

November 10, 2003

Evelyn A. Petschek
Commissioner
Tax Exempt and Government
Entities Division
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, D.C. 20224

BY FAX: 202-283-9973

Dear Commissioner Petschek:

We are writing to request that the Internal Revenue Service (IRS) investigate apparent violations of the reporting requirements of Section 527 of the Internal Revenue Code by Texans for a Republican Majority Political Action Committee (“TRMPAC”) and its related entity, Americans for a Republican Majority Political Action Committee (“ARMPAC”). The potential violations of the code include:

- TRMPAC has ceased filing reports on its fundraising of corporate money with the Internal Revenue Service (Form 8872);
- TRMPAC has not filed reports of comparable information with the Texas Ethics Commission, the state disclosure authority in Texas, as otherwise required by the Internal Revenue Code;
- TRMPAC has not fully and accurately disclosed its association with ARMPAC on its Form 8871 filed with the IRS; and
- ARMPAC has failed to identify at least some of its major contributors, including Bacardi and Epiphany Productions.

TRMPAC Fundraising Activities

Texans for a Republican Majority (EIN #74-3014202) is registered with the Internal Revenue Service as a 527 organization, which requires it to file Form 8872 listing its contributions and expenditures on a regular basis. [*See* Attachment A, Form 8871, “Texans for a Republican Majority.”] The committee was formed on September 5, 2001 by Rep. Tom DeLay (R-Texas) for the purpose of promoting Republican

candidacies in Texas state elections. The committee was organized as a state-based version of DeLay's former national soft money group, Americans for a Republican Majority. Rep. DeLay appointed one of his top political aides, Jim Ellis, as Director of TRMPAC.

TRMPAC had seemingly complied with its reporting requirements up to November 23, 2002. TRMPAC's annual Form 990 shows that the committee raised a total of \$1,379,779 and spent \$1,418,499 during the 2002 calendar year. [See Attachment B, Form 990, "Texans for a Republican Majority."] The committee's last Form 8872 filed with the IRS covers the period October 17, 2002 through November 23, 2002. [See Attachment C, Form 8872, "Texans for a Republican Majority."]

TRMPAC maintains two financial accounts. One account consists of donations from individuals ("hard money") consistent with Texas election law. The second account consists of corporate donations ("soft money") prohibited to be used for electioneering activity under Texas state elections law, though the corporate funds may be used to pay for "administrative expenses" under Texas election law. Whether or not these corporate funds were indeed used to pay for only administrative expenses is a subject of an on-going investigation by Texas state authorities and a separate lawsuit, and is not the basis of this complaint.

Most of TRMPAC's funds have come from corporate sources. According to an analysis by Jake Bernstein and Dave Mann, TRMPAC collected \$751,285 in soft money that allegedly paid for "administrative expenses" and was not reported to the Texas Ethics Commission. [See Attachment D, Jake Bernstein and Dave Mann, "The Rise of the Machine," *The Texas Observer*, August 29, 2003.] Texas election law in 2002 and 2003 did not require that corporate donations and expenditures for administrative expenses of a political committee be reported. Sections 253.100 and 254.151 of Texas statutes have since been amended to require state political committees to report such soft money contributions and expenditures as of January 2004.

Corporate funds raised or spent on behalf of TRMPAC at the end of 2002 and through 2003 have not been reported to any elections agency in Texas or to the IRS. TRMPAC has not filed any Form 8872s reporting either contributions or expenditures since December 2002. This failure clearly violates section 527(j) of the Internal Revenue Code, which specifically requires that all contributions and expenditures be reported either to a state disclosure agency or to the IRS.

Meanwhile, TRMPAC has continued raising funds for its operations from corporate sources. Though there are no disclosure records to document how much corporate money TRMPAC continues to raise, and how that corporate money is being spent, a fundraising event held by TRMPAC on February 24, 2003 makes it clear that the group's soft money fundraising practices have not changed.

