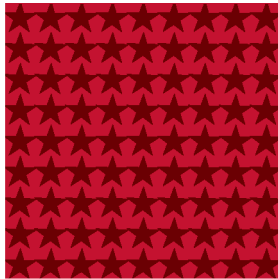


Impact



PROSPERITY
OPPORTUNITY
FREEDOM
JUSTICE

'06



2006 ANNUAL REPORT

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.



Texas Public Policy Foundation Board of Trustees (from left): Thomas “Tim” Lyles, George W. Strake Jr., Brooke Rollins, Dr. Wendy Lee Gramm (front), Dr. James Leininger, Ernest Angelo, Vance Miller (front), Tim Dunn, Ramiro Galindo, Dale Laine, Brenda Pejovich, William “Bill” McMinn, and Bill Jones.

Not pictured: Phil Adams, Jeff Sandefer, Fritz Steiger, and Michael Stevens.

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2006 ANNUAL REPORT

PROSPERITY • OPPORTUNITY • FREEDOM • JUSTICE

“The Texas Public Policy Foundation has brought together specific proposals by some of the nation’s best authorities on the most important issues facing our states.”

President Ronald Reagan



MESSAGE FROM THE PRESIDENT AND CHAIRMAN

“We who live in free market societies believe that growth, prosperity and ultimately human fulfillment, are created from the bottom up, not the government down.”

President Ronald Reagan

THE TEXAS PUBLIC POLICY FOUNDATION was established just one year after Ronald Reagan’s successful presidential terms came to a close, years that saw a restoration of prosperity—“the great, confident roar of American progress and growth and optimism.”

Reagan’s leadership inspired us then, and continues to inspire us today. We include his vision and philosophies throughout this report—and in all aspects of our work—for continued inspiration and guidance.

The Texas Public Policy Foundation’s focus—to allow the will of individuals, and not the heavy hand of government, to improve Texas—is what drives us each day. It drives us to free Texans from government regulations, run-away government spending, the abusive practice of taking private property, the monopoly of public education, injustice in our criminal justice system, and the staggering costs of current health care options.

President Reagan’s leadership continues to be carried on today by your leadership. Your support of the Foundation is a reflection of the success highlighted within. For the past 18 years, we have been reminding policymakers through our research, policy events, and personal meetings that government should have a limited role that promotes opportunity and liberty, rather than one that makes taxpayers a servant to the government. For instance, we wrote in a budget paper that, “There is a duty to taxpayers for lawmakers to ensure tax funds are spent as effectively as possible.” In a health care piece, we pointed out that, “Today’s health

care system needs a strong dose of consumerism and market competition.” With your help, we bring the free market into every policy debate and we are making a real difference.

Although we remain focused on Texas, our successes have earned us national recognition. In addition to being cited by the *Wall Street Journal*, *Washington Times*, *Forbes*, *Time*, and the *New York Sun*, each of our policy centers is nationally acclaimed for its expertise, and our policy events are models for other groups nationwide.

In 2006, Health Care Center director Mary Katherine Stout was invited to participate in the American Legislative Exchange Council’s (ALEC) Health and Human Services Task Force as a voting member of the task force. This will allow Mary Katherine the opportunity to weigh in on model legislation and ideas shaping free market, limited government legislation in Texas, as well as around the country. Our Foundation’s Chief Economist and director of the Center for Fiscal Policy, Byron Schломach, was also afforded this honor as a non-voting member on the ALEC Budget and Taxation Task Force.

Education analyst Jamie Story was quoted extensively in the Fordham Foundation’s national report on school reform, which recognized Texas for the reforms adopted in large part through our recommendations. Through the Foundation’s work, reforms such as an improved high school curriculum, privatization of low-performing schools, and performance-based pay for teachers—all measures recognized by the Fordham report—were adopted by the Legislature in the 2006 special session.

Effective Justice Director Marc Levin's work has been covered in *Business Week* and all major state media. His work on overcriminalization is also being cited and published by the Heritage Foundation in a new book, "Not Just for Criminals," and being used in a national report by the Canadian government.

Our Annual Policy Orientation for the Texas Legislature has become a model event for providing policymakers with a balanced presentation of ideas. Our 4th annual event in January 2006 welcomed over 650 registrants, 60+ of which were legislators and elected officials. With 13 panels of experts (many headed by legislative chairmen) and nationally-recognized keynote speaker Newt Gingrich, the event has earned a reputation as the premier policy event of the year.

As we frame the discussion of the right role for government and provide government with ideas on how it can do its job better, we and the TPPF staff ask ourselves these simple questions while pursuing our work every day:

ARE WE MORE PROSPEROUS? All Texans are within reach of PROSPERITY if government spending can be held in check. Until the Texas Public Policy Foundation demanded that this issue be addressed, run-away spending had been given little attention. This has changed, and our work in the 2006 Special Session on school finance resulted in limits on the growth of local government and increased accountability in government spending. While fighting new taxes, we also saw major victories in tax reforms that provide relief to property owners and a net tax reduction to taxpayers.

ARE WE GAINING INCREASED FREEDOM? We championed economic FREEDOM in Texas by providing policymakers with reliable information on economic, regulatory, and property rights policy by offering policymakers practical, market-

based alternatives to state interference in market transactions. Our ability to examine the issues objectively has earned us "go to" status from lawmakers seeking realistic solutions. We also helped ensure significant momentum for reform in eminent domain abuse by keeping policymakers focused on the severity of the problem.

DOES THIS BRING US MORE OPPORTUNITY? It is OPPORTUNITY for all that lies at the heart of our state and nation. The Texas Public Policy Foundation has been working since 1989 to open educational opportunity to all Texas students by offering free market solutions to our many long-standing education problems. Our tremendous success in broadening educational opportunity in 2006 is unparalleled in our history, impacting everything from interventions in low-performing schools to teacher performance pay. Vast opportunities can also be found in health care reform, where we have taken the lead—both within Texas and as a national force—to avert the health care crisis facing us all. Through a thorough examination of the history of Medicaid to encouraging greater individual ownership in health care, we are dedicated to offering Texans options through principled policy reform.

IS IT JUST? From victims of crime and juvenile offenders, to those who pay the cost of our prison system, we seek JUSTICE for all Texans. We made tremendous progress in 2006 and look forward to reforming a system that is costing Texas hundreds of millions of dollars and millions of productive lives each year.

The impacts we have made can in large part be credited to our independent, academic research. Conducted by both our in-house policy experts and academics around the country, it is highly regarded by legislators on both sides of the aisle. Peer-reviewed for accuracy and clarity, our research is the bedrock of our work, the results of which are distributed personally to each legislative office and discussed through personal meetings and committee testimony.

However, our work goes far beyond research to make the biggest impact. The number of policy events we held in 2006 to educate policymakers on the issues grew substantially. Our website was accessed by 12,000 unique visitors monthly, and our audio podcasting program—Texas PolicyCast—was accessed more than 40,000 times over the year. The Foundation was featured in a growing number of print and broadcast media (reaching over 31 million people) with an equally impressive growth in advertising equivalency, which amounts to an impressive \$6.5 million had the Foundation purchased equivalent space for advertising purposes. Our policy analysts offered speeches and remarks at over 44 functions across the state and nation. Subscribers to our online newsletter, *Texas Public Policy News*, grew to over 6,000 monthly.

Leadership is a large part of the Texas Public Policy Foundation's success. We welcomed George W. Strake Jr. to our board of trustees in 2006. A third-generation Texan born in Houston, Mr. Strake is committed to preserving the freedom of the Lone Star State. Mr. Strake has served our state in many capacities, including Secretary of State in 1979. One of our most prominently-known board members, Mr. Strake has served and continues to serve on countless committees, commissions and boards. His advice, to "Stand for something and apply that leadership to what is important to you" is founded in his belief that "The American founders believed in something and exerted leadership to see it come to fruition." We are so grateful to have him on our team!

New leadership is also coming from within the Foundation. Three department heads were promoted in 2006 to vice president positions based on our firm belief that all staff hiring should be made with future leadership in mind. In 2006, we welcomed Mary Katherine Stout, Vice President of Policy, Bill Peacock, Vice President of Administration, and Shari Hanrahan, Vice President of Outreach to our executive level team.

To take better advantage of the number of Texans who can be reached through news media, we hired Director of Media and Government Relations David Guenther. David's efforts have significantly increased coverage of our work and recommendations. Also new to the Foundation as an education policy analyst is Brooke Dollens Terry, a former Senator Phil Gramm legislative staffer in Washington D.C. We remain convinced that there is no more talented policy team in the country than our staff in Austin.

Each member of the staff has played a role in the success of our Foundation, which is reflected in over 100 percent growth in the last four years. However, there is no question that it is *your* commitment that has made it happen.

Please enjoy this Annual Report as a testament to that commitment.

We believe in advancing the work Ronald Reagan completed just months before our work began. We trust you will continue to believe in it, too. Thank you for your support.



A handwritten signature in blue ink that reads "Brooke Rollins".

Brooke Rollins
President



A handwritten signature in blue ink that reads "William A. McMinn".

William A. "Bill" McMinn
Chairman

Prosperity

“The government’s view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.”
President Ronald Reagan



Byron Schломach, Ph.D., the Foundation’s Chief Economist and Director of the Center for Fiscal Policy, is interviewed by the media following his testimony at the Capitol.

REAL TAX RELIEF. In 2006, the Texas Public Policy Foundation demanded that legislators return to taxpayers—in the form of reduced property taxes—their excess tax dollars paid to the state. We encouraged policymakers to use as much of the state’s budget surplus as possible to fund tax relief. Our voices were heard and the 79th Legislature implemented \$4 billion of future tax relief (per biennium) as part of a plan to reduce property taxes.

APPROPRIATIONS REFORMS. The Foundation was also hard at work in 2006 as a steadfast advocate for fiscal restraint and limited government in the Lone Star State. We

infused the debate with concrete data illustrating how maintaining relatively low levels of taxation and government spending produce higher rates of economic growth and jobs; therefore, a more prosperous

standard of living for all Texans. Our efforts did not go unnoticed and Governor Perry announced a five-part initiative to reform the state’s budget process. Foremost among these reforms was a tightened expenditure growth limit based on population growth and inflation—a reform measure long advocated by the Foundation. Dedicated fund spending reform, increased line-item detail in the budget, posting state agency checkbooks online, and the return of state surpluses to taxpayers are all issues the Foundation has long supported.

Perhaps most significant of all, the Foundation’s President, Brooke Rollins, and Board member, Michael Stevens, served on the Task Force on



The Honorable Talmadge Heflin, Visiting Research Fellow at the Texas Public Policy Foundation, presents at a tax policy event.

Representative Carl Isett takes a question from the audience during a panel discussion hosted by the Foundation.

Appraisal Reform—which championed local government property tax revenue limits as the top reform recommendation.

INCREASING ACCOUNTABILITY.

With the benefit of the Texas Public Policy Foundation’s research to back it up, Senator Tommy Williams filed Senate Bill 18 to increase government spending accountability. The legislation passed, requiring local governments to meet more stringent requirements before spending your money, resulting in a major victory for taxpayers.

We successfully communicated our arguments for sound tax policy by producing 21 reports on fiscal policy issues, 12 newspaper commentaries, and testifying six times before the Legislature. But, we didn’t stop there.

The Foundation welcomed Talmadge Heflin as a Visiting Research Fellow. As former Chair of the House Appropriations Committee, he is highly respected for having balanced a budget in the midst of a \$10 billion shortfall in 2003. He will be an asset in clearly communicating to legislative members the fact that it is not *more* spending that is needed, but spending *reform*.



JOHN BLUNDELL

Waging the War of Ideas

In October, the Foundation brought an international champion of freedom to the Lone Star State. John Blundell, Director General of the Institute of Economic Affairs in England, presented his vision of “Waging the War of Ideas” to a sold-out Policy Primer in Dallas.

As a key advisor to the Thatcher revolution, Blundell provided an insider’s account of one of the most revolutionary leaders of our time.

Recounting the ideas central to the life and legacy of the former Prime Minister—affectionately known as the “Reagan of England”—Blundell emphasized the importance of free-market, liberty-oriented ideas both at home and abroad.

“It is not my intention to do away with government. It is rather to make it work—work with us, not over us; stand by our side, not ride on our back. Government can and must provide opportunity,

not smother it; foster productivity, not stifle it.”

President Ronald Reagan

EDUCATIONAL Opportunity



Jamie Story, education policy analyst in the Foundation's Center for Education Policy, testifies before the Senate Education Committee.

PAYING FOR PERFORMANCE. The Texas Public Policy Foundation has actively led the effort to improve teacher quality by paying Texas teachers based on their performance in the classroom. In November 2005, education policy analysts Chris Patterson and Jamie Story co-wrote “Better Salaries for Teachers in Texas Public Schools,” dubbed “thought-provoking” and “required reading” by the *Dallas Morning News*. To ensure a comprehensive understanding of the issue, we brought together expert analysts during two legislative policy events to debate the merits of a performance-based pay program. The overwhelming response from standing-room only audiences spurred us to initiate a teacher pay

task force, led by Senate Education Chair Florence Shapiro. It gathered legislators, superintendents, teachers, teacher association representatives, and other stakeholders to discuss various options for implementing

performance-based pay for teachers.

During the 2006 Special Session, hundreds of hours of Foundation work came to fruition when the Texas Legislature passed the largest teacher performance pay system in the country. Due largely to the Foundation's efforts, a high-performing teacher may receive a bonus of \$10,000 or more under locally-developed performance pay plans. Given that teacher quality is the largest in-school determinant of student success, it must be the aim of our public schools to attract the best teachers possible—and the Foundation's victory on teacher pay is a monumental step in that direction.



Jamie Story meets with State Representatives Tan Parker and Bryan Hughes at the Capitol.

Stephen Waddell, Ed.D., Superintendent of Birdville ISD and Dr. Shirley J. Neeley, Commissioner of Education at an education Policy Primer.

INCREASING THE VALUE OF THE HIGH SCHOOL DIPLOMA.

For 15 years, the Foundation has advocated for increased rigor of Texas' high school curriculum. In 2006, the Center for Education Policy continued this push with testimony, research, and published commentaries. The work paid off. In the 2006 Special Session, the Legislature acted and added a fourth year of math and science and upheld a more rigorous high school curriculum to ensure future generations have the highest standards in educational opportunity.

FINANCIAL TRANSPARENCY TO PARENTS AND TAXPAYERS.

While Texas collects more education data than almost any state, it is prohibitively difficult to access and comprehend. To create greater transparency in public education, Jamie Story served on a task force to implement better transparency measures—a user-friendly, internet database with portals for parents, educators, students, and other citizens who need clear, accessible school data. We also called for school districts to post their check registers online and this vision came to reality as a number of Texas school districts began posting online—empowering both parents and taxpayers.

INTERVENTIONS IN LOW-PERFORMING SCHOOLS.

Without comprehensive school choice, thousands of students across Texas are held captive in low-performing schools. While the Foundation works constantly to expand school choice, these students need immediate rescue. Recognizing the plight of these students, legislators recently implemented a set of interventions for low-performing schools. After two consecutive years with an “academically unacceptable” rating, a school must be reconstituted and assigned a campus intervention team. If the campus is still rated academically unacceptable a third consecutive year, it may be closed or turned over to management by a private, non-profit organization.

School choice has the power to breathe new life into public education. The Foundation will be steadfast in our efforts to work toward school choice measures that expand educational freedom for all Texans—infusing future generations with true, meaningful educational opportunity.

HEALTH CARE Opportunity

“We don’t have a trillion-dollar debt because we haven’t taxed enough; we have a trillion-dollar debt because we spend too much.”
President Ronald Reagan



The Center for Health Care Policy hosts a Medicaid Breakfast in Milwaukee for like-minded, free market groups across the country. [From left: Michael Cannon, Cato Institute; Mike Bond, Cleveland State University; and Mary Katherine Stout, Texas Public Policy Foundation.]

AVERTING THE HEALTH CARE CRISIS.

Between 1993 and 2003, roughly a third of all new state spending went to support the Medicaid program, and the Texas Health and Human Services Commission has projected it will need an additional \$2 billion to continue to meet current services this biennium. This growth is simply *unsustainable* and the Foundation has been working to craft a solution to this coming crisis by laying out the principles and plan for reform.

To help develop legislative champions to lead the way, we held a forum to educate legislators on Medicaid and CHIP policy and testified on Medicaid reform options before both

the Senate Health and Human Services Committee and the House

Appropriations Subcommittee on Health and Human Services. Our comprehensive report on the history and alarming growth of the Medicaid program has received national recognition. Taking the discussion to the next level, the Foundation initiated a multi-state effort with six other state-based think tanks to identify the principles of Medicaid reform. This effort included a number of meetings with Texas legislators and leadership offices, members of the state’s Congressional delegation, and President Bush’s health care advisor.

Key media coverage in the *Houston Chronicle*, *Dallas Morning News*, and *San Antonio Express-News* spread the message that free-market,



Representative John Davis, Chairman of the House Appropriations Subcommittee on Health and Human Services, visits with Representative Jodie Laubenberg and Foundation Visiting Research Fellow Arlene Wohlgemuth.

The Dallas Morning News

“State must move forward on welfare reforms.”

MARY KATHERINE STOUT

August 3, 2006

limited government solutions are the key to reforming health care and state programs.

In 2006, the Center for Health Care Policy welcomed former State Representative Arlene Wohlgemuth as a Visiting Research Fellow to lead our Medicaid project. As a long-time state legislator, she developed a reputation for knowing the policy details of health and human services programs, often serving as the lone voice on these issues from a free market perspective. Arlene’s action in the House in 2003—along with TPPF Visiting Research Fellow Talmadge Heflin—is credited for allowing the state to close a \$10 billion deficit without raising taxes. As a result, Texas is now enjoying a \$15 billion surplus and better job growth than any other state in the country.

RESTORING FISCAL DISCIPLINE.

Our greatest priority in 2007 is to restore fiscal discipline to the state by reining in the ballooning state budget, and reforming Medicaid. The Foundation will be actively working for Medicaid reforms that include restructuring the program’s financing and creating greater program flexibility through a large federal waiver. The waiver will grant the

state an unprecedented level of policy flexibility to better meet the needs of Medicaid and CHIP recipients, and also provide the state more financial certainty and authority for program management. We will continue to look for ways to reduce the regulatory burden on private health insurance—allowing the marketplace to deliver a wider range of products to Texans looking for health insurance, and helping to reduce the state’s large uninsured population.

Finally, the Foundation emerged last session as a go-to source on Health Savings Accounts, and will continue to provide concrete recommendations for how the state can contain skyrocketing health care costs for state employees while offering greater flexibility and choice in their health care decisions.

The hard work of the Center was realized through 150 highly-substantive meetings with legislators and staff, invited testimony, more than 10 published commentaries, and media hits for a total of \$1,632,014 in advertising equivalency.

“Those who advocate more and more government regulation have been experimenting for 40 years, trying to create an economic system in which everyone can somehow be made more prosperous by the toil of someone else.”

President Ronald Reagan

Freedom



The Foundation participates in the Governor’s press conference on the success of tort reform in Texas. [From left: Representative Joe Nixon; Brooke Rollins, Texas Public Policy Foundation; Senator Florence Shapiro; and Governor Rick Perry.]

Opposite page: Bill Peacock, Director of the Center for Economic Freedom, testifies before the House Regulated Industries Committee.

PROTECTING PRIVATE PROPERTY RIGHTS.

Ensuring that government respects its limited constitutional authority is the work of the Foundation’s Center for Economic Freedom. When the U.S. Supreme Court ruled in the now infamous *Kelo v. City of New London* decision—allowing municipal governments to take private property and hand it over to developers in the name of economic development—that work became increasingly imperative. Understanding how this ruling could affect property owners all across Texas, Governor Rick Perry opened the special session call on school finance to the issue of eminent domain, and the Center for Economic Freedom went to work.

The Center collaborated with the Institute for Justice, which argued the *Kelo* case before the U.S. Supreme

Court, in developing model legislation specifically for Texas. The Center’s publication, “Private Property and Public Use: Restoring Constitutional Distinctions,” has become the reference work on this subject in Texas.

To ensure that private property rights remain a fundamental element in our free society, the Foundation took the message on the road—via Houston and San Antonio Policy Primers—to educate policymakers, the media, and Texans across the state on the importance of enshrining property rights protections in the Texas Constitution and curbing the rising threat of eminent domain abuse.



DEFENDING DEREGULATION IN TELECOMMUNICATIONS.

Maintaining Texas' national leadership in the areas of free markets and deregulation, and setting the stage for continued progress in 2007, were important goals for the Center for Economic Freedom. A personal invitation to Bill Peacock, Director of the Center for Economic Freedom, by Regulated Industries Chairman Phil King to testify on Universal Service, taxes, and fees was followed with regular communication with the House Regulated Industries and Senate Business and Commerce Committees.

ELECTRIC DEREGULATION UNDER FIRE.

In 2006, the debate over electric deregulation heated up in Texas. The Center for Economic Freedom was at the forefront of the issue—shining light on the truth about the benefits of electric deregulation for all Texans. The first of four commissioned papers was released in December. Center Director Bill Peacock continued to spread the message via the media—appearing on a Connecticut talk-radio program to discuss how Texas got it right when the rest of the country has gotten it wrong.



WRIGHT GORE III

Protecting Freedom:
One Texan's Battle

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Wright Gore III would like nothing better than to get back to the work of his family's shrimping business, which has successfully provided jobs and seafood to the Freeport community for decades. Unfortunately, the city of Freeport has otherwise occupied his time as of late.

For the last several years, Gore has been working to stop the city, through its economic development corporation, from taking a portion of Western Seafood's property and giving it to his neighbor to build a publicly-funded but privately-owned marina.

The Texas Public Policy Foundation worked with Gore to bring this issue before the Texas Legislature so that they can take measures to protect our fundamental right to own and control private property. He has participated on several Foundation-sponsored Policy Primer panels and worked with us in crafting testimony for legislative committee hearings.

While the Foundation is not an advocacy organization, we do see providing accurate portrayals of the real-life impacts of public policy decisions as an integral part of our mission to provide free-market, limited government options to Texas policymakers.

Justice

“We must reject the idea that every time a law’s broken, society is guilty rather than the lawbreaker. It is time to restore the American precept that each individual is accountable for his actions.”

President Ronald Reagan



Marc Levin, Director of the Center for Effective Justice, talks with an attendee following a sold-out Policy Primer on juvenile justice.

SAVING TAXPAYERS \$400 MILLION IN NEW PRISON COSTS.

The Center for Effective Justice has made tremendous progress in our work to reduce crime, restore victims, reform offenders, and minimize costs to the taxpayers.

To increase public safety and save Texas millions of dollars, the Texas Public Policy Foundation has recommended that nonviolent drug offenders be diverted to drug courts and that local probation departments’ funding be based on performance.

The Center was asked by several committee chairs to submit interim charges in preparation for the regular session, and the House Corrections Committee and Sunset Commission adopted many of the Center’s

recommendations in their reports.

The Legislature joined our call for more effective alternatives to new prisons and in curbing the rising trend of overcriminalization—creating crimes out of relatively minor offenses which could be remedied using much more effective, cost-saving alternatives to prison. The Center produced a surprising study documenting that there are over 1,700 criminal offenses in Texas, mostly for ordinary business practices such as mistakenly mislabeling seafood!



Senate Criminal Justice Chairman John Whitmire, House Corrections Chairman Jerry Madden, and Bill Wigmore, CEO of Austin Recovery, are panelists at a Policy Primer on restorative justice.

State Representative Betty Brown asks a question of the panelists.

JUVENILE JUSTICE REFORM: THINKING OUTSIDE THE CELL.

Keeping our youth behind desks—instead of behind bars—was another priority of the Foundation’s Center for Effective Justice. Under the leadership of director Marc Levin, many of the Center’s recommendations were included in the Senate Education Committee’s interim report. We provided sound, sensible solutions such as requiring that government-run alternative schools provide a full school day instead of the current minimum of two hours, and limiting the issuance of Class C misdemeanors, thousands of which are now issued for routine violations like chewing gum.

Our commentaries on criminal justice have appeared in dozens of newspapers this year, including the *Houston Chronicle* and *San Antonio Express-News*. In addition, our criminal justice efforts have reached audiences across both sides of the aisle. Senate Criminal Justice Chairman John Whitmire (D-Houston) recognized the Foundation’s impact in this area and noted at a public hearing, “You have done wonders in a short period of time.”



Private Prisons Have a Lock on Growth

With state-run prisons overflowing, outfits such as Corrections Corp. of America stand to benefit

Texas, which has the nation’s second largest prison complex, is committed to the privatization program. The state has more than 40 private jails and prisons capable of handling nearly 30,000 inmates, says Marc A. Levin, director of the Center for Effective Justice at the Texas Public Policy Foundation. In total, Texas prisons house about 152,600 inmates, and the state’s Legislative Budget Board projects this figure will rise to 165,300 by 2010. Levin estimates that 16,000 Texas prisoners are currently housed in private facilities.

Levin believes private prisons are more economical than state institutions. “Savings in Texas from private prisons have been estimated at 10% to 14%,” he says. “Moreover, private facilities, such as those run by Corrections Corp. of America, often provide far better access to programs such as drug treatment and job training. Such programs have also been demonstrated to reduce recidivism.”



Representative Bob Hunter sits with event sponsors at the Policy Orientation; Board member Dr. Wendy Lee Gramm [middle] with Foundation investors; Board member Brenda Pejovich with ABC's John Stossel.

Foundation Investors

THE PHENOMENAL GROWTH of the Texas Public Policy Foundation has been no accident. With careful consideration, we developed a five-year plan in 2003 that is now reflected in the growth of our staff, our budget, and, most importantly, the growth of our impact. Meeting the growing needs of legislators for independent research and a principled approach to improving policy in Texas has required a significant year-over-year increase in budget. The generosity of our benefactors made it a reality. The Foundation finished 2006 financially strong and ready for the 2007 regular legislative session.

With your support, we provided legislators with 33 percent more research publications and were able to send our in-house policy experts across the state to speak to community and activist groups. It was your contribution that allowed us to spread the message of freedom!

To increase our impact, we leveraged contributor dollars through media coverage and working with like-minded groups. For example, we co-hosted events in 2006 with groups such as the Texas Conservative Coalition Research Institute, distributed a report by the Pacific Research Institute which rated Texas' tort system as first in the country to prove the value of the reformed system we helped to create, and invited members of the ACLU to an in-house Policy Primer. Not everyone will agree with us on all issues, but we work together whenever possible to increase liberty.

More benefactors joined our *Leadership Council*, *Capitol Council*, *1876 Society*, and *Founder's Circle* than ever before. *Leadership Council* membership affords the greatest jump in benefits, at which point select research is mailed directly to you. One of the greatest benefits of supporting the Foundation is the opportunity to talk with policy experts one-on-one. We invited our donors to policy events in Austin, Houston, San Antonio, Midland, Amarillo, and Dallas, often with VIP presenters such as John Blundell (Institute of Economic Affairs, London), John Stossel (ABC's *20/20* newsmagazine co-anchor), and Maurice McTigue (former member of the New Zealand Parliament), not to mention visits with policy leaders such as Governor Rick Perry and our in-house policy analysts.

An exciting new program was established in 2006 to make it even easier to support good policy in Texas—the Texas Public Policy Foundation planned giving program. It enables our donors to make stock donations while avoiding capital gains taxes. A gift of appreciated stock is a wise tax strategy and great way to help the Texas Public Policy Foundation. We also continue to offer our monthly giving program, which some donors have described as "...factoring into our monthly expenses the same as the electric, cable, or phone bill. TPPF makes it so easy by direct billing our credit card."

We are committed to making it as easy as possible for you to support an improved Texas.



Maurice McTigue, former member of the New Zealand Parliament, with Foundation investors Frances and J. Evetts Haley Jr., and President Brooke Rollins, at a Midland event.

WHAT MEMBERS ARE SAYING:

“TPPF is the type of organization we believe exemplifies the movement—independent, innovative, entrepreneurial, and principled.”

- Carl Helstrom, Executive Director of the JM and Milbank Foundations, New York, NY

“Taxpaying Texans benefit from having the Texas Public Policy Foundation do its careful research and make its findings available to members of the Legislature.”

- J. Evetts Haley Jr., Haley Ranches, Midland, TX



Members of the 1876 Society and Foundation Board members at an exclusive dinner with John Fund of the *Wall Street Journal*.

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

- L. Charles Neely, San Antonio Steel Company, San Antonio, TX

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IN MEMORIAM:
Milton Friedman, Ph.D.
1912-2006

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

-Milton Friedman, Ph.D.



An attendee at the Policy Primer on eminent domain discusses the issue with Representative Beverly Woolley after the event.



Texas House Speaker Tom Craddick at Policy Orientation; Texas Secretary of State Roger Williams talks with an attendee at a Policy Primer; Texas Governor Rick Perry at a Foundation dinner.

Events

POLICY ORIENTATION 2006.

The 4th Annual Policy Orientation for the Texas Legislature—held January 9 and 10 in Austin—superseded its own growing reputation as the premier policy event in the Lone Star State. With more than 50 event sponsors, we registered over 650 individuals, 285 of whom were legislators and their staff. We covered 13 important issues in our break-out panels, and welcomed our first nationally-recognized keynote speaker, former U.S. House Speaker Newt Gingrich.

Rooted in bi-partisan debate, the Policy Orientation has been hailed as the “must attend” policy forum of the year—comprehensive in scope, offering opposing voices and ideas, and charting the course for further debate throughout the legislative session.

The event was widely covered in the media including the *Austin American-Statesman*, *Quorum Report*, and *Ft. Worth Star-Telegram*. Keynote addresses by House Speaker Tom Craddick, Lt. Governor David Dewhurst, Tax Reform Commission Chairman John Sharp, Ohio Secretary of State Ken Blackwell, along with Speaker Gingrich, were rebroadcast on cable television.

POLICY PRIMER SERIES. How do you cover such a depth and breadth of policy issues critical to Texas? With smaller, more focused Policy Primer events. These Primers delve into a single topic, providing a forum for experts, legislators and staff, the public, and media to come together to exchange ideas and cultivate meaningful solutions on policy issues.

Sponsored by two national foundations, the Policy Primer series features new policy issues each month and plays to sell-out crowds. The smaller, more personal setting allows audience members to interact in this idea exchange—truly becoming an integral part of the policymaking process.

We also brought Policy Primers on eminent domain and the international ideas of think tanks abroad to Dallas, Houston, Midland, and San Antonio.

To further our reach, the Foundation’s Speakers Bureau delivered the message of freedom, opportunity, prosperity, and justice to groups across the Lone Star State—addressing issues and working towards solutions for a better Texas tomorrow.

4th ANNUAL
POLICY ORIENTATION

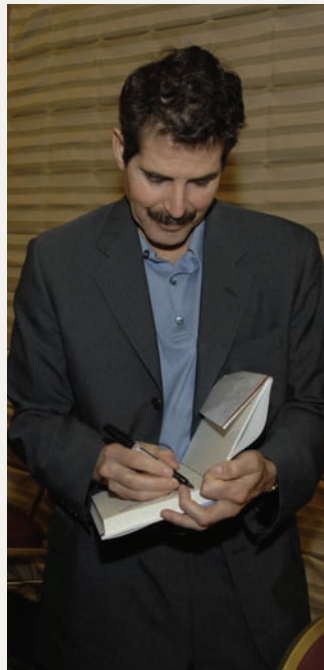
Ohio Secretary of State
Ken Blackwell addresses
a sold-out Policy
Orientation crowd.



John Sharp, former Texas
Comptroller, delivers a
lunch keynote.

Former U.S. House
Speaker Newt Gingrich
speaks with the media.

POLICY
PRIMER
SERIES



Governor Rick Perry talks
with Representative-elect
Nathan Macias and wife,
Susan, at a Foundation
dinner.



ABC's John Stossel signs
books after a Policy
Primer event.

SPEAKERS
BUREAU



Guests listen to a debate
on Texas tax policy.

John Blundell, Director
General of the Institute
for Economic Affairs
(UK) signs his book for a
guest at a Policy Primer in
Dallas.

Media & Message



Foundation policy analysts gather for a roundtable discussion to record a series for the Foundation's new outreach tool, Texas PolicyCast.

Clockwise: Marc Levin, Director of the Center for Effective Justice; Mary Katherine Stout, Director of the Center for Health Care Policy; Bill Peacock, Director of the Center for Economic Freedom; Michael Sullivan, Vice President; Jamie Story, Education Policy Analyst; Brooke Dollens Terry, Education Policy Analyst; and Byron Schlomach, Ph.D., Chief Economist and Director of the Center for Fiscal Policy.

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

Austin American-Statesman

SPREADING THE MESSAGE THROUGH MEDIA.

The Texas Public Policy Foundation’s message of freedom, prosperity, opportunity, and justice is getting through. In 2006, the Foundation’s ad equivalency doubled from 2005 numbers, for a total of \$6.53 million. We were featured more than 600 times in various print and broadcast stories and commentaries.

INCREASING OUR REACH.

To further our reach, the Foundation has turned to Internet communications. In 2006, the TexasPolicy.com website was visited 183,169 times—a 17.25 percent year-over-year increase. In addition, more than 6,400 individuals subscribe to the *Texas Public Policy News (TPPN)*, a bi-weekly electronic newsletter.

Another popular communication tool was introduced by the Foundation in 2006. Our podcasting program, “Texas PolicyCast,” has been a huge success with policymakers and Foundation investors as a convenient way to stay informed on the issues. In 2006, the program was accessed more than 40,000 times.



Michael Sullivan, the Foundation's Vice President, speaks to like-minded groups to share ideas and Foundation successes at an annual meeting of The Heritage Foundation.

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

The Dallas Morning News



Governor Rick Perry is interviewed by the Foundation's Michael Sullivan for a segment of Texas PolicyCast.



Byron Schlomach, Ph.D., the Foundation's Chief Economist and Director of the Center for Fiscal Policy, is interviewed for television.

Our Director of the Center for Economic Freedom, Bill Peacock, appears on KLRU to discuss coal-fired electricity generation.

HOUSTON CHRONICLE

REFORM SYSTEM

Reducing crowding in jail on the cheap County has options to costly added staff, new facilities

By MARC LEVIN

Texas may be known for its wide open spaces, but its criminal justice facilities are bursting at the seams. The Legislative Budget Board estimates that, if policies are not changed, the state will need another 14,000 prison beds by 2010 at a cost of over more than \$1.24 billion.

Now, the Texas Commission on Jail Standards has found the Harris County Jail in noncompliance, citing inmates sleeping on the floors, an insufficient number of guards and other violations. The commission ordered Harris County to transfer inmates to other jurisdictions at a cost of \$1 million per month.

Harris County is appealing the commission's ruling while also attempting to hire additional jail personnel. Harris County is one of 25 counties whose jails are currently classified by the commission as noncompliant. However, instead of merely applying Band-aids to the problem, Harris County and other counties should pursue systemic reforms to reduce jail crowding.

First, Harris County and other counties should divert more nonviolent drug offenders from county jails to mandatory drug treatment programs. Drug courts are an alternative to incarceration for minor drug offenses that involve comprehensive supervision, drug testing, treatment services, and family and community interaction. Texas offenders completing drug court programs have a 28.5 percent recidivism rate, compared to the state average of 58.5 percent.

Even in the Texas counties with drug courts, their capacity is less than 5

percent of those arrested for drug possession. Harris County has only one drug court and a shortage of slots for inpatient and outpatient drug treatment. With more drug courts and expanded treatment programs, Harris County could send fewer offenders to its county jail while reducing re-arrest rates. And the cost of such diversion programs is far less than court-ordered, jail-related construction.

Another way to ameliorate the population pressures on county jails is to reduce probation revocations. Felony offenders on probation are sent to prison while misdemeanants on probation are sent to county jails. Probationers may be revoked for a new offense or for a technical violation of the terms of their probation.

The 79th Legislature offered the 121 local probation departments additional funds to hire new probation officers in return for implementing "progressive sanctions." These sanctions reduce full revocations by responding to each technical violation with measured punishments, such as increased reporting requirements, a curfew, electronic monitoring, or a shock night in jail. In the first quarter of 2006, those participating departments have contributed to a 12 percent decrease in probation revocations.

Of the major Texas counties, Harris County has the highest rate of probation revocations. In Harris County, each of the 21 criminal district court judges runs his/her own probation docket and most have not committed to using progressive sanctions, even though Harris County received its share of the new money.

In addition to fully implementing progressive sanctions, revocations can be reduced by diverting probationers who have a drug relapse into mandatory treatment programs. Research shows that most addicts who eventually come clean after treatment have one or more relapses along the way.

Finally, Harris County and others can reduce jail crowding by making changes to their bail schedule. 40 percent of the Harris County population consists of pretrial detainees, many of whom cannot afford bond.

Taxpayers expect their public coffers to not just put out fires as they but to plan ahead and address underlying causes of crises such as crowding. Building new jails is a costly measure.

In 1995, Harris County was to spend \$100 million on jail-related construction. Instead, county jail operations must be scrutinized to determine which offenders can be diverted less expensive and more rehab settings without threatening safety.

Only through such systemic can we permanently ensure that county jails not the public coffers overtaxed.

Levin is director of the Center for Justice at the Texas Public Policy Foundation (www.texaspolicy.org). He can be e-mailed at mlevin@texaspolicy.com.

The Dallas Morning News

Fewer kids in CHIP should be good news

MARY KATHERINE STOUT says declining insurance rolls point to strong economy

Only in Austin can news of declining caseloads for government assistance programs be met with disappointment. Heronworking taxpayers may suffer under the illusion that government assistance programs are a temporary safety net, but the outcry among liberals when people move off the rolls belies this notion. In reality, the left's goal is to enroll people in programs with the expectation — even the hope — that they will never move off the rolls.

Declines in the state's Children's Health Insurance Program rolls are the latest case in point. For weeks, news reports have decried CHIP declines, usually leveling the blame at new call centers that use a private vendor to help facilitate enrollment and renewal of benefits. These call centers are a convenient whipping boy for those who have had the privatization effort in their crosshairs. Their case, however, is built

on the presumption that there should never be a decline in caseload.

This is emblematic of a startling difference in worldview: one expects and celebrates reliance on government, while the other emphasizes personal responsibility and temporary assistance through private means. This distinction may not be polite, but it must be made.

Before Texans became convinced that the decline in CHIP enrollment is due to heartless conservatives, dissonant public policy or a privatization effort gone awry, Texans deserve a more thoughtful look at the many factors that contribute to these changes.

Think back to 2003 when the state faced a budget shortfall in the midst of a slowed national economy. Advocates for the poor claimed that enrollment in government programs was counter-cyclical: that enrollment increases in slowed economies and thus demanded more of the already scarce resources. Their point only holds up when it serves as justification for higher spending and ballooning enrollment.

What's more, total enrollment only tells part of the story. According to figures posted on the Texas Health and Human Services

when caseloads decline.

In fact, the Texas economy is strong and growing stronger, doubtlessly improving the lives of thousands of Texas families. The Texas Workforce Commission reported that February 2006 was the 17th consecutive month of job growth, adding 25,400 jobs in the state — for an increase of almost 280,000 jobs over the year. A year ago, the state's unemployment rate was 5.9 percent, which dropped to 5.2 by December, and has fallen again to only 5 percent in January and February 2006. The commission reported that initial claims for unemployment compensation were down by almost 20 percent over the last 12 months.

These increases in employment are not just a positive trend in the labor market. They have a ripple effect throughout government programs. Employment gains may result in increases in a family's income, as well as access to employer-provided or employer-subsidized health insurance.

What's more, total enrollment only tells part of the story. According to figures posted on the Texas Health and Human Services

Commission's Web site, there were almost 29,500 new CHIP enrollees for April — the highest number of new enrollees in any month since January 2003. Even as some families have left the rolls entirely, fueling the recent decline in total enrollment, the number of new enrollees clearly indicates that new families are making use of the program when they need it.

And what to make of those families leaving CHIP? In almost every month over the last four and a half years, data from the state indicate that the most common reason for leaving CHIP is simply the failure to re-enroll. Second is the determination that a child's family is no longer eligible for the program.

Both are legitimate reasons and undercut the rhetoric that suggests heartless policies or processes are to blame.

Mary Katherine Stout is the director of Center for Health Care Policy Studies at the Texas Public Policy Foundation. Her e-mail address is mksout@texaspolicy.com.

Finances

Thanks to the generosity and commitment of the Texas Public Policy Foundation's renewing members and the addition of hundreds of new supporters, the Foundation experienced more than 100 percent growth in the last four years and 17 percent revenue growth from 2005 to 2006.

ASSETS

Cash & Receivables	\$1,331,021
Property & Equipment	17,222
Prepaid Expenses	11,629
Total Assets	\$1,359,872

LIABILITIES

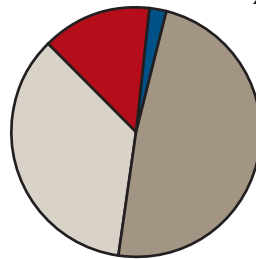
Current Liabilities	\$68,450
Deferred Revenue	369,500
Total Liabilities	\$437,950

NET ASSETS

Equity Prior Years	\$457,646
Equity 2006	464,276
Total Net Assets	\$921,922

Total Net Assets & Liabilities	\$1,359,872
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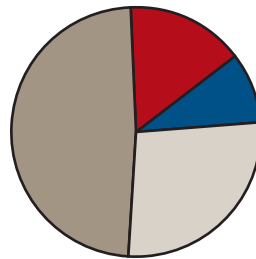
2006 INCOME



Contributors	\$989,834	48%
Foundations	\$727,870	35%
Program Rev.	\$296,000	15%
Other Income	\$45,651	2%

TOTAL \$2,059,355

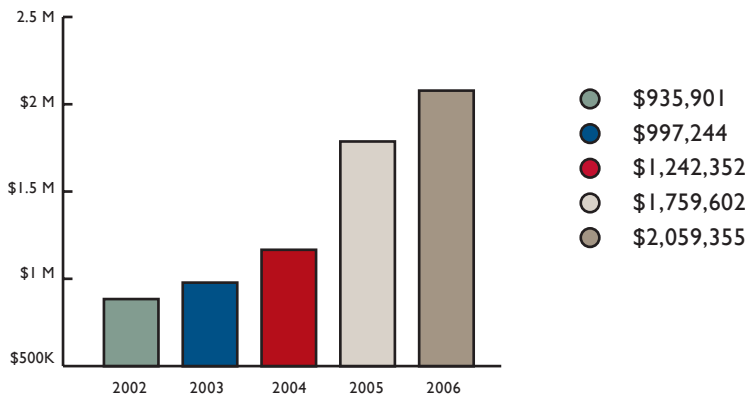
2006 EXPENSES



Research	\$764,596	48%
Outreach	\$438,827	28%
Development	\$243,791	15%
Admin.	\$147,865	9%

TOTAL \$1,595,079

REVENUE GROWTH



“...and finally tonight, I must thank the most important group of people, the staff of the Texas Public Policy Foundation. This is truly the most talented, passionate, dedicated team I have ever worked with. It is my greatest honor to work alongside you, my friends, every day, for liberty and for freedom.”

*-Brooke Rollins, speaking at the 4th Annual
Policy Orientation, January 9, 2006*

Texas Public Policy Foundation Staff



Standing: Mary Katherine Stout, Brooke Rollins, Nathan Thompson, Talmadge Heflin, Marc Levin, Jamie Story, Shari Hanrahan, Nancy Druart. Seated: Michael Sullivan, Arlene Wohlgenuth, Byron Schlomach, Ph.D., Donna Peterson, Bill Peacock. Not pictured: David Guenther, Brooke Dollens Terry.

