented staff.

We focus on results and operate as a business. This sets us apart from many other organizations in the policy arena. We establish policy priorities – whether tax reform, school finance, limiting government, health care, or public education – and we measure our effectiveness by the impact of our ideas on state policy decisions. Careful investment of contributions and close evaluation of spending allows us to maximize the impact of every dollar entrusted to us.

Our quest to improve Texas grows with each passing year, invigorated by our successes in advancing free market reforms. In 2004 our generous donors recognized the impact of our work by stepping forward to help the Foundation reach the ambitious goal of increasing our operating budget by twenty percent. We aim to repeat that growth again in 2005 as we establish Policy Centers in the areas of state finance, economic freedom, health care, natural resources, and education.

As resources increased in 2004, our productivity soared. We produced 33 research reports and added new policy events. A new series of Policy Primers were launched by the overwhelming success of our 2nd Annual Policy Orientation for the Texas Legislature, once again sold-out and standing room only. The Policy Primers, designed to educate policymakers, media, and the public on pressing issues and free market solutions, drew sold-out

audiences to discussions about taxes, spending, health care, and criminal justice. These innovative, energetic efforts drew the attention of free market groups throughout the nation in 2004, and established the Texas Public Policy Foundation as a model for state policy reform.

As in years past, the Foundation is dynamic and continues to evolve. On October 22, 2004, Houston businessman William A. McMinn was elected chairman of the board of directors. His visionary leadership, dedication to free market principles, and commitment to improving Texas will be a great asset to the Foundation.



The following pages offer a glimpse of our work during 2004. With the help of far-seeing Texans, much was achieved, milestones reached, and the groundwork laid for future reform. Most joyful of milestones was the celebration of our 15th anniversary – in Dallas with Governor Rick Perry, in Houston with Senator John Cornyn, and in San Antonio with native Texan and Colorado Governor Bill Owens. Not all milestones were joyful, however. We lost one of our founding leaders, Tex Lezar, who will be sorely missed for his dedication to the Foundation and commitment to improving Texas.

As the Foundation tackled the challenges of 2004, we remained true to our core principles and committed to translating these principles into reality. The future is exciting and the road ahead is paved with opportunity for a freer, more prosperous Texas. We thank you for being part of our work and look forward to another incredible year. It is truly an honor to serve this great state and uphold the principles in which we so passionately believe.

For Texas,

A handwritten signature in cursive script, reading "Brooke Leslie Rollins".

Brooke Leslie Rollins

President of the Texas Public Policy Foundation

Lieutenant Governor David Dewhurst, Foundation Board Members Brenda Pejovich and Vance Miller, and Foundation Vice President Michael Quinn Sullivan at the 2nd Annual Policy Orientation for the Texas Legislature.



# IDEAS INTO ACTION

## In 2004 the Texas Public Policy Foundation:

was invited to testify nine times before the Legislature during the 30-day special session on school finance, including once before the full Senate

was featured in over 500 radio interviews and news publications, including *Time* magazine and all major Texas newspapers, for an estimated ad equivalency of \$4.8 million

distributed 28 newspaper commentaries to media outlets large and small, all of which were published, many multiple times

sent representatives to speak about the Foundation's work and free-market ideas at 30 separate events across the state

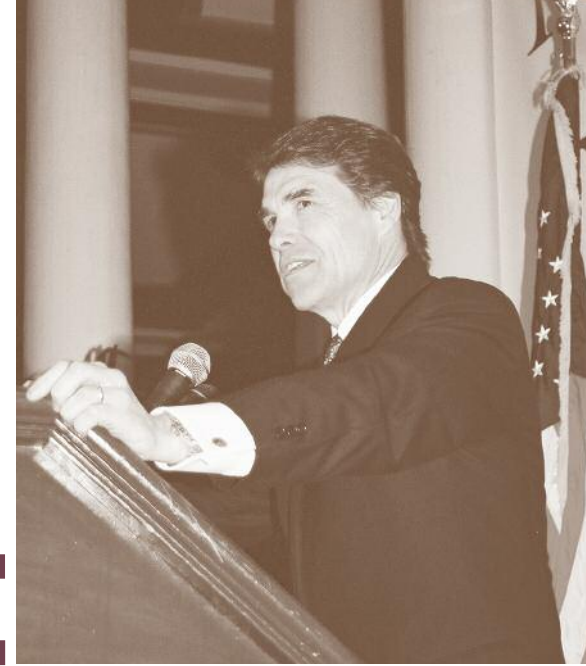
published 33 papers and compilations on the widest variety of subjects in its history, from water policy and taxes, to education and Medicaid

welcomed over 151,000 unique visitors to its website, [www.TexasPolicy.com](http://www.TexasPolicy.com)

released its first outreach video *Ideas Into Action* discussing research and organizational history

updated over 2,800 subscribers to its electronic newsletter, *Texas Public Policy News (TPPN)*, on the latest Foundation research and events

The *Houston Chronicle* pictured Governor Perry addressing the Policy Orientation. He was one of more than 63 elected officials to take part in the event.



# IMPACTING THE DEBATE

## Taxes and Spending

Throughout 2004, the Texas Public Policy Foundation continued to champion lower taxes and fiscal responsibility. Beginning with the Policy Orientation and leading up to the special session on school finance, the Foundation led public debate, advocated free market solutions, and armed decision-makers with the “intellectual ammunition” they needed to create sound fiscal policy.

Our work to improve tax and spending policy was off to a fast start in 2004. In January, the Foundation conducted the 2nd Annual Policy Orientation for the Texas Legislature. State and national experts gathered to discuss the need to prioritize spending and increase efficiency of health care and education spending. These discussions framed the long running debate on education funding and spending that ultimately carried over into the special session.

In the weeks and months leading up to the special session on school finance, the Foundation met repeatedly with lawmakers and their staff in an effort to educate them about the economic dangers of taxes on personal income and “business activity.” The Foundation produced numerous research reports providing legislators with the in-depth analysis and practical recommendations they needed to make informed,

fact-based policy decisions. This research covered key tax and spending issues including: tax modeling, sales tax increases, payroll tax, income tax, property tax reductions, business activity tax, and corporate tax burden. As the session unfolded, the Foundation was able to successfully forestall implementation of both types of taxes – and indeed the session saw both items all but rejected by legislators.

One of the Foundation’s most significant long-term contributions to state finance policy was unveiled at the Policy Orientation: Texas-STAMP, a computerized modeling program that we commissioned to be constructed by the Beacon Hill Institute. Byron Schlomach, the Foundation’s Chief Economist, uses this model to educate legislators, one-on-one, how changes in tax policy affect everything from employment and migration to sales and investments. The Foundation used this model to educate policymakers about the detrimental effects of legislation proposed through 2004, including a state income tax and a payroll tax, as well as the impact of altering sales and property taxation.

As policymakers prepared for the 79th Texas Legislature set to begin January 2005, the Foundation helped define the key issues and solutions with the introduction of its Policy Primer Series. In October, we opened this new program with, “A New

Approach to Taxes in Texas.” The sold-out event brought legislators and policy experts together to discuss real solutions to tax and spending problems in the state’s budget.

By the close of 2004, the Foundation laid a strong groundwork for fiscal challenges that would confront Texans in 2005. Our tireless efforts – mining the research, working one-on-one with legislators, generating the collaboration, and creating the momentum –culminated in March 2005 with the passage of House Bill 3, legislation that expanded reliance on consumption-based taxes for funding state services.

### School Finance & Education Reform

It was in 2004 that the decade-long simmering debate about how best to fund Texas schools and reform the current education system boiled over. The governor called a special session of the Texas legislature and the Foundation was there. Because the debate juxtaposes two of the Foundation’s top priorities – education and taxes – we moved to the forefront of this debate, prioritizing the most critical issues, keeping free market principles as the lodestone for reform, and providing practical solutions to our state’s education crisis.

Our 2nd Annual Policy Orientation for Legislators played a key role in shaping the agenda for the 2004 special session on school finance reform. We engaged leading state and national school finance experts in developing innovative plans to replace “Robin Hood.” House Appropriations Chairman, Representative Talmadge Heflin moderated a spirited panel on the evaluation of public education spending with Dr. Eric Hanushek of the Hoover Institution, Dr. Richard Vedder of Ohio University, Harrison Keller of House Speaker Tom Craddick’s office, and Drew Scheberle of the Texas Business and Education Coalition. State Representative Glenn Lewis moderated an equally spirited panel on school choice as an alternative mechanism for funding public education with Dr. Paul Peterson of Harvard University, Dr. Carolyn Hoxby of Harvard University, and Dr. Catherine Clark of the Texas Association of School Boards.

The Foundation produced a series of 18 research reports to prepare Legislators to make careful, informed decisions during the special session. These reports provided detailed



State Representative Jerry Madden, then the chairman of the House Committee on State Affairs, makes a point at Policy Orientation.



State Representative Kent Grusendorf, chairman of the House Public Education Committee, tackles the school funding debate at the 2nd Annual Policy Orientation.



State Representative Fred Hill, chairman of the Local Government Ways and Means Committee, asks a question during the school choice panel at Policy Orientation.

**“TPPF is a credible source which the legislature depends on in its decision-making.”**

**—State Representative  
Dianne White Delisi  
Chair, Select State  
Health Care Expenditures**

analyses and practical, market-based policy recommendations on key education reform issues, including: school spending, the relationship between school spending and student learning, school debt, and school choice as the most efficient, effective vehicle for funding public education. These reports were hand-delivered to legislative offices and one-on-one meetings were conducted with legislators and staff throughout the session.

At numerous times during the session, legislators invited Byron Schломach, the Foundation's Chief Economist, and Research Director Chris Patterson to provide testimony before the Joint Select Committee on School Finance and the House Select Committee on School Finance. Their testimony equipped legislators with the findings of the Foundation's research on efficient, effective spending and linkages between finance and educational outcomes. Patterson was later invited to testify before the full Senate, on the Senate floor.

As the special session was underway, the Foundation hosted lawmakers in a discussion on needed reforms for both taxes and education spending. The event was highlighted with a dinner keynote address by author and *Wall Street Journal* editorial writer John Fund, who discussed the importance of Texas keeping its low-tax reputation in the arena of economic growth and job creation.

The Foundation's 15-year effort to advance school choice paid dividends in 2004. Linking choice with the efficient investment of education dollars, policymakers incorporated the alternative delivery of education services into school finance reform during the legislature's special sessions. Although the special sessions did not culminate in creation of a new school finance system, many reforms, such as vouchers, took on new vigor and were carried forward into the 79th Legislature.

Toward the end of 2004, Chris Patterson, the Foundation's Director of Research and noted education expert, worked with the Governor's Business Council to help craft a proposal which would eventually become the nucleus for the 79th Legislature's education reform omnibus (House Bill 2).

The Foundation's contributions – raising standards of performance, strengthening accountability, private sector solutions for failing schools, and vouchers for disadvantaged students – helped chart the state's plan for improving public education in Texas – insuring a brighter Texas for future generations.

### 2004 School Finance Debate : A Snapshot of Foundation Activities

**Oct. 2003:** Leading up to the 2004 special session, the Foundation begins to publish a public education research agenda.