The fundraising event, held at the Four Seasons Hotel in Austin, Texas, was touted as a "Salute to Texas Women in Leadership," and made explicit appeals for

corporate underwriters for the event. For a \$5,000 contribution to TRMPAC, corporate underwriters were awarded special recognition at the event, seating for 10, and corporate signage displayed on the underwriter's behalf. [See Attachment E, "Salute to Texas Women in Leadership," fundraising invitation.]

Brady-Lieberman Law (H.R. 5596)

As a result of a change in section 527 of the Internal Revenue Code in November of 2002 (H.R. 5596), Section 527 groups are now exempt from filing Form 8872 with the IRS upon satisfying specific criteria. These criteria are:

- Section 527 groups are exclusively involved in state elections;
- The state requires that each hard and soft money contribution and expenditure be reported to state disclosure authorities, comparable to the financial information required to be reported under the Internal Revenue Code; and
- Section 527 groups report all comparable hard and soft money contributions and expenditures.

The statute explicitly provides that a state-based Section 527 group is exempt from duplicative reporting with the IRS **only** if the state requires that comparable financial activity be reported to the state election agency. According to the statute, a "qualified state or local political organization" is exempt from reporting with the IRS only if the organization:

"(ii) . . . is subject to State law that requires the organization to report (and it so reports)--

(I) information regarding each separate expenditure from and contribution to such organization, and

(II) information regarding the person who makes such contribution or receives such expenditure,

which would otherwise be required to be reported under this section, and

(iii) with respect to which the reports referred to in clause (ii) are (I) made public by the agency with which such reports are filed, and (II) made publicly available for inspection by the organization in the manner described in section 6104(d)."

26 U.S.C. § 527(e)(5)(A).

Sponsors of H.R. 5596 also were explicit in floor debates over the amendment to the Internal Revenue Code that only **duplicative** reporting requirements by state and local groups exempt such groups from IRS reporting requirements. As Sen. Joseph Lieberman (D-Conn.) stated for the *Congressional Record*:

“[W]e are granting an exemption from the Section 527(j) contribution and expenditure reporting requirements to some of these organizations, but only if they can meet certain strict requirements. The group’s so-called exempt function activity must focus exclusively on state or local elections; a group that engages in even the smallest amount of activity related to a federal election will not be entitled to this exemption. The group also must file with a state agency information on every contribution and expenditure it would otherwise be required to disclose to the IRS. This requirement ensures that Congress’ conditioning of tax exemption on complete and full disclosure is not compromised.” [See Attachment F, S10779, *Congressional Record* (October 17, 2002)].

It is evident that the financial information required to be disclosed under the Internal Revenue Code in Form 8872s is not comparable to the information required to be filed with the State of Texas. In the forms TRMPAC is required to file with the Texas Ethics Commission – called General Purpose Committee Campaign Finance Reports or “GPACs” – TRMPAC lists only individual and political committee contributors; no corporate contributions or expenditures are filed. Given that the State of Texas thus far does not require section 527 groups to file and disclose their soft money contributions and expenditures, the Internal Revenue Code, as amended, requires that TRMPAC report those contributions and expenditures on a regular basis – which TRMPAC has ceased to do.

Even if the reporting requirements of Texas law were comparable, TRMPAC has never filed an 8871 claiming that it is exempt as a qualified State or local political organization. Section 527(i)(3)(E) specifically requires that any exemption from reporting requirements be claimed by an organization in a notice filed with the IRS.

Related Entities

On TRMPAC’s Form 8871, Treasurer John Colyandro stated that TRMPAC has no related entities (See Form 8871, Attachment A). The IRS has defined “related entity” to include those entities that have “substantial common direction or control.” [See Attachment G, IRS Publication No. 4216 (7-2003) at 21.] Contrary to this assertion, TRMPAC shares at least one director, Jim Ellis, with the non-federal arm of ARMPAC. [See Attachment H, “‘Soft’ funds helped fuel House-flip,” *Dallas Morning News*, June 29, 2003.] In addition, TRMPAC was originally created with \$50,000 of ARMPAC funds. [See “Rise of the Machine” at 5, Attachment D.] Accordingly, Mr. Colyandro’s statement that TRMPAC and ARMPAC are not related entities under the definition of the Internal Revenue Code is incorrect.

In addition, ARMPAC, TRMPAC’s unclaimed but related entity, has failed to name all of its contributors on its 8872s. Two separate analyses have revealed unreported contributions to ARMPAC. In an October 7, 2003, letter to the IRS, Melanie Sloan noted that ARMPAC failed to name Bacardi as a major in-kind contributor. In an analysis of fundraising events hosted by lobbyist Mitch Delk and organized by Epiphany

Productions, Inc., Public Citizen noted that at least two fundraising dinners to benefit ARMPAC, which occurred on March 20, 2002 and on September 18, 2002, went unreported. [See Attachment I, "FEC Complaint filed by Public Citizen v. Mitch Delk and Epiphany Productions, Inc."]

Given TRMPAC's failure to file the required IRS forms, its failure to file comparable reports with the Texas Ethics Commission, its failure to name ARMPAC as a related entity and ARMPAC's own inadequate filings, we respectfully suggest that a forensic audit of ARMPAC and TRMPAC is appropriate. It is imperative for full and open disclosure of the financial activities of section 527 groups that the IRS enforce the reporting requirements of the Internal Revenue Code applicable to TRMPAC.

If we can be of any further service, please do not hesitate to call on us. Thank you for your consideration.

Sincerely,

Melanie Sloan
Executive Director
Citizens for Responsibility and Ethics
in Washington
Washington, D.C. 20036
TEL: 202-588-5565
FAX: 202-588-5020

Frank Clemente
Director
Public Citizen's Congress Watch
215 Pennsylvania Avenue, SE
Washington, D.C. 20003
TEL: 202-454-5190
FAX: 202-547-7392

Craig Holman
Legislative Representative
Public Citizen's Congress Watch
Washington, D.C. 20003
TEL: 202-454-5182
FAX: 202-547-7392

Encls.

Attachment A:

Form 8871, “Texans for a Republican Majority”

**Political Organization
 Notice of Section 527 Status**

ENVELOPE POSTMARK DATE FEB 20 2002

Part I General Information

1 Name of organization TEXANS FOR A REPUBLICAN MAJORITY		Employer identification number 74-3014202
2 Mailing address (P.O. Box or number, street, and room or suite number) 400 WEST 15th STREET #1600		
City or town, state, and ZIP code Austin, TX 78701		
3 E-mail address of organization		
4a Name of custodian of records RUSSELL F. ANDERSON	4b Custodian's address 5725 SAM HOUSTON CIRCLE AUSTIN, TX 78731	
5a Name of contact person RUSSELL F. ANDERSON	5b Contact person's address 5725 SAM HOUSTON CIRCLE AUSTIN, TX 78731	
6 Business address of organization (if different from mailing address shown above). Number, street, and room or suite number		
City or town, state, and ZIP code		

Part II Purpose

7 Describe the purpose of the organization

**POLITICAL ACTION COMMITTEE IN SUPPORT OF REPUBLICANS FOR
 STATE LEGISLATURE AND STATEWIDE OFFICES IN THE STATE OF TEXAS**

SCANNED MAR 06 2002

Part III List of All Related Entities (see instructions)

8a Name of related entity	8b Relationship	8c Address
NA -- NONE		

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Attachment B:

Form 990, “Texans for a Republican Majority”

Return of Organization Exempt From Income Tax

2002

Open to Public Inspection

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

Department of the Treasury
Internal Revenue Service

The organization may have to use a copy of this return to satisfy state reporting requirements

A For the 2002 calendar year, or tax year beginning 2002, and ending 20

B Check if applicable:
 Address change
 Name change
 Initial return
 Final return
 Amended return
 Application pending

Please use IRS label or print or type. See Specific Instructions

C Name of organization: TEXANS FOR A REPUBLICAN MAJORITY
 Number and street (or P.O. box if mail is not delivered to street address): 5725 SAM HOUSTON CARRE
 City or town, state or country, and ZIP + 4: AUSTIN TX 78731

D Employer identification number: 74 3014203
E Telephone number: (972) 418-6360
F Accounting method: Cash Accrual
 Other (specify):

H and **I** are not applicable to section 527 organizations
H(a) Is this a group return for affiliates? Yes No
H(b) If "Yes," enter number of affiliates: NA
H(c) Are all affiliates included? Yes No
 (If "No," attach a list. See instructions.)
H(d) Is this a separate return filed by an organization covered by a group ruling? Yes No
I Enter 4-digit GEN:

J Organization type (check only one): 501(c) () (insert no) 4947(a)(1) or 527

K Check here if the organization's gross receipts are normally not more than \$25,000. The organization need not file a return with the IRS but if the organization received a Form 990 Package in the mail it should file a return without financial data. Some states require a complete return.

L Gross receipts. Add lines 6b, 8b, 9b, and 10b to line 12:

M Check if the organization is not required to attach Sch. B (Form 990, 990-EZ, or 990-PF)

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See page 17 of the instructions)

Revenue	1	Contributions, gifts, grants, and similar amounts received			
	a	Direct public support	1a	1,379,601.45	
	b	Indirect public support	1b		
	c	Government contributions (grants)	1c		
	d	Total (add lines 1a through 1c) (cash \$ _____ noncash \$ _____)	1d	1,379,601.45	
	2	Program service revenue including government fees and contracts (from Part VII, line 93)	2		
	3	Membership dues and assessments	3		
	4	Interest on savings and temporary cash investments	4	178.15	
	5	Dividends and interest from securities	5		
	6a	Gross rents	6a		
	b	Less rental expenses	6b		
	c	Net rental income or (loss) (subtract line 6b from line 6a)	6c		
	7	Other investment income (describe: _____)	7		
Revenue	8a	Gross amount from sales of assets other than inventory	(A) Securities	8a	
	b	Less cost or other basis and sales expenses	(B) Other	8b	
	c	Gain or (loss) (attach schedule)	8c		
	d	Net gain or (loss) (combine line 8c, columns (A) and (B))	8d		
Revenue	9	Special events and activities (attach schedule)			
	a	Gross revenue (not including \$ _____ of contributions reported on line 1a)	9a		
	b	Less direct expenses other than fundraising expenses	9b		
	c	Net income or (loss) from special events (subtract line 9b from line 9a)	9c		
Revenue	10a	Gross sales of inventory, less returns and allowances	10a		
	b	Less cost of goods sold	10b		
	c	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)	10c		
	11	Other revenue (from Part VII, line 103)	11		
	12	Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c and 11)	12	1,379,779.60	
Expenses	13	Program services (from line 44, column (B))	13	1,168,613.48	
	14	Management and general (from line 44, column (C))	14	127,457.70	
	15	Fundraising (from line 44, column (D))	15	122,528.44	
	16	Payments to affiliates (attach schedule)	16		
	17	Total expenses (add lines 13 and 14, column (A))	17	1,418,599.62	
Net Assets	18	Excess or (deficit) for the year (subtract line 17 from line 12)	18	(38,720.02)	
	19	Net assets or fund balances at beginning of year (from line 73, column (A))	19	116,000.01	
	20	Other changes in net assets or fund balances (attach explanation)	20	-	
	21	Net assets or fund balances at end of year (combine lines 18, 19, and 20)	21	77,279.99	

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Schedule B
(Form 990, 990-EZ,
or 990-PF)

Department of the Treasury
Internal Revenue Service

Schedule of Contributors

Supplementary information for
line 1 of Form 990, 990-EZ, and 990-PF (see instructions)

OMB No 1545-0047

2002

Name of organization

TEXAS FOR A REPUBLICAN MAJORITY

Employer identification number

74 3014202

Organization type (check one)

Filers of

Section

Form 990 or 990-EZ

- 501(c)() (enter number) organization
- 4947(a)(1) nonexempt charitable trust not treated as a private foundation
- 527 political organization

Form 990-PF

- 501(c)(3) exempt private foundation
- 4947(a)(1) nonexempt charitable trust treated as a private foundation
- 501(c)(3) taxable private foundation

Check if your organization is covered by the **General Rule** or a **Special Rule** (Note: Only a section 501(c)(7), (8), or (10) organization can check box(es) for both the General Rule and a Special Rule—see instructions)

General Rule—

- For organizations filing Form 990, 990-EZ, or 990-PF that received, during the year, \$5,000 or more (in money or property) from any one contributor (Complete Parts I and II)

Special Rules—

- For a section 501(c)(3) organization filing Form 990, or Form 990-EZ, that met the 33 1/3% support test of the regulations under sections 509(a)(1)/170(b)(1)(A)(vi) and received from any one contributor, during the year, a contribution of the greater of \$5,000 or 2% of the amount on line 1 of these forms (Complete Parts I and II)
- For a section 501(c)(7), (8) or (10) organization filing Form 990, or Form 990-EZ, that received from any one contributor, during the year, aggregate contributions or bequests of more than \$1,000 for use *exclusively* for religious, charitable, scientific, literary, or educational purposes, or the prevention of cruelty to children or animals (Complete Parts I, II, and III)
- For a section 501(c)(7), (8), or (10) organization filing Form 990, or Form 990-EZ, that received from any one contributor, during the year, some contributions for use *exclusively* for religious, charitable, etc., purposes, but these contributions did not aggregate to more than \$1,000 (If this box is checked, enter here the total contributions that were received during the year for an *exclusively* religious, charitable, etc., purpose. Do not complete any of the Parts unless the **General Rule** applies to this organization because it received *nonexclusively* religious, charitable, etc., contributions of \$5,000 or more during the year)

Caution Organizations that are not covered by the General Rule and/or the Special Rules do not file Schedule B (Form 990, 990-EZ, or 990-PF), but they must check the box in the heading of their Form 990, Form 990-EZ, or on line 1 of their Form 990-PF, to certify that they do not meet the filing requirements of Schedule B (Form 990, 990-EZ, or 990-PF)

Name of organization TEXTS FOR A REPUBLICAN MAJORITY Employer identification number 74-3014202

Part I Contributors (See Specific Instructions)

(a) No	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
	JOHN W BARGER 3210 GOLDSBORO ST SAN ANTONIO TX 78230	\$ 10,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	GEORGE C HIXON 315 EAST COMMERCE #300 SAN ANTONIO TX 78205	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	RAY L HUNT 1445 ROSS AVENUE #1500 DALLAS, TX 75202	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	JAMES R LEWINGER 8122 DATA POINT #900 SAN ANTONIO TX 78229	\$ 42,500.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	BOB J PERRY P.O. Box 34153 HOUSTON TX 77234	\$ 140,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	WILL C PERRY 1747 NORTHSORE DRIVE MISSOURI CITY TX 77459	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)

Name of organization

TEXAS FOR A REPUBLICAN MAJORITY

Employer identification number

74:3014202

Part III Contributors (See Specific Instructions)

(a) No	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
	HOUSTON H HARJE P.O. Box 172424 SAN ANTONIO TX 78217	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	JAMES R LIGHTNER 5905 STAUBEN CT DALLAS TX 75248	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	JOHN V LATTIMORE P.O. Box 556 MCKINNEY TX 75070	\$ 25,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	LOUIS A BEECHERL 3801 BEVERLY DRIVE DALLAS TX 75205	\$ 10,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	FRED MEYER 26 RYDINGTON PL DALLAS, TX 75230	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	ROBERT B ROWLING 420 DECKER DRIVE IRVING, TX 75062	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)

Name of organization
TEXANS FOR A REPUBLICAN MAJORITY

Employer identification number
74 3014202

Part I Contributors (See Specific Instructions)

(a) No.	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
	VANCE C MILLER 5001 SPRING VALLEY ROAD #1100W DALLAS TX 75244	\$ 10,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	EBBY HALLIDAY ALERS P.O. Box 12345 DALLAS TX 75225	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	CHARLE J WYLY 300 CRESCENT COURT # 1000 DALLAS TX 75201	\$ 10,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	SAM WYLY 300 CRESCENT COURT # 1000 DALLAS TX 75201	\$ 10,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	BENJAMIN STREUSANO 19 STORMWOOD THE WOODLANDS TX 77381	\$ 10,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	BOONE PICKENS 817 PRESTON RD #260 DALLAS TX 75225	\$ 50,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)

Name of organization TEXANS FOR A REPUBLICAN MAJORITY Employer identification number 74:3014202

Part I Contributors (See Specific Instructions)

(a) No	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
	DALE R THOMPSON 1111 WILCREST GREEN #250 HOUSTON TX 77042	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	NATIONAL REPUBLICAN LEGISLATORS ASSN 600 PENNSYLVANIA AVE S.E. #300 WASHINGTON DC 20003	\$ 25,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	REE D MORIAN 8 SHADDER WAY HOUSTON TX 77019	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	J. A. ELKINS 1166 FIRST CITY TOWER HOUSTON TX 77002	\$ 15,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	DAVID M. UNDERWOOD 909 FANNIN SUITE 850 HOUSTON TX 77010	\$ 10,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
		\$..	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)

Name of organization TEXAS FOR A REPUBLICAN MAJORITY Employer identification number 74 3014202

Part I Contributors (See Specific Instructions)

(a) No	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
	U.S. BANK INC 10210 W CENTRAL EXPY #500 DALLAS TX 75231	\$ 10,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	EL PASO ENERGY 1001 LOUISIANA HOUSTON TX 77002	\$ 50,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	DUNN CONSTRUCTION P.O. Box 11967 BIRMINGHAM AL 35202	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	FUTURE PAC P.O. Box 231384 MONTGOMERY AL 36123	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	BURLINGTON NORTHERN & SANTA FE RAILWAY P.O. Box 1738 TOPEKA KS 66601	\$ 25,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	QUE STERRA LODG 1011 BOULDER SPRINGS RICHMOND VA 23229	\$ 25,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)

Name of organization: TEXAS FOR A REPUBLICAN MAJORITY Employer identification number: 74 3014202

Part I Contributors (See Specific Instructions)

(a) No	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
	WESTAR ENERGY 818 KANSAS AVENUE TOPEKA, KS 66612	\$ 25,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	DIVERSIFIED COLLECTION SERVICES P.O. Box 5031 UNION CITY, CA 94587	\$ 50,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	SEARS ROEBUCK & CO 3333 BEVERLY RD HOFFMAN, IL 60179	\$ 25,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	WILLIAMS COMPANIES 1627 EYE STREET NW #900 WASH. D.C. 20006	\$ 25,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	CORNEIL COMPANIES 1700 WEST LOOP SOUTH #1500 HOUSTON TX 77027	\$ 10,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	REPUBLICAN NATIONAL STATE ELECTING COMM 310 FIRST STREET SE WASH DC 20003	\$ 6,700.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)

Name of organization: **TEXAS FOR A REPUBLICAN MAJORITY** Employer identification number: **74-3014202**

Part III Contributors (See Specific Instructions)

(a) No	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
	PHILIP MORRIS MGT CORP 1005 CONGRESS #850 AUSTIN TX 78701	\$ 10,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	BACARDI USA INC 200 DISCAYNE BLVD MIAMI, FL 33137	\$ 25,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	LEXMARK INTERNATIONAL INC 740 WEST CIRCLE RD LEXINGTON KY 40550	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	PHILIP MORRIS COMPANIES INC 120 PARK AVENUE NEW YORK, NY 10017	\$ 15,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	SILVER EAGLE P.O. Box 2743 HOUSTON TX 77252	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	UPS PAC 55 GLEN LAKE PARKWAY N.E. ATLANTA, GA 30328	\$ 10,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)

Name of organization: **TEXANS FOR A REPUBLICAN MