

Conducting Research
Presenting Facts
Telling the Story
Impacting Policy
Making a Difference



ANNUAL REPORT

Message from the President

May 15, 2003

It is with great pleasure that I introduce the 2002 Annual Report, highlighting the accomplishments of the Texas Public Policy Foundation. It was a tremendous year for the state's only free market-oriented think tank; a year of significant impact and the groundwork for an exciting future.

While only "on the job" since January 1, I have long been a fan of the Foundation, watching it grow first from my vantage point in the private sector, and then benefiting from its research as Governor Perry's director of policy.

But 2002 was especially noteworthy for the Foundation, particularly in its work on two of the hottest issues facing our state today: education and tax reform. Perhaps most importantly, in early 2002, the Foundation began work on an incredibly ambitious series of projects you'll read more about in this report. These projects were designed to educate legislators on the issues that are leading the newspaper headlines today and driving the activities of the Legislature. Those projects had their culmination early this year as the Foundation hosted the largest, most comprehensive legislative issues briefing undertaken in Texas – or any other state.

Financially, 2002 was a difficult year for everyone. The Foundation was no exception. As the demand increased for solid research and innovative policy ideas, the economy continued to slow. In order to continue to make a difference in Texas, we were forced to use reserves to make up the difference. I am proud to say that through tightening our belt and the unflagging dedication of you, our supporters, we were able to continue our important work.

All of us on the Foundation's staff take very seriously our accountability to our Board of Directors and our supporters like you, and we are mindful of investing funds in efforts where we can make the biggest difference for our state. It is your support that allows us to promote the important ideas and policy reforms that Texas needs.

The Foundation's former president, Jeff Judson, announced his resignation so he could pursue a long anticipated transition into the private sector. For eight years, Jeff ably captained the Foundation to the prominent position it now occupies. The opportunity given me to build on that foundation is exciting. My sincere thanks to Jeff for his leadership in making Texas a better place to live, work and raise a family.

We now look forward to even greater successes, as we seek to promote the idea of limited government and the principles of liberty in bold, new ways. Among other things, as you read this, we have just unveiled our new website, TexasPolicy.com, and are moving our headquarters to Austin, allowing us to increase our effectiveness in working with the Legislature.

But for now, I invite you to enjoy these few moments as we reflect on some of the highlights from 2002. We are grateful for your past support of the Foundation and look forward to your comments and insights as we move forward in 2003.

For Texas,



Brooke Leslie Rollins
President
Texas Public Policy Foundation



TPPF initiates key activities that shape policy debate

Before good policy ideas can be implemented, they must first be part of the public debate. With the real possibility of a philosophically conservative majority controlling the Texas Legislature, the Foundation began in early 2002 to develop two significant initiatives to jump-start the discussion of issues and promote good policy ideas for the 78th Legislative Session.

First, the Foundation produced the *Legislators' Guide to the Issues: 2003-2004*, an essential first-time publication designed to give legislators and candidates of both parties background information on the important issues facing the state.

The Guide presents lawmakers with free market ideas on education, school finance, taxes and spending, tort reform, health care and transportation. Organized in a concise, easy-to-read format, the *Legislators' Guide to the Issues: 2003-2004* quickly became the must-have policy document in the Texas political realm.

TPPF received high praise for the guide from many legislators and candidates who have indicated how valuable a resource the guide is for them.

Legislative Conference provides forum to discuss ideas

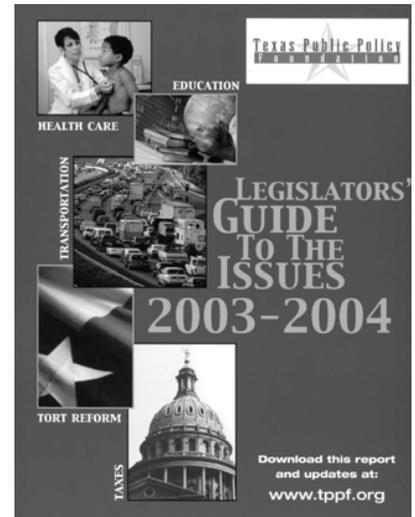
TPPF held its *Summer Legislative Conference* on September 5 and 6, targeting the participation of legislators, candidates and staff. Immensely successful, the conference provided a much-needed forum for the discussion of issues, and, at the same time, it strengthened the confidence of new and soon-to-be legislators interested in promoting a comprehensive conservative agenda. The conference had widespread impact.

It was perhaps the largest gathering of legislators in Texas outside of a party's convention or the legislative session, with some 35 incumbent legislators and 28 candidates attending with 70 of their staff and 91 other participants. The feedback was unanimously positive with attendees indicating their interest for the Foundation to organize another, more comprehensive educational conference.

From that came the 78th Legislature Policy Orientation January 28-29 and February 3-4, 2003, with more than 650 people participating in the four-day program. The Orientation brought together legislators from across the political spectrum, their staff, agency leaders and individuals interested in government policy. More than 60 elected officials and policy experts participated as panelists and speakers, including the Governor, Lieutenant Governor, House Speaker, Attorney General, Railroad Commission Chairman, Agriculture Commissioner, and Chief Justice of the Texas Supreme Court.

"The Guide rarely left my side during the campaign, and even today I keep it as a ready reference. It brought together lots of background and research I wouldn't have had the time to gather on my own."

– The Honorable Bryan Hughes of Mineola, State Representative



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“Your Summer Legislative Conference was outstanding!”



Texas Deputy Comptroller Billy Hamilton addresses the state revenue picture at TPPF's Summer Legislative Policy Conference.



Keynote Speaker Grover Norquist, Americans for Tax Reform, visits with Rep. Tom Craddick (R-Midland) at the conference dinner.



Panelists confronting health care issues include Rep. Arlene Wohlgemuth (R-Burleson) and Robert Moffit, Director of Domestic Policy Studies at the Heritage Foundation



Sen. Florence Shapiro (R-Plano) takes up the issue of school finance.



Omar Lopez, Ph.D., National Center for Educational Accountability, is a featured panelist during the education session of the Summer Legislative Policy Conference.



Texas Transportation Commissioner Ric Williamson tackles two of the state's critical issues – transportation and traffic congestion.



Featured panelist Dick Trabulsi of Texans for Lawsuit Reform discusses tort reform.



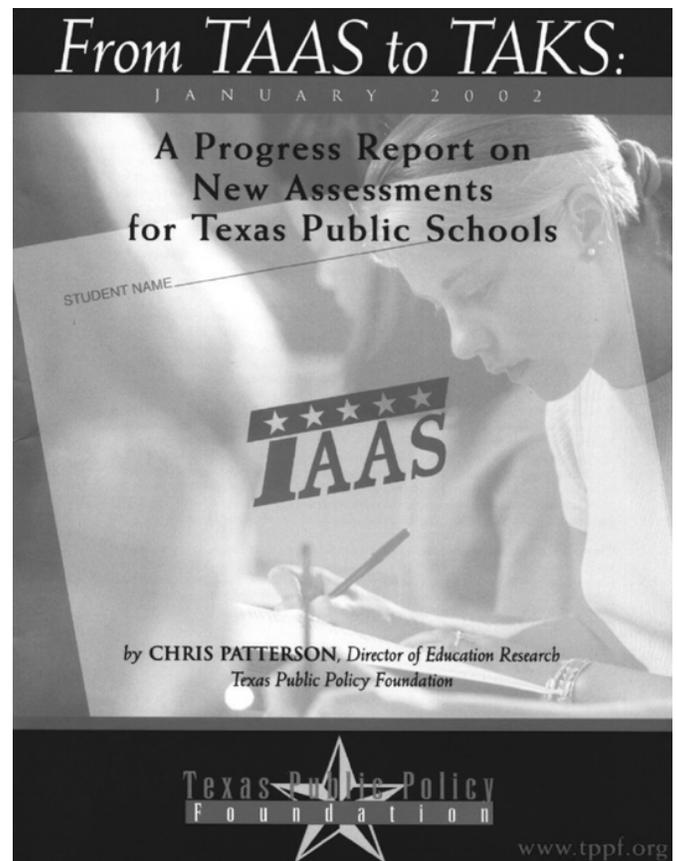
Rep. Carl Isett (R-Lubbock) is a featured presenter during the session on state tax policy and spending limitations.

TPPF champions high standards for Texas public schools

Student assessments form the centerpiece of education reform in Texas. Many policy leaders and researchers believe that academic gains demonstrated by Texas students result from challenging state assessments that both measure student performance and shape classroom instruction.

In January 2002, TPPF embarked on an intensive examination of the new state assessment program, the Texas Assessment of Knowledge and Skills (TAKS), created by the 77th Legislature to raise the bar for student achievement. The research was published in *From TAAS to TAKS: A Progress Report on New State Assessments* and mailed to the state's elected officials. It offered information needed to determine how well the state's new assessments measure state standards for academic performance and if tests are sufficiently accurate to be used in decisions about student promotion.

From TAAS to TAKS was identified as a "must read" for policy leaders throughout the nation by the Thomas B. Fordham Foundation, one of the leading sources of education research in the United States. The research served as a technical resource for the House Education Subcommittee on Accountability, the State Board of Education, and the Texas Education Agency. It now serves as a blueprint for evaluating state assessments throughout the nation and placed TPPF in the forefront of efforts within Texas to ensure highly accurate, academically challenging assessments for Texas public schools.



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"This report, if its observations and recommendations are taken seriously, will be incredibly helpful to all the teachers and students who must teach and be taught under the new TAKS. Texas is very fortunate because at this time, with the establishment of a new test, we have the opportunity to make significant improvements that will improve our accountability system. This report will surely aid policy makers in making those improvements."

— The Honorable Don McLeroy, Member, State Board of Education

TPPF critical of student assessment

By Associated Press
AUSTIN — A year from now, Texas public school children will begin taking a new state assessment that education officials say is tougher and broader than the test students now take.

In fact, Education Commissioner Jim Nelson last spring warned schools that unless they beef up their instructional programs, at least three out of five high school students will fail the graduation exam and be denied a diploma.

But the Texas Public Policy Foundation, a San Antonio-based conservative thinktank, says in a report to be released Sunday that it believes the new assessment will not be challenging enough.

The new Texas Assessment of Knowledge and Skills, or TAKS, is in the final stages of its development. It will replace the Texas Assessment of Academic Skills, or TAAS.

Among other things, the report predicts that the new exam will contain questions that are too easy or below students' grade levels. The foundation also believes the TAKS will encourage teachers to "teach to the test" because the exam measures only a narrow piece of knowledge.

The Texas Education Agency spokesman, Ms. Graves Ratcliffe, said the group's study is meaningless because the new test is still being developed.

"It's impossible for them to know how difficult or easy this test will be," said agency spokeswoman Debbie Graves-Ratcliffe.

The agency will do field tests of the exam later this month, TAKS officials say. The exam will include tougher questions on more subjects to be given statewide in eighth through 11th grades next year.

Development has had public input, said education experts, Texas teachers and an independent organization, Ms. Graves Ratcliffe said.

The process that created these stupid questions ... is the same process which the TEA says there's nothing wrong with," Sullivan said.

Group says test has design flaws

TAKS, still being developed, is set to be implemented next year.

BRIDGET GUTIERREZ
 STAFF WRITER

released today, the author asserts that the Texas Assessment of Knowledge and Skills, which officials will begin field-testing later this month, will differ little from the current Texas Assessment of Academic Skills, even though state officials say the exams will be more rigorous.

TAKS is still in debate officials question its credibility and purports to compare it with the TAAS, which has no way they can test questions," Debbie Graves-Ratcliffe said.

Patterson, TPPF's executive director, said enough information and other work some conclusions will be implemented, "you're naturally not going to see a huge difference because they're both based on the same curriculum standards and objectives are very general," she said.

The study also predicts state officials will set passing standards below national and international standards.

The State Board of Education will determine the passing rates next November, Graves-Ratcliffe said.

Michael Quinn Sullivan, Texas Public Policy Foundation spokesman, said the group believes after studying the TAKS development that the process is flawed.

"The process that created these stupid questions ... is the same process which the TEA says there's nothing wrong with," Sullivan said.

Think tank gives next year's TAKS test an 'F'

THE ASSOCIATED PRESS

On the Net
 Texas Public Policy Foundation report: tppf.org/education/taks/tak-report.html

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State's new skills test is too easy, study says

But Texas officials say new assessment exam will challenge students

By MICHELLE M. MARTINEZ
 American-Statesman Staff

A new statewide assessment test, scheduled to be tried in Texas public schools later this month, is still too easy for students, according to a group that will release its study on the exam Sunday.

In its 64-page report, the Texas Public Policy Foundation, which has challenged state curriculum standards and supported school choice, criticizes the Texas Assessment of Knowledge and Skills, or TAKS, for inheriting the weaknesses of the current test.

The test is designed to be more rigorous than the current test, but the report calls on independent experts to study the test.