**Jan. 2004:** With a special session on public education reform looming, the Foundation accelerates its public education research agenda adding papers: "Putting the Sides Together," by the Texas Public Policy Foundation, "Effective, Efficient, Fair," by Richard Vedder Ph.D., "Texas-STAMP," by Beacon Hill Institute, "The Business Activity Tax," by Byron Schломach, Ph.D. & Richard Vedder, Ph.D., "Building For The Future," by Byron Schломach, Ph.D. and Wendell Cox, and "Choice Is The Best Choice For Texas Education," by Chris Patterson.

**Jan. 2004:** 2nd Annual Policy Orientation for the Texas Legislature was held.

**Feb. – Apr. 2004:** Presented the Foundation's economic model to legislators, educating them on implications of various tax policies.

**Feb. 2004:** Participated in panel discussion with Texas House freshman legislators on "Big 3" tax proposals.

**Mar. 2004:** Participated in Greater Austin Chamber of Commerce panel discussion with Bill Hammond of the Texas Association of Business and Rob Mosbacher on school finance reform.

**Mar. 2004:** Foundation experts testify before Joint Select Committee on School Finance.

**Mar. 2004:** Foundation's chief economist meets with other economists, State Representative Kent Grusendorf, and Governor's office regarding tax options.

**Apr. 2004:** Foundation experts testify before Senate Finance Committee on efficacy of sales tax.

**Apr. 2004:** State Representative Fred Hill calls Foundation experts to testify on school facilities and provide recommendations for more efficient, effective school funding practices.

**Apr. 2004:** Educated numerous legislators on: 1) the adequacy of current levels of school funding, 2) faults with the House's adequacy study, and 3) the need to focus on consumption taxes rather than business taxes.

**May 2004:** Director of Research Chris Patterson testifies before the Texas Senate.

**May 2004:** Special session ends with no resolution.

Research director Chris Patterson led the discussion on expanded consumer choice in medicine at the December Policy Primer on health care spending.



# MORE SOLUTIONS, MORE SUCCESSES

While education reform, school finance, and fiscal policy remained at the forefront of the Foundation's agenda, we also answered the call for research and policy analysis in other areas such as health care, water, and transportation. In these areas, the Foundation laid the groundwork for 2004 that decision makers would need to keep Texas on the path of economic freedom and prosperity.

## Health Care

2004 got a healthy start at our Policy Orientation for the Texas Legislature, which featured a panel on "Controlling Health Care Costs," moderated by State Representative Dianne White Delisi. Representative Delisi led a discussion among Agriculture Commissioner Susan Combs, Chris Britton of Employee Partners, Anne Dunkelberg of the Center for Public Policy Priorities, and Haavi Morreim of the University of Tennessee on how best to keep entitlement program expenses from skyrocketing while still caring for the neediest of Texans.

In December we expanded on the Policy Orientation conversation at our Policy Primer "Medicaid: \$28 Billion and Counting." Panels on the Children's Health Insurance Program (CHIP) and Medicaid spending were moderated by Foundation

Research Director Chris Patterson. Participants included Representative Myra Crownover, Representative Dianne White Delisi, Victoria Ford of the Office of the Governor, Dr. Michael Bond of the Buckeye Institute, Dr. Devon Herrick of the National Center for Policy Analysis, and Dr. John Goodman of the National Center for Policy Analysis.

- Widely released staff newspaper commentaries by President Brooke Rollins and Chris Patterson succinctly made the case for infusions of truthfulness and discussion of choice in the health care debate.
- Chris Patterson testified before the Senate Health and Human Services Committee and the House Select Committee on State Health Care Expenditures.
- Major media outlets, including the *Fort Worth Star-Telegram* and the *Austin American-Statesman* called upon senior Foundation staff to provide comment on the latest developments in health care spending.

## Water

One of our most requested papers of the year covered water policy. In *Choppy Waters: Understanding the Challenges to Texas Water Policy*, three current and former state officials examined the water-supply dilemma, a problem that will continue to swell until reforms make the market for water look more like the market for any other commodity. In *Hold the Salt: The Promise of Desalination for Texas*, Dr. James C. Smith addressed a practice that could greatly increase water supply that is commonly used elsewhere but underutilized in the United States.

Time was also allotted to this important issue at Policy Orientation, with Land Commissioner Jerry Patterson moderating a panel on “Water for the 21st Century” that included Senator Frank Madla, Senator Robert Puente, former Senator J.E. “Buster” Brown, and Milton Holloway of Resource Economics, Inc.

## Transportation

In 2004 the Foundation paved the way toward a new way of thinking about transportation and mobility in Texas. The realities of finite resources for road-building and individuals’ insistence on using personal automobiles, require serious thought about changing the way transportation projects are funded.

- State Representative Mike Krusee and transportation experts Wendell Cox and Shirley Ybarra served on a lively panel, “Transportation: Containing Congestion,” at the 2nd Annual Policy Orientation for the Texas Legislature.
- The Foundation released *Great Rail Disasters: The Impact of Rail Transit on Urban Livability* by panelist and Foundation senior fellow Randal O’Toole.
- Chief Economist Byron Schlomach researched and drafted a major research report on state transportation policy that will call for increased use of tolls and decreased emphasis on public transit. The paper will be released in early 2005.

## Austin American-Statesman

Brooke Rollins and John Cotyandro  
LOCAL CONTRIBUTORS

### The left’s shrill distortions are clouding CHIP debate

Aided and abetted by Comptroller Carole Keeton Strayhorn, the left has been issuing a shrill cry about the fate of the Children’s Health Insurance Program. The essence of the complaint is that as a result of House Bill 2292, signed by Gov. Rick Perry, thousands of children would be left without access to CHIP—forcing children back onto the rolls of the uninsured.

In an open letter to the governor on Aug. 25, the comptroller writes accusatorily: “Since last September, 147,525 children have been dropped off health insurance rolls because of measures you signed into law. This new means testing — which I say is nothing more than a mean test — will certainly further jeopardize innocent children’s health.”

Of course, the “innocence” of the children is irrelevant, but it lends the distortive element of emotion to the debate. As we all know, doing anything in the name of children gives one license to hold any position no matter how untenable or untrue.

The left has actively opposed the “Personal Responsibility Agree-

servatives and castigating what has shown to be an ill-conceived program. A new report demonstrates billions in new dollars spent and CHIP, the number one program America continues to fund, has failed.

The comptroller, the rest of the ideological left, and the rest of the ideological left, there is a defensible position in regards to health care, as Texas Sen. John Cornyn has honorably articulated.

COMING SUNDAY  
In an editorial, the Austin American-Statesman defends the Health Insurance Program.

But tossing about insincere sound argument, with sanctimonious and shrill a legitimate debate showing match.

To better serve a public, the comptroller and the S

## Star-Telegram

WWW.DFW.COM

### Report urges cities to stop light rail in its tracks

Are commuter trains and light-rail lines a traffic cure or a boondoggle?

Many elected leaders in Dallas-Fort Worth have pledged support for a regionwide train system that would connect six counties.

Building and operating the system would cost an estimated \$791 million a year and might require a regionwide sales tax increase.

That’s not a smart use of transportation dollars, according to the Texas Public Policy Foundation, an Austin-based political institute. The foundation, which published a report last week titled *Great Rail Disasters*, is strongly urging leaders in cities across the United States to stop investing in rail.

According to the study: ■ Every \$13 spent on trains does less to alleviate traffic than \$1 spent on roads.

■ Many regions spend 80 percent of their transportation capital budgets on transit systems that carry less than 4 percent of the passengers.

funding makes it impossible to remove highway bottlenecks and leads to growing congestion,” Randal O’Toole, the study’s author, said in a news release.

■ Trains have a reputation for reducing air pollution but, in many cases, are worse polluters than automobiles. In some metropolitan areas, including Dallas-Fort Worth, air quality would improve if rail riders were instead commuting in their own automobiles, the study argues.

■ Rail lines almost always cost more to build and operate than originally planned and wind up carrying far fewer riders than initially projected.

■ Death rates per passenger mile are higher on trains than automobiles and buses.

“Cities that have avoided rail should continue to do so; rail transit is a disaster,” O’Toole said in the release.

To read *Great Rail Disasters*, visit the Texas Public Policy Foundation online at [www.texaspolicy.com](http://www.texaspolicy.com).

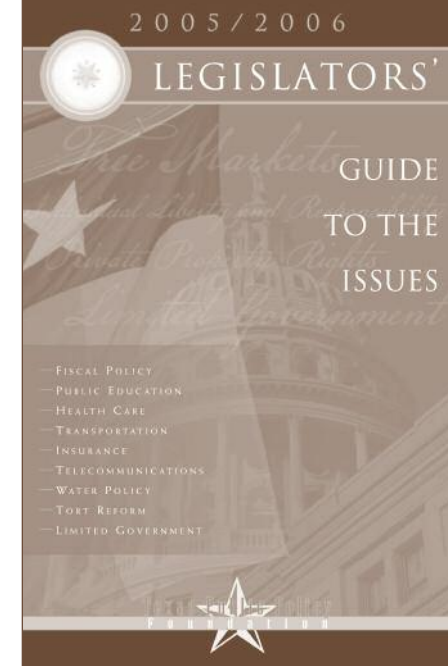
— Gordon Dickson



Foundation chief economist Byron Schlomach leads a panel discussion on transportation issues at the 2nd Annual Policy Orientation for the Texas Legislature. Panelists included Rep. Mike Krusee, Chairman of the House Transportation Committee.



2005-2006 Legislators' Guide to the Issues, edited by Chris Patterson (December). The Foundation's 2005-2006 Guide to the Issues covers the critical matters the 79th Texas Legislature will face—everything from asbestos litigation reform and telecommunications policy to school finance and health care. Two to four pages are devoted to every subject, with policy facts, recommendations, and resources following a concise description of each issue.



# RESEARCH AND PUBLICATIONS THAT STEER POLICY DISCUSSIONS IN TEXAS

The Foundation issues a variety of publications each year in our effort to inform lawmakers and the public. Our in-depth academic examinations of particular issues are Research Reports, while the shorter Policy Perspectives hit on the most important aspects of a topic and serve as the template for committee testimony. We also publish *Veritas*, a newsletter that pulls together concise versions of our research as well as original content.

Without exception, we hand deliver each publication to every office in the Capitol. And to each paper, we attach a card of “Pocket Facts,” a postcard-sized, bulleted list of the most important information and recommendations found in the paper—perfect for busy legislators and staffers.

All publications are available on our website, [www.TexasPolicy.com](http://www.TexasPolicy.com). To obtain a hard copy, simply call (512) 472-2700.

The Foundation also publishes a bi-weekly e-newsletter, *Texas Public Policy News (TPPN)*. To subscribe, visit [www.TexasPolicy.com](http://www.TexasPolicy.com).



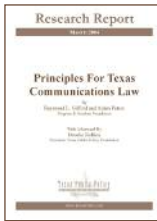
**Splitting the Difference: Residential and Business Property Taxes in Texas, by Byron Schlomach (January).**

This Research Report examines the pros and cons of taxing business and residential property at different rates—known as a split tax roll.



**Effective, Efficient, Fair: Paying for Public Education in Texas, by Richard Vedder and Joshua Hall (February).**

This comprehensive Research Report explores better ways to deliver education in Texas, and the competing proposals to fund Texas education. This study offers insights into the importance of money, funding sources, and resource allocation in improving student achievement.



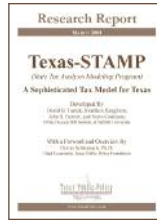
**Principles for Texas Communications Law, by Raymond L. Gifford and Adam Peters (March).**

A free-market perspective is brought to the telecommunications debate as Texas lawmakers look to overhaul the agency that oversees telecommunications regulation in the state—and therefore the regulations themselves.



**Putting the Sides Together: School Choice in Texas? Edited and introduced by Chris Patterson (March).**

Co-published with the Milton and Rose D. Friedman Foundation, this book explores the contentious issue of school choice and the role it can play in Texas' debate on school finance reform. Nine authors from both sides of the issue present their ideas.



**Texas-STAMP: A Sophisticated Tax Model for Texas, by David G. Tuerck et al. (March).**

The benefits and costs of changing the state tax code may now be estimated by a dynamic computer program, developed for the Foundation by the Beacon Hill Institute at Suffolk University.

Texas-STAMP provides highly detailed information about the effects of specific tax changes on various aspects of the state economy over a five-year period. Texas-STAMP is the centerpiece of the multi-faceted, comprehensive research initiative on school finance that the Foundation began in 2003.



**Assessing Performance: Spending and Learning in Texas Public Schools, by Sanjiv Jaggia & Vidisha Vachharajani (March).**

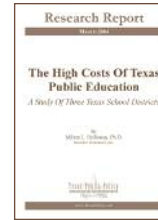
To determine what role funding plays in improving student performance and whether resources really matter, the

Foundation commissioned the Beacon Hill Institute to develop a model for evaluating spending and achievement. Increasing total district spending and across-the-board teacher pay raises do not increase passing rates on state assessments. However, increases in instructional spending do pay off in higher student performance.



**Effects of "Crowd Out," by Chris Patterson (outline of March testimony before the Select Committee on State Health Care Expenditures).**

Printed as a Policy Perspective, Patterson's testimony outlines problems with government-subsidized insurance—in this case the Children's Health Insurance Program—competing with private sector coverage.



**The High Costs of Texas Public Education: A Study of Three Texas School Districts, by Milton L. Holloway (March).**

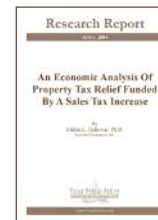
This Research Report investigates the regulatory and financial incentives driving up expenditures and examines the fiscal accountability of school districts to taxpayers. Holloway finds that three schools' accounting systems were not designed to differentiate between required spending and discretionary spending, calling into question claims that public schools have insufficient funds to offer core instructional programs.



**Building for the Future: A Look at School Facilities Funding in Texas, by Byron Schlomach with Wendell Cox (April).**

Because school facilities taxes are part of many taxpayers' total school property tax bill, the way facilities are funded should be a fundamental part of comprehensive school finance reform.

This Research Report examines how the growing investment of state tax dollars to help local school districts pay off facilities debt lends particular urgency to the need for state policymakers to establish standards, accountability, and controls for the debt that local school districts elect to incur.



**An Economic Analysis of Property Tax Relief Funded by a Sales Tax Increase, by Milton L. Holloway (April).**

With a number of tax structure modification alternatives under consideration in Texas, one alternative is to fund a property tax reduction with an increase in the sales tax. This paper analyzes five alternative scenarios.



**Individual Education Plan: The Case for Choice for Texas Students with Disabilities, by Matthew Ladner (April).**

This study finds that during the 2002-03 school year, 11.6 percent of Texas public school children were enrolled in special education programs. Statewide

there was an average of just over \$3,900 in additional spending per special education student. The author finds that the available evidence on school voucher programs establishes that private schools are willing to serve special needs students and are already doing so in existing voucher programs.



**General Principles for Conservatives: School Finance, Education Spending and Taxation, by the Texas Public Policy Foundation and the Texas Conservative Coalition Research Institute (April).**

A bullet-point examination of the principles that should guide the debate on

public school finance reform.



**Four Myths of Public School Finance, by the Texas Public Policy Foundation and the Texas Conservative Coalition Research Institute (April).**

This brief publication concisely dispels four of the most common misconceptions about taxes and public education

in Texas. The myths are: a) businesses pay taxes, b) equity should be the foundation of school finances, c) the system is in dire need of more money, and d) the state needs a new system of taxation because the current system cannot adequately fund education.



**Weighing the Difference: An Evaluation of the Unequal Burden of State Taxes for Texas Businesses, by Milton L. Holloway (May).**

Businesses bearing the highest tax burdens pay more than twice the taxes levied on the group of businesses pay-

ing the lowest taxes, this report shows. While Texas ranks well overall among the states in the level of total taxation per gross state product, some businesses pay more taxes in Texas than do businesses in many other states.



**The Lack of Competition in Delinquent Property Tax Collections, by Byron Schlomach with Aaron Gibson (May).**

While no one likes paying taxes—and taxes need to be kept as low as possible—tax collections must be enforced to ensure honest government. This

study by the Foundation's chief economist explores a market-based option for improving tax collections without increasing costs to the taxpayer.



**Texas Payroll Tax: Searching for New Revenues to Fund Public Schools, by John Barrett (May).**

This Policy Perspective examines the viability of creating a payroll tax to fund Texas public schools. Payroll taxes, the author finds, are damaging to businesses, employees, and citizens—increasing the cost of doing business, reducing employment, depressing wages, reducing economic competitiveness, and obstructing economic growth.



**Paying For Education: What Is the True Cost? by Chris Patterson (May).**

This study evaluates how Texas public schools are meeting the challenge of educating children today, while considering the cost of public education out-

comes on the lives of individual Texans, their communities, and the state economy. The evidence is compelling that many Texas public schools are failing the public trust. Despite decades of reform, massive infusions of funds, aggressive efforts by policymakers, and the steady commitment of educators, there has been no significant improvement in academic proficiency of high school graduates, no closure of the achievement gap, and no increase in high school graduation rates.



**Veritas (May).**

Issue themed "Facts, Findings, and Figures" is designed as a handy guide to the Foundation's school finance research.



**Choice Is the Best Choice for Texas Education, by Chris Patterson (June).**

This brief look at the decade of experiments and pilot programs devoted to school choice concludes that choice works for all children.



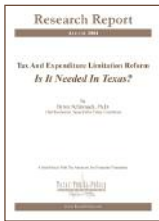
**Great Rail Disasters: Impact of Rail Transit on Urban Livability, by Randal O'Toole (June).**

This report chronicles how the stam-  
pede to plan and build rail transit lines  
in American cities has led to a series of  
financial and mobility disasters.



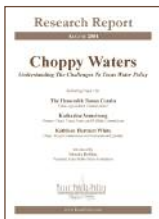
**The Adequacy Study's School District Ranking: What It Adds to What We Already Know, by Byron Schломach (July).**

The Texas Legislature's "Adequacy  
Study" is the best analysis available to  
inform a redesign of the state's current  
school finance system, but neither it  
nor any other study can justify a claim that more money  
is required for improvement in Texas' education system,  
this short synopsis says.



**Tax and Expenditure Limitation Reform: Is It Needed in Texas? by Byron Schломach (August).**

Tax and expenditure limits—legal lim-  
its on how fast government spending  
and taxes can grow each year based on  
some measure of economic activity—  
have received increasing attention in the wake of the  
successful Colorado Taxpayers' Bill of Rights. Not all  
tax and expenditure limitation measures are created  
equal: Texas' is one of the least effective in the nation.



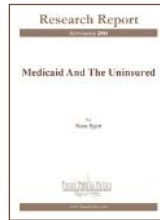
**Choppy Waters: Understanding the Challenges to Texas Water Policy, by Susan Combs, Katharine Armstrong, and Kathleen Hartnett White (August).**

Three papers original to the  
Foundation explore the history of the  
state's water policy while examining  
how the market can better meet the ever-increasing  
demands for water.



**Implementation of Property and Casualty Filing Requirements, by Chris Patterson (originally a presentation to the Texas Department of Insurance and the Office of Public Insurance Council at an open meeting in September).**

Recommendations are made for contin-  
uing improvements to the state's insurance market fol-  
lowing reforms implemented by the 78th Legislature.



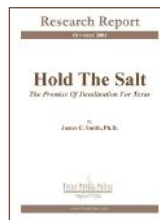
**Medicaid and the Uninsured, by Beau Egert (September).**

Without reform, Medicaid threatens to  
consume an ever increasing share of the  
state budget, potentially jeopardizing  
every other important service. In addi-  
tion to recommending changes to the  
Medicaid program, this report calls for incentives to  
encourage small businesses to provide health insurance  
for employees.



**Veritas (September).**

This issue features writings by Maurice  
McTigue on limiting government and  
Byron Schломach on taxes, among  
others.



**Hold the Salt: The Promise of Desalination for Texas, by James C. Smith (October).**

The possibility of mitigating future  
water shortages through desalination—  
producing drinking water from seawater  
or brackish groundwater—is  
explored and critiqued.



**Health Savings Accounts: Defining the Future of Health Care for Texans, by Devon M. Herrick (November).**

Most Americans pay very little—only  
about 15 percent—of their own health  
care costs, and generous "all you can  
eat buffet" insurance plans offer a  
strong incentive to maximize payouts from insurance  
providers. This Policy Perspective explains not only  
why such plans are good for individuals, but also why  
they should be considered as a way to improve care and  
reduce costs for Medicaid beneficiaries and government  
employees.



**Deregulation, Pricing, and Availability: Issues in the Texas Homeowners' Insurance Market, by Patrick Brockett and Patricia M. Arnold (December).**

In the context of the homeowners'  
insurance market as a whole, this paper  
examines the hoped-for positive out-  
comes and potential pitfalls of SB 14, a new law that  
includes a provision for "subsequent disapproval" rul-  
ings by the insurance commissioner.

Foundation Vice President Michael Quinn Sullivan (left to right), President Brooke Rollins, Colorado Governor Bill Owens, and Mark Rollins share a laugh at October's Policy Primer "A New Take on Taxes in Texas."



# EVENTS AND ACTIVITIES

The Foundation continued to advance its core principles of free markets, individual liberty, and personal responsibility in 2004 with events across Texas.

## Legislative Briefing on School Finance Reform

On the night before the 2nd Annual Policy Orientation was to open, the Foundation co-sponsored a program with the Texas Conservative Coalition Research Institute (TCCRI) to educate Texas legislators about critical issues in school finance. This legislator-only event drew 25 legislators for an in depth discussion on school finance reform, led by State Senator Florence Shapiro and State Representative Kent Grusendorf, respective Chairs of the Senate and House Education Committees.

## 2nd Annual Policy Orientation for the Texas Legislature

We started the year at a sprint with our sold-out, standing-room-only 2nd Annual Policy Orientation for the Texas Legislature. This two-day symposium held January 28-29 in Austin, put school finance and tax policy front and center — a highly relevant focus given the special legislative session on school finance held just a few months later. Once again, the Policy Orientation provided a comprehensive overview of issues facing the state, and 63 elected officials attended. Eighteen incumbent state officials, including the governor and lieutenant governor, as well as independent pol-

icy experts from businesses, think tanks, and universities across the nation addressed the audience.

## Evaluating School Finance Options

The Foundation once again teamed up with the Texas Conservative Coalition Research Institute (TCCRI) for this two-panel discussion, "Evaluating School Finance Options." The revenue panel included Mike Toomey, Chief of Staff to Governor Rick Perry, Bruce Gibson, Chief of Staff to Lt. Governor David Dewhurst, and the Foundation's Byron Schlomach, Chief Economist.

The spending panel featured Chris Patterson, Director of Research for the Foundation and Catherine Clark, Associate Executive Director of the Texas Association of School Boards.

Following the panel discussions, John Fund, columnist for the *Wall Street Journal*, delivered the dinner keynote focusing on school finance reform—cultivating new ideas and solutions to address the crisis.

## Lunch with John Stossel in Dallas

The Foundation was privileged to co-sponsor a lunch with John Stossel, co-anchor of ABC's *20/20*, and author of "Give Me A Break." Stossel didn't pull any punches when making his case for less government regulation and more free market solutions in his speech to a sold-out crowd at this June luncheon in Dallas.

## The Policy Primer Series for the Texas Legislature

Building on the success of the Policy Orientation, in 2004 we launched the Policy Primer Series for the Texas Legislature. Policy Primers probe a particular issue over the course of a half day. At our inaugural Policy Primer, held in October in Austin, we examined taxes with the help of panelists Jon Caldara of the Independence Institute, Dr. Richard Vedder of Ohio University, Senator Kyle Janek, and Representative Linda Harper-Brown, among others. Colorado Governor Bill Owens was the keynote dinner speaker, and John Fund of the *Wall Street Journal* editorial board offered special introductory remarks.

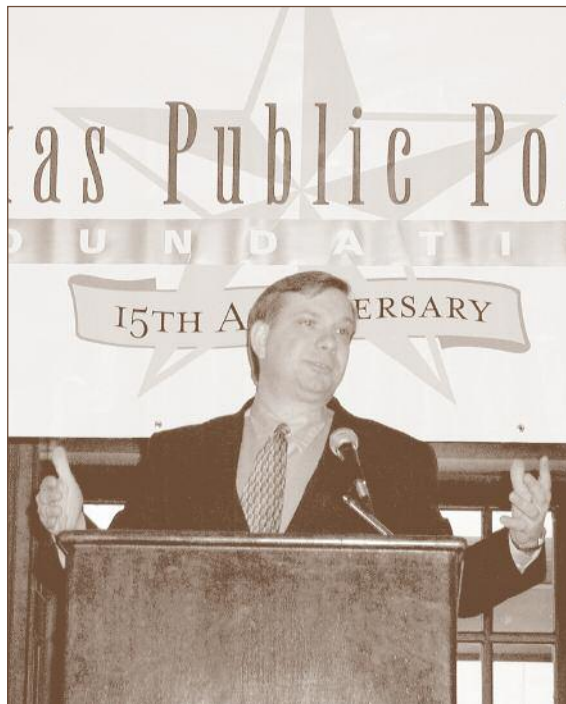
December's Primer tackled the hot-button topic of health care. Stephen Moore, president of the Washington, D.C.-based Club for Growth, gave the national perspective on Medicaid and government spending in a keynote luncheon address, while experts including Representative Dianne White Delisi, Representative Myra Crownover, and Dr. Devon Herrick and Dr. John Goodman, both of the National Center for Policy Analysis, gave panel presentations on Medicaid and the Children's Health Insurance Program.



State Representative Larry Taylor asks a question at our December Policy Primer, "Medicaid: \$28 Billion and Counting."



At a Foundation-sponsored lunch in June, *20/20* co-anchor John Stossel spoke to a standing-room-only audience that included several state representatives.



John Fund, *Wall Street Journal* columnist, delivers the dinner keynote address after the panel discussion, "Evaluating School Finance Options."



Jon Caldara, president of the Independent Institute in Colorado, explained the merits of strict tax and expenditure limitation laws at the Foundation's October Policy Primer, "A New Take on Taxes in Texas."

# FINANCES

The Foundation holds itself to the same high standards of fiscal responsibility as we do state government. Because we are entrusted with the contributions of hundreds of individuals, giving foundations and businesses who understand the importance of our work, we are watchful of every penny we spend on their behalf.

The addition of one development associate saw a significant return on investment, as our fundraising efforts resulted in a 20 percent increase over 2003. This financial growth is crucial and allowed us to more than double our research product – allowing for more in depth examinations into critical policy issues.

As we move forward, we will continue to reject government funding in exchange for an independent, unbiased, objective voice. We will continue to question all expenses responsibly and make investments only when the result will directly impact our mission.

It is equally important to approach our funding with an eye toward financial stability. We continuously work to bring new donors to the fold, and not become overly dependent on one donor group.

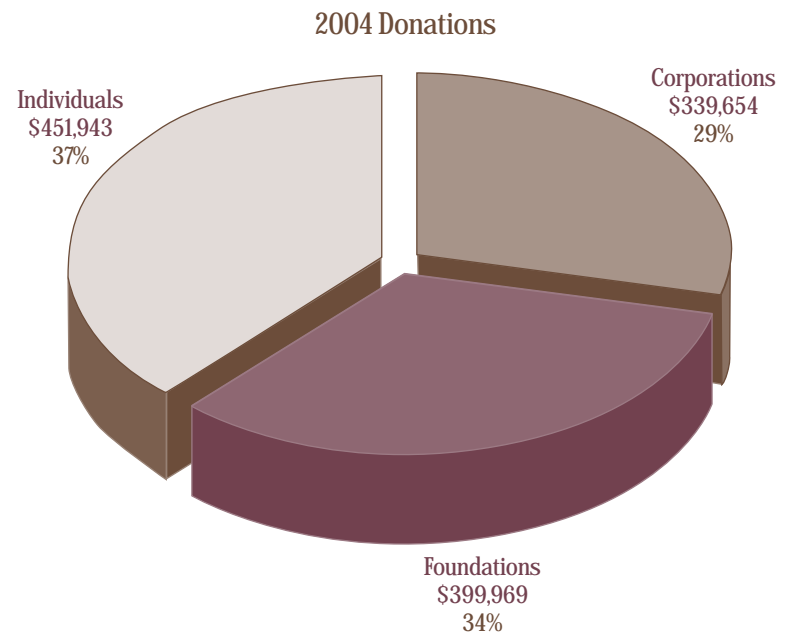
Our success is due to the strength and commitment of our donors, who are working to improve our state to the betterment of over 22.5 million Texans.



## Thank You from the Texas Public Policy Foundation Staff

Bottom row from left: Nate Thompson, Director of Operations; Shari Hanrahan, Director of Development; Michael Quinn Sullivan, Vice President; Chris Patterson, Director of Research; George Hernandez, Development Associate

Top row from left: Kathleen O'Hearn, Spring 2005 Intern; Bill Peacock, Economic Policy Analyst; Mary Katherine Stout, Health Care Policy Analyst; Brooke Rollins, President; Byron Schlomach, Chief Economist; Stephanie Lyles, Spring 2005 Intern



# JOIN THE FIGHT FOR A FREER, MORE PROSPEROUS TEXAS

YES! I believe our elected leaders need comprehensive, Texas-specific research on policy issues critical to the Lone Star State.

To maximize the impact of your contribution, please identify areas of personal interest:

- |  |   |   |
|--|---|---|
| <input type="checkbox"/> Children & Families | <input type="checkbox"/> Regulatory Policy  | <input type="checkbox"/> Taxes                  |
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 E-mail: \_\_\_\_\_ Fax: \_\_\_\_\_ Please accept my:  Personal check  Corporate check  
 Please bill my:  MC  Visa  Amex Card #: \_\_\_\_\_ Exp.: \_\_\_\_\_  
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The Texas Public Policy Foundation is a non-profit, non-partisan research institute that accepts no government funds, relying solely on voluntary support from individuals, foundations, and businesses. Contributions are tax-deductible under Section 501(c)3 of the Internal Revenue Code. Remember, your greatest benefit of supporting the Foundation will be a better Texas. For more information call (512) 472-2700 or visit [www.TexasPolicy.com](http://www.TexasPolicy.com).

I am joining at the following level:

- Student Patriot
- Patriot
- Liberty Circle
- Leadership Council
- Capitol Council
- 1876 Society
- Founders Circle

**Student Patriot: \$25** Receive all "Patriot" category benefits described below. For undergraduate and graduate students who contribute \$25 per year.

**Patriot: \$100-\$499** Receive *Veritas* policy newsletter, summaries of Foundation research reports, and bi-weekly *Texas Public Policy News (TPPN)* electronic newsletter.

**Liberty Circle: \$500-\$999** Receive invitations to conferences, workshops, special events, and policy briefings, a personal copy of *The Law* by Frédéric Bastiat, and all Patriot benefits.

**Leadership Council: \$1,000-\$2,499** Receive all Foundation publications, the Texas Public Policy Foundation lapel pin, invitations to conferences, workshops, special events and policy briefings, a personal copy of *The Law* by Frédéric Bastiat, and all Patriot benefits.

**Capitol Council: \$2,500-\$4,999** Receive invitations to private, intimate gatherings with scholars and policymakers, all Foundation publications, the Texas Public Policy Foundation lapel pin, invitations to conferences, workshops, special events and policy briefings, a personal copy of *The Law* by Frédéric Bastiat, and all Patriot benefits.

**1876 Society: \$5,000-\$24,999** Receive invitations to dinners with VIPs and board members, invitations to teleconference discussions on upcoming research, priority communication with the President and Chairman of the Board, invitations to private, intimate gatherings with scholars and policymakers, all Foundation publications, the Texas Public Policy Foundation lapel pin, invitations to conferences, workshops, special events and policy briefings, a personal copy of *The Law* by Frédéric Bastiat, and all Patriot benefits.

**Founders Circle: \$25,000 and above** All of the above plus invitations to special events.



In early 2005, the Foundation moved its offices into this building in the shadow of the Capitol.



# LOOKING AHEAD

The Texas Public Policy Foundation is looking forward to a busy year in 2005, starting with our Third Annual Policy Orientation for the Texas Legislature, which will address the pivotal issues facing state leaders – everything from school finance and health care to transportation and water policy. At the close of the legislative session, we intend to turn the highly successful Policy Primers into monthly events to help keep legislators and their staffs updated on important issues.

Our research agenda is ambitious, taking a hard look at tax reform, education and health care reform, in addition to numerous other areas important to Texans' everyday lives.

We'll also make practical changes in our organization that are designed to expand our influence on state policy. With an eye toward enhancing our role as the primary policy resource for the Texas Legislature, we are adding two policy analysts in early 2005 – one in health care and one in economic freedom. These individuals will be added to our staff to oversee our Center for Health Care Policy Studies and our Center for Economic Freedom – the first two of what will eventually be five policy centers

focusing on specific issues. The policy analysts will keep abreast of the latest happenings in their fields and contribute significantly to our body of research.

Early in the year, the Foundation packed up its home at 5th and Brazos streets and moved closer to the Capitol, to 9th and Congress. Being two blocks from the Capitol is a move that will make a critical difference for a Foundation staffer delivering a report to a legislator, or a legislative assistant stopping by our office for an informal meeting. Our new offices have meeting space to accommodate more than 75 people, allowing us to utilize our own space for small seminars and events.

**“TPPF offers real solutions for real Texans.”**

—Governor Rick Perry

# OUR MISSION

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.

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.

Our Core Principles:

Free Markets

Limited Government

Private Property Rights

Individual Liberty and Personal Responsibility

"I commend the Texas Public Policy Foundation for its excellent work in support of personal liberty and free markets."

— Milton Friedman, Ph.D.  
Nobel Prize in Economics

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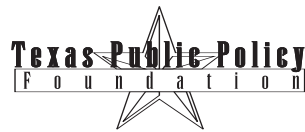
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2004 Annual Report



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