Texas Education Commissioner Jim Nelson said that TAKS tests will be more difficult than the current test, but the report says that is not true.

Jim Nelson, director of the foundation, said the report is flawed.

"The process that created these stupid questions ... is the same process which the TEA says there's nothing wrong with," Sullivan said.

Conservative group attacks new test's lower standards

Education agency replies that state exam still being developed

Associated Press

AUSTIN — A San Antonio-based conservative research group says it believes that a new assessment test that will be given to Texas students beginning next year isn't challenging enough.

The Texas Assessment of Knowledge and Skills test is in the final stages of development, and top state educators have been warned that it will be so much more difficult than the test it is replacing that at least three of five high school students will fail the graduation exam unless schools toughen their curriculum.

Not necessarily, says the Texas Public Policy Foundation in a report to be released Sunday.

Among other things, the report predicts that the new exam will contain questions that are too easy or below students' grade levels. The foundation also believes the TAKS will encourage teachers to "teach to the test" because the exam measures only a narrow piece of knowledge.

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Group critical of new state academic test

One official says the new exam won't correct problems with TAAS

By TIM EATON
 Caller-Times

A conservative policy and research group criticized the new standardized test Texas students will begin field-testing this month, in the weeks after Congress called for nationwide testing.

Chris Patterson, the director of education research for the Austin-based Texas Public Policy Foundation, wrote a 65-page report that is critical of the upcoming TAKS test, which will replace the TAAS test. She said that she is worried that the test will be given to students without enough public scrutiny.

"It is a complicated study in which I put together some research on what is available to date on what is on the new TAKS test, compared with the TAAS test," Patterson said. "And then I outlined and identified ways that the old test should be different than the new test."

The gist of Patterson's report is that the TAKS, or Texas Assessment of Knowledge, will not correct many of the weaknesses of the current test.

"The process that created these stupid questions ... is the same process which the TEA says there's nothing wrong with," Sullivan said.

TAAS test earns a poor grade

Science scores show our success is based on fraud

MICHAEL QUINN SULLIVAN
 TALKIN TEXAS

"Science education in Texas is a failure."

The first statement is a reasonable conclusion drawn from reports of student scores from the Texas Assessment of Academic Skills test. According to the TEA, 91 percent of our eighth-grade students passed the science section of TAAS last spring. This is up from an 88 percent passage rate in 2000.

These numbers are incredibly encouraging. They imply that our public schools are churning out students with the academic potential, electricians, motive mechanics, electricians, computer programmers, doctors and engineers — just what our economy needs.

With a near-universal passage rate on the state-required TAAS test, who can question the instruction of science in our schools?

At the same time, the U.S. Department of Education is holding a hearing on the state of science education in Texas.

One of the speakers at the hearing is a former Texas Education Agency spokesman, Ms. Graves Ratcliffe. She is holding a hearing on the state of science education in Texas.

"The process that created these stupid questions ... is the same process which the TEA says there's nothing wrong with," Sullivan said.

to the results, Texas students don't fair so well compared to kids across the country.

In fact, almost 50 percent "lacked basic science knowledge." Conversely, only 23 percent were qualified as either "proficient" or "advanced."

For sake of clarification, to get a "basic" rating on the NAEP test, students must demonstrate some knowledge and reasoning of the earth, understanding of the earth, physical and life sciences ... obtain information from graphs, diagrams and tables ... have a beginning understanding of cause-and-effect relationships.

This means more than half of our students cannot understand, for example, the cause-and-effect relationship between shoddy tests and accurate results.

The "end-of-course" high school biology TAAS test offers one such example. Students are asked to look at a cartoon drawing and determine how the girl pictured might more accurately picture the liquid in a graduated cylinder.

Why does the TAAS show stellar science skills, while a national test has our students lagging? More broadly, why is it that while achievement remains flat for Texas kids on college entrance exams?

If Texas held students to the same passing standards as the national tests such as the Stanford 9 or Iowa Test of Basic Skills, half of the kids would be held back, according to research by the University of Houston.

Higher failure rates from more rigorous test might cause heartburn across Texas, but nearly so much as a student feels when he realizes his academic ability is not really in the top 10 percent of failing out of college or failing out of employment exam.

The TEA is crafting an assessment test. Will it be more inane questions or more meaningful ones? Or will it provide a fair measure of academic achievement? Elected officials are the ones who make the decisions. Will they make a solid measure with a test that can judge how well our children are doing? More important, will they demand an academic standard that allows our children to provide for their needs.

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TPPF improves classroom instruction in Texas and throughout the Nation

Textbooks serve as the primary resource for classroom instruction and strongly influence student achievement. To ensure that students in Texas public schools are given the opportunity to learn the state curriculum and be successful on state assessments, the State Board of Education identifies and adopts textbooks that cover the state curriculum standards. However, the Board has no authority to evaluate textbook quality or to ensure the academic integrity of instructional materials.

In April 2002, TPPF commissioned classroom teachers and university scholars to examine textbook quality and evaluate how well the middle and high school social studies textbooks submitted to the State Board of Education cover the state's required topics. The 16 academic and instructional experts found significant omissions of historical fact, as well as inaccuracies, in every textbook reviewed.

TPPF offered the expert evaluation to publishers and the State Board of Education. Publishers corrected errors and added factual information to the texts; the State Board adopted significantly improved social studies materials for Texas public schools. The improved textbooks benefit students beyond Texas because textbooks adopted here are sold to public and private schools throughout the nation.

TPPF mailed a textbook alert to textbook selection committees in every school district in Texas to help teachers make informed purchases. The alert identified the most academically sound textbooks and encouraged teachers to use the extensive historical resource information on TPPF's website, compiled by the textbook reviewers as a supplement for classroom instruction.

The attention of national media was captured by TPPF's review of social studies textbooks. The *New York Times*, *NBC Nightly News with Tom Brokaw*, National Public Radio, and the History News Network highlighted the importance of TPPF's review and emphasized the need for more history and more accurate history in today's textbooks. The review was identified as recommended reading by the Thomas B. Fordham Foundation and listed as a resource for history education.

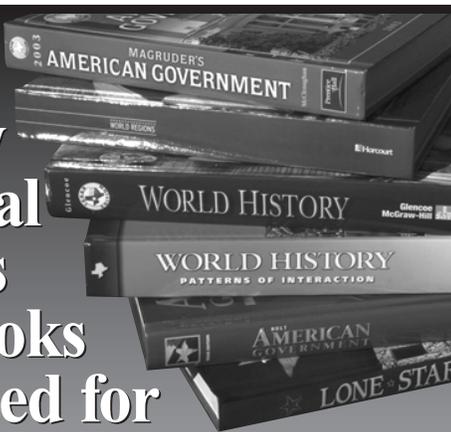
The Foundation's Chris Patterson on NBC Nightly News with Tom Brokaw, July 25, 2002.



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Review of Social Studies Textbooks Proposed for Middle and High Schools in Texas

by Chris Patterson, Director of Education Research
Texas Public Policy Foundation



www.tppf.org

TPPF's comprehensive social studies textbook review has been distributed to local school districts. It can be found on TPPF's website (www.tppf.org).

"Thank you for the Social Studies Textbook Review. I was not surprised about the misstatements and political leanings of many of the textbooks. We spend too much time trying to indoctrinate our students and not enough time teaching the truth about history. We learn from history with all of its mistakes."

– The Honorable John Carter, State Representative

"This is an unabashed fan letter for the tremendous service to Texas performed by TPPF in its extensive effort to review social studies textbooks up for adoption before the State Board of Education..."

– The Honorable Chase Untermeyer, State Board of Education

Textbook battle lines form

THE ASSOCIATED PRESS

AUSTIN — The fight over what material goes into Texas social studies textbooks heated up Tuesday when several groups accused each other of trying to push their political and religious agendas on public school students.

Texas, which has about 4.1 million students in its public school system, adopts new social studies books every eight years. The state will spend \$344.7 million on the textbooks, which will be used in classrooms in 2003.

The elected State Board of Education has no say over text-

but can reject or fail to approve. Texas Freedom Network Executive Director Samantha Smoot said religious and conservative groups have for too long had too much influence on what goes into textbooks.

Members of the conservative groups said they have found hundreds of factual errors in history books and believe some books are anti-American, anti-Christian and anti-conservative. "All the texts we reviewed have bleached history from the pages," said Chris Patterson, executive director of the Texas Public Policy Foundation, a conservative think tank.

Smoot accused some of pushing for photographs of white families that include a mother and a father, instead of minority and single-parent families. She also said the conservative groups objected to books that portrayed slavery as cruel.

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ers to review social studies books that are up for state approval.

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mined that children should have access to only some information," Smoot said as she stood behind a podium of stacked history books.

Conservatives said Smoot's group is pushing "liberal demagoguery."

"These are the same folks who supported the California courts ruling to ban the Pledge of Allegiance in classrooms. They are so far to the left I fear they may fall off the edge of their flat earth," said David Bradley of Beaumont, a Republican member of the

Social studies texts in review

Textbook hearing

What: First public hearing on which social studies textbooks the state Board of Education will approve

When: 9 a.m. today

Where: Room 1-104 of the William B. Travis Building, 1701 N. Congress Ave., Austin

Who: Only those who registered on or before July 10 — about 70 people — will be allowed to testify

Next hearings: In August and September

Approval: Board members will vote on the textbooks in November

More information at www.tppf.org

Political camps gird for hearings on Texas schoolbook selection.

BY SHARON K. HUGHES
EXPRESS-NEWS STAFF WRITER

When the researcher hired by the Texas Public Policy Foundation testifies today on which social studies textbooks the state should approve, he'll present the findings from a report commissioned by the foundation, but he won't make recommendations.

Officials of the San Antonio-based TPPF

from last year's scis when researcher ueed that the State ould reject books be-

cause "there (were) errors of fact, errors of omission and even some outright bias."

Today's hearing is the first of three the state board will hold before adopting the texts in November. Other hearings are held in August and September.

The board puts together a list of books that can be used in Texas classrooms, but it can only reject books if they contain errors or don't cover the curriculum.

The new TPPF researcher, Christopher Hammons, a history professor at Houston Baptist University, said he formatted the nearly \$100,000 study without interference from the foundation.

"We learned from our last review," said Chris Patterson, TPPF director of educational research. Sixteen professors at teachers of varying political views part-

See TEXTBOOK/8B

State board hears debate on textbooks

BOOKS Patriotism and diversity schoolbooks are common themes in comments at state hearing

By MATT FRAZIER
STAR-TELEGRAM STAFF WRITER

AUSTIN — Much of the debate final state hearing on proposed social studies textbooks Wednesday focused on how far publishers should go to be inclusive and patriotic.

The State Board of Education began with a letter from state Rep. Howard of Sugar Land requesting that textbooks promote patriotism. The letter also was signed by seven Republican state representatives, including Anna Mowery of Fort Worth.

"We do not want blind patriotism, but rather one that fully embraces the rich diversity and complexity of our history,"

More on BOOKS on SB

New textbook rule sparks protests

By Nancy Flake
Courier staff

COUNTY

A proposal to cut short the time allowed for public review of school textbooks this year is bringing the wrath of certain watchdog groups down upon the State Board of Education.

At the heart of the matter, according to individuals on either side of the issue, is who should have more time to study textbooks that will end up in public schools for errors — members of the public or members of

the board. Normally, members of the public can look at books for five months, from early April through August. If the board approves the proposal today, review time will be cut by almost two months, with a public hearing scheduled for July instead of September.

"This is an outrageous move to muzzle parents, teachers and taxpayers who want to make sure textbooks are accurate and academically sound," said Chris Patterson, director of education research for the

Texas Public Policy Foundation. "Last year's textbook adoption proved that public scrutiny leads to better textbooks."

"Citizen volunteers identified factual errors and academic gaps in required textbook content that were not found in the official review."

TPPF is a nonprofit, conservative research institute that seeks to further the principles of limited government and individual responsibility by recommending research findings on issues to policy makers and the public.

League of United Latin American Citizens.

The foundation is one of the groups across the state that normally reviews textbooks each year.

Today's proposal, which was recommended by SBOE Chairwoman Grace Shore, is necessary to actually allow board members, the Texas Education Agency and publishers time to correct any mistakes the public might find in the textbooks, she said.

"The publishers had no time to respond from public testimony last

See TEXTBOOK / Page 6A

New books, another battle

Groups launch salvos as Texas gets ready to order textbooks

By Jim Suydam

AMERICAN-STATESMAN STAFF

The opening shots of a new state textbook tussle were fired Tuesday, as the Texas Public Policy Foundation released a review of proposed social studies and history books and the Texas Freedom Network an-

what it ip. review, cs and aid by of the red by laws. to the rights in the ade her where allowed arked a a bus y, Ala., of a bus p seats available in the back, where blacks were expected to sit at the time. Other errors include a claim that the Rio Grande is the southern border of Mexico (it's the northern border) and that

TPPF helps inform decision-making and improve implementation of State Education Policy

In early 2002, the Governor's Mathematics Initiative was unveiled to improve foundational skills of middle school students and to expand readiness for higher education in Texas public schools. To support this important initiative, TPPF developed a resource guide in February 2002. *Mathematics Resources* identifies seminal research and summarizes expert findings to guide state and local district policy decisions in mathematics education.

Texas public schools struggle to ensure that all classrooms are led by qualified teachers. A crisis is emerging. During 2002, the number of students taught by teachers lacking subject-area qualifications rose to over 30 percent in urban school districts; over half of Texas' teachers leave the profession before they complete five years in the classroom and the supply of new teachers is not keeping up with demand as the student population grows. To assist policy leaders in addressing this critical problem, TPPF published *Teacher Pay and Retention Facts* in September 2002. This report debunked the myth that teachers abandon teaching for higher pay and furnished innovative policies for ensuring classrooms have a sufficient supply of qualified teachers.

The capacity of school districts was challenged in 2002 with new assessments, transitioning high school students into the state's college-preparatory curriculum, student population growth and a state revenue shortfall. To help school districts establish cost-effective policies to improve student achievement, TPPF published a list of supplemental resources, programs and technology in *School District Survival Guide* in October 2002.

Legislators, business leaders, school administrators, teachers, parents, education activists, and researchers used TPPF as a primary resource for education research, policy and practice. In 2002, TPPF provided testimony to the State Board of Education, Texas Sunset Advisory Commission, House Public Education Committee, and the House Select Committee on Constitutional Revision, and submitted invited opinion to the Texas Attorney General. TPPF participated in the Texas Education Reform Caucus, and served as a member of the State Board of Education's Standards Setting Panels for New State Assessments. TPPF conducted 17 presentations on education policy during 2002 – speaking to groups of legislators and their constituents, legislative staff, candidates for elected office, university students, education region centers, business leaders, and educational philanthropists – and met requests for information on education policy from over a thousand individuals.

"I highly recommend the Texas Public Policy Foundation as a resource for information, particularly education policy. The Foundation is an invaluable help when legislators, as well as their constituents, need expert information and ideas about how this information can be put to innovative use." - *The Honorable Jerry Madden, State Representative*

Conducting Research
Presenting Facts
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Making a Difference



TPPF research restrains talk of new taxes

From the Governor to our freshman legislators, Texans have been promised there will be no tax increases in 2003. A far cry from the discussions of 2002.

In early '02, much talk in Texas was on the implementation of a state income tax. But the tide has turned and the income tax talk is dead, thanks in part to the work of the Texas Public Policy Foundation. The reputation of Texas as a low-tax state has made it attractive to new industry, a significant economic advantage that would have been lost if a state income tax, or even increases to our existing taxes, had taken hold.

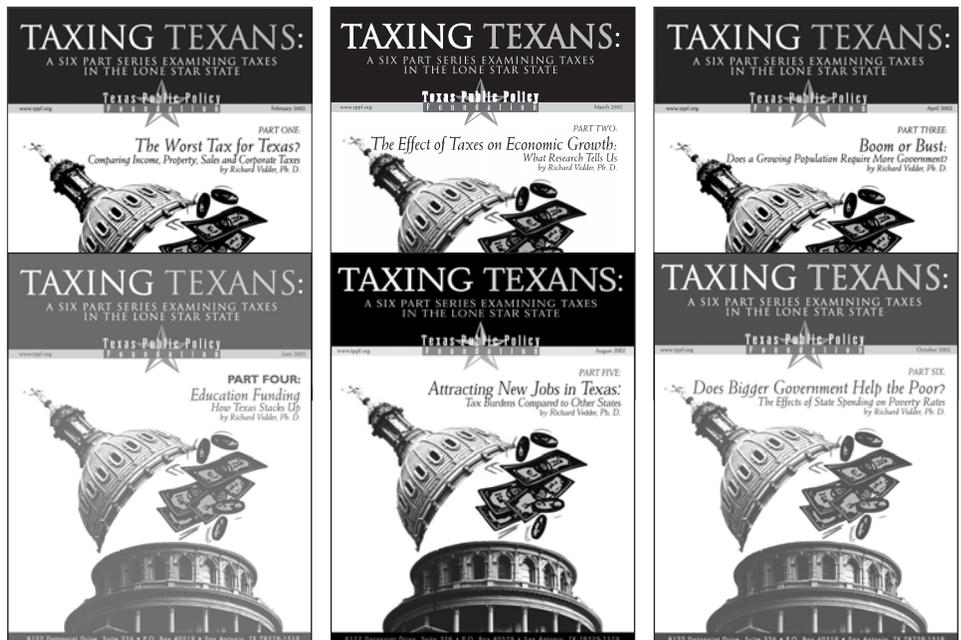
The Foundation invested heavily in infusing valid and compelling data into the tax discussions by commissioning six studies by Richard Vedder, Ph.D., an internationally acclaimed economist who served with the Joint Economic Committee of Congress. Dr. Vedder's extensive, independent research included compelling data demonstrating the economic vitality of the state's tax system, while highlighting areas needing improvement. While Texas' low tax burden has helped propel the state's economy to high rates of growth, he found that Texans are paying more in taxes than ever before, and an increase in taxes could throw the state into a tailspin.

TPPF releases important tax studies

As the studies were released, the Foundation hosted a statewide speaking tour for the energetic Dr. Vedder. In all, more than 300 people attended the lunches. Additionally, the studies were mailed to all of the state's elected officials and candidates for statewide office.

Not long after, tax increase proposals were dropped from practically all campaign platforms, with most

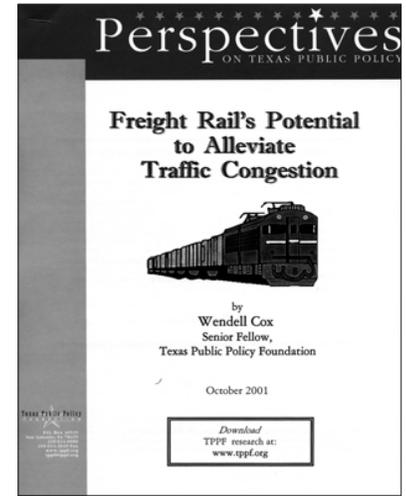
candidates agreeing with the low-tax message by the time the November 2002 elections arrived. Backed up by Dr. Vedder's economic research — sponsored by the Foundation — legislators have the facts and figures they need to defend Texans against tax increases by pointing to the damage it will do to the state economy as a whole, and the harm that can come to all Texans and especially those living at the economic margins.



TPPF state transportation planning concepts receive crucial endorsements

The Foundation continues to be a leader in innovative transportation policy ideas for the state, as Texans seek to reduce congestion while maximizing resources.

To that end, the Foundation introduced new concepts in state transportation planning in the 2001 study *Freight Rail's Potential to Alleviate Traffic Congestion*, which was widely distributed to lawmakers and transportation planners. As a result, proposals to build new freight rail capacity as a means of reducing the growth of congestion and truck traffic have been endorsed by the Chairman of the Texas Railroad Commission. In 2002, those proposals were incorporated in Governor Perry's *Trans-Texas Corridor Plan* as well as in local plans for Travis County and other locales.



"The plan is a welcome departure from the status quo and nothing short of visionary. Even the governor's inclusion of passenger rail – which the preponderance of data indicates is costly and won't reduce traffic congestion – is different in that it uses private, rather than taxpayer, dollars."

– Excerpt from a TPPF opinion piece in the Dallas Morning News on Gov. Rick Perry's Trans-Texas Corridor Plan.



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TPPF impacts public debate through the news media

One measure of the Foundation's growing impact can be found in the headlines of the daily newspapers and content of radio and television broadcast. The Foundation's work is increasingly highlighted by the media, and the opinions of its scholars and spokesmen sought on the issues of the day.

With tremendous success, the Foundation has strategically sought out relationships with newspapers and radio stations outside the Austin "capitol press corps."

In 2002 the Foundation was mentioned in more than 660 television, radio and print stories, compared to 284 in 2001. If all this coverage were to be purchased as advertising, the cost would have been in excess of \$16.3 million for 2002, compared to \$3.6 million in 2001.

Website continues to grow

The Foundation's ongoing investment in online publication has paid off, allowing greater dispersal of research and policy ideas to an even broader segment of the population. Since the Foundation's first foray into web publishing in 1998, the monthly audience has steadily increased to more than 10 times those original levels.

"Even the Foundation's competitors concede the group's emerging influence."

— Austin American-Statesman, December 2002

"The TPPF has positioned itself as a Texas version of the Washington-based Heritage Foundation, providing research that views governmental policies through a conservative prism... The degree to which politicians agree with the TPPF could determine their conservative pedigrees."

— Texas Monthly, May 2002

Who will rescue Texas from high insurance premiums?

By Jeff Judson
Last month, my wife and I received our home-owner's insurance renewal notice and were shocked. If we continue our current level of coverage, our premium will almost triple in 2003. If we reduce our coverage, we will still face a 50% increase. Our premium will still rise 25%.

Let the Texas sun set on this certifiable failure

By Chris Patterson
Improving Texas public schools depends on a qualified teacher shortage. The Texas Legislature created the State Board for Educator Certification in 1995.

But SBEC has done nothing to fix the problem. In fact, SBEC has increased the likelihood that children sit in classrooms with an academically qualified teacher. The second is an expensive waste.

According to education research, there are two factors that contribute to a good teacher. The first is a broad body of academic expertise in a subject. The second is an extensive vocabulary.

Don't mess with Texas' taxes

By Jeff Judson
Hold on to your wallet if you hear someone tell you that a state income tax will cost you less money than your current taxes.

A lot of people, including those at the liberal Center for Public Policy Priorities, are running around promoting a state income tax for Texas and telling us we will pay less if we can deduct income taxes on our federal tax forms.

Don't take the bait. The claim has a nice ring to it; we all instinctively like the idea of a magic fix to our budgetary woes. But academic research the world over makes one thing absolutely clear: Implementing an income tax is a prescription for economic disaster.

Want proof? Compare the economies of states with income taxes with the nine U.S. states without them. You'll quickly notice that the no-income-tax states like Florida, Texas and Nevada have much stronger economies and more people moving in than those with income taxes.

In fact, according to Dr. Richard Vedder of Ohio University, over the past 10 years, almost 3 million Americans moved from income tax states into non-income-tax states like Texas. This is one of the great migrations in human history that has gone unnoticed by the liberal press.

It is clear that either SBEC should be placed directly under the authority of the State Board of Education, or that individual districts be allowed to decide whether to certify teachers.

Nothing is worth the economic pain that will do to our economy if we adopt a Texas-like tax system. To if that has led to Texas' job growth boom.

Nothing is worth the economic pain that will do to our economy if we adopt a Texas-like tax system. To if that has led to Texas' job growth boom.

Austin American-Statesman

Tuesday, December 10, 2002

Texas think tank's time has come

With the GOP controlling state government, group's vision could set legislative agenda
By Laylan Copelin
A San Antonio think tank that has labored for more than a decade to influence the Legislature is emerging as a major player as the GOP tightens its grip on state government.

Classroom Teachers, University Professors Checking for Academic Content

AUSTIN, Texas — As the Legislature convenes its legislative session, they sanctioned the foundation's four-day conference planned for late January and early February. The state's top three leaders—time in 120 years—urged lawmakers and their staffs to attend the conference, where it's a coup for a think tank campaign donor James Leininger of San Antonio.

Taxes never provide prosperity for Texans

With Texas facing a potential budget shortfall measured in the billions of dollars, and a growing disaffection with the state's "Robin Hood" school finance system, lawmakers are looking for a favored method to tax Texans.

The myth of a teacher shortage

Austin — Despite the rhetoric and headlines, there is not a teacher shortage in Texas. The myth of a teacher shortage is a myth.

Let the Texas sun set on this certifiable failure

Patterson is the director of education research at the Texas Public Policy Foundation. His work can be found on the web at www.tppf.org.

SBEC is diverting academic knowledge from teacher certification. SBEC is diverting academic knowledge from teacher certification. SBEC is diverting academic knowledge from teacher certification.

Notable TPPF accomplishments in 2002

Research Released:

From TAAS to TAKS

Legislators' Guide to the Issues: 2003-2004

Facts About Education In Texas
The Next Steps for Education Reform In Texas
Unique Challenges Facing Texas' Educational System
Academic Achievement In Texas
State Assessments & Student Accountability
The End of Social Promotion
School Ratings & Accountability
Educational Freedom & School Choice Options in Texas
Texas School Finance
School Choice Myths & Facts
Education Funding: How Texas Stacks Up
Facts about Teacher Pay and Teacher Shortage
Facts About Health Care In Texas
Who Is Uninsured in Texas & Why?
Health Insurance Mandates
The Health Care Bureaucracy In Texas
Medicaid: Crisis and Solutions
Medical Savings Accounts & Defined Contribution Plans
Teacher Health Insurance
Medical Malpractice
Facts About Taxes & Spending In Texas
Restraining the Growth of Texas State Spending
What is the Worst Tax for Texas?
Low Taxes Help the Poor
Governmental Finances: Texas & U.S.
Facts About Lawsuit Abuse in Texas
Out-of-Court Settlements
Liability Reform
Class Action Lawsuits
Future Damages
Venue
Punitive Damages
Non-Use of Seatbelts
Reasonable Attorneys' Fees
Facts About Mold Litigation
Mold Crisis in Homeowner Insurance
Facts About Transportation In Texas
Transportation and Population
Transportation Funding In Texas
Bonding
Highway Expansion
NAFTA Traffic & Border Issues
Public Transit
Freight Rail
Urban Sprawl & Smart Growth
Air Quality
The Effect of Taxes on Economic Growth
Population Growth and Taxation
"The Worst Tax for Texas? Comparing Income, Property Sales, and Corporate Taxes"
The Effect of Taxes on Economic Growth: What Research Tells Us
Boom or Bust: Does a Growing Population Require More Government?
Education Funding: How Texas Stacks Up

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Taxing Texans: A Six-Part Series
Social Studies Textbook Review
Mathematics Resource Guide
Teacher Pay and Retention Facts
School District Survival Guide

Veritas Articles

Defending Liberty After September 11
Are Muslims Conservatives?
The Medicaid Problem in Texas
The Growing Asbestos Litigation Crisis in Texas
Sexual Harassment Policies Push The Envelope at Texas Universities
The Statesman Doesn't Matter
State Tax Policy: The Why & What of Economic Models
Reforming Judicial Selection: The Case for Judicial Elections in Texas
Promoting Judicial Independence & Public Confidence in the Courts
The Illusion of Transit Choice
Give Texas Back Its Money

Policy Action Updates, News Releases and Commentaries

Report Raises Questions About New Test (01/06/02)
Perry 'Trans Texas' Plan Good For State (01/28/02)
TPPF Research Making Impact (02/05/02)
Corridor Plan A New Path for Texas (02/08/02)
What's The Worst Tax For Texas? (02/28/02)
Board Considers Gag on Parents, Teachers (03/20/02)
Commentary: Taxes Never Provide Prosperity (03/29/02)
Tradeoff Proven Between Taxes, Economic Growth (03/29/02)
Commentary: Taxes Never Provide Prosperity (03/29/02)
Statesman Accuses TPPF of Defending Capitalism, America (04/04/02)
Study: Growing Population Requires Less Taxation (04/12/02)
TPPF to Host State Tax Policy Luncheons (04/22/02)
TPPF Statement on Tax Status (04/26/02)
Commentary: Let The Sun Set on SBEC (05/05/02)
Commentary: Don't Mess with Texas' Taxes (06/11/02)
Texas Allots More For Schools Than National Average (06/26/02)
US Supreme Court Upholds Vouchers (06/27/02)
Preliminary Textbook Report: Social Studies Review Finding Problems (07/02/02)
Social Studies Textbook Review Completed (07/10/02)
Errors Found in Social Studies Textbooks (07/10/02)
TPPF Featured on NBC Nightly News! (07/26/02)
Commentary: We Must Teach Patriotism (08/09/02)
TPPF Hosts Policy Conference (08/12/02)
Legislative Conference Succeeds in Promoting Conservative Goals (09/12/02)
Expert: Texas Tax System Needs Fixes (09/17/02)
The Myth of a Teacher Shortage (09/25/02)
Commentary: Who Will Rescue Texas from High Insurance Premiums? (10/02/02)
Commentary: Stuck in the Mud (10/27/02)
Commentary: Finally, A Government that Looks Like Texas (11/09/02)
Textbook Victory for Texas Children (11/15/02)
Schools to Receive Textbook Summary (12/16/02)
TPPF Announces New President (12/17/02)

Special Events

TPPF Policy Conferences with presentations on Taxing Texans with Richard Vedder, Ph.D. – February 18 (Midland), May 21 (Austin), May 22 (Dallas), May 23, 2002, (Houston)
TPPF Dinner with George Will – May 22, 2002 (Houston)
TPPF 13th Anniversary Dinner with George Will – June 18, 2002 (Dallas)
Summer Legislative Policy Conference – Sept. 5 & 6, 2002 (Austin)

Our Mission

The Texas Public Policy Foundation (TPPF) is a 501 (c)(3) non-profit, non-partisan research institute with offices in San Antonio and Austin, Texas. Founded in 1989, TPPF is guided by the core principles of limited government, free enterprise, private property rights and individual responsibility. The Foundation's mission is to improve Texas government by generating academically sound research and data on state and local issues, and by recommending the findings to opinion leaders, policy makers, the media and the public.

The work of the Foundation is conducted by academics across Texas and the U.S. and is funded by over a thousand charitable foundations, corporations and individuals who ascribe to the principles of the Foundation. The Foundation conducts no contract research and accepts no contributions to influence the outcome of research. TPPF materials are published for educational purposes only.

As a 501 (c)(3) organization, contributions to TPPF are fully tax deductible. Because TPPF communicates to elected officials, the Foundation has taken the further precaution of electing to have its expenditures tested by the Internal Revenue Service under subsection "h." This subsection of the code clearly defines what action constitutes "lobbying" and establishes specific monetary limits on lobbying activities that ensure that the Foundation's non-profit status will never be jeopardized. Since making this election and after reviewing the activities of the Foundation, TPPF has been informed by the IRS that all its activities are well within the parameters of the law.

"The Public Policy Foundation, by and large, reflects the thinking of mainstream Texas."

– The Honorable Rick Perry, Governor of Texas, Houston Chronicle, January 30, 2003

"(TPPF) has been very, very important to Texas, in providing... conservatives with the intellectual capital to make change."

– The Honorable Michael Williams, Chairman, Texas Railroad Commission, February 4, 2003

"The Texas Public Policy Foundation is known in Austin and across the state for having the courage to examine tough issues facing the state, providing common sense, conservative solutions to problems, even when those solutions might not be very popular... The Texas Public Policy Foundation is important to the process because they provide common sense in the political debate. Their reputation is clearly justified... The Texas Public Policy Foundation provides legislators, organizations and individuals with the tools to debate the issues."

– The Honorable Florence Shapiro, State Senator, Chair of Senate Education Committee, January 29, 2003

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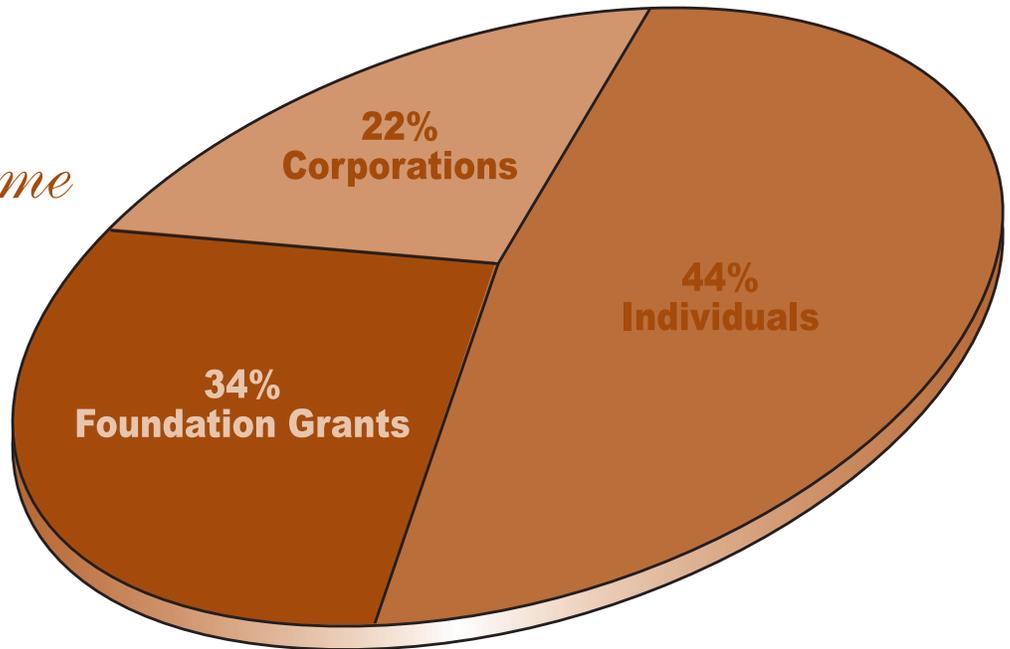
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Financial Profile

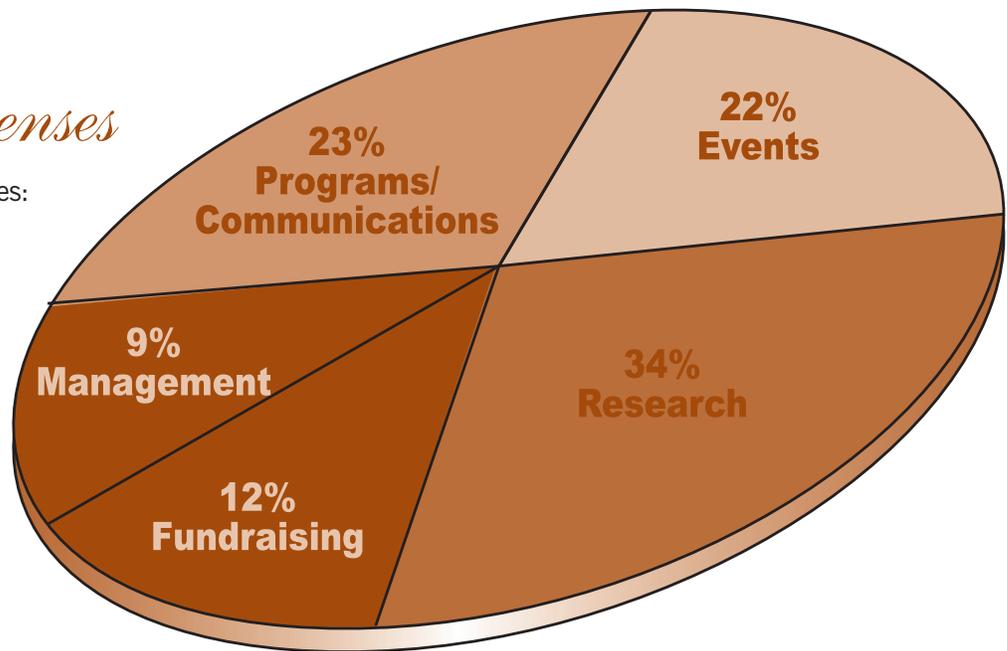
2002 Income

Total 2002 Income:
\$935,901*



2002 Expenses

Total 2002 Expenditures:
\$1,194,041



The economy was hard on all non-profit foundations in 2002. For the Texas Public Policy Foundation, contributions were unequal to demands for research and expert resources, but reduction of operational expenses and careful use of reserves allowed the Foundation to provide the information needed by Texans to formulate good policy. In 2003, the generosity of Texans will be especially important to our work and financial security.

* Unaudited-Audited financial statement will be available upon request in December 2003.

Becoming a TPPF Supporter

Texas Public Policy Foundation supporters have the opportunity to participate in a variety of Foundation activities during the year. They also receive numerous publications and updates.

Because the Foundation does not accept government funding, every contribution is needed. We rely on donors from across Texas -- individuals, large and small businesses, and foundations -- to fund our work.

Your support will allow us to continue to provide “the intellectual ammunition for a better Texas.” And supporting the Foundation has never been easier -- donate online at www.TexasPolicy.com.

Help today!

Your contribution is tax deductible to the extent allowed by law; your greatest benefit will be a better Texas. While any donation is welcome, the Foundation does offer several categories of support, each with its own package of benefits.

- **Student (\$25):** Receive all "Supporter" category benefits described below. For undergraduate and graduate students who contribute \$25 per year.
- **Supporter (\$50-\$499):** Receive Veritas (the Foundation's policy journal), executive summaries of Foundation research reports, Policy Action Updates, and press releases.
- **Sponsor (\$500-\$999):** Receive all of the basic “Supporter” benefits plus invitations to conferences, events and policy briefings.
- **Leadership Council (\$1,000-\$2,499):** Receive all Foundation publications, as well as invitations to conferences, workshops, events and policy briefings.
- **President's Council (\$2,500 – \$4,999):** Receive all of the Leadership Council benefits, plus invitations to private gatherings with scholars and policy makers.
- **Chairman's Council (\$5,000 or more):** Receive all Foundation publications, including research reports and Veritas; autographed copies of featured books; and invitations to special events. You will also have the opportunity to participate in teleconference discussions on upcoming research, be a special guest at Board of Directors' dinners, policy briefings and special gatherings with scholars and policy makers. You will receive priority communication with the President and Chairman of the Board.

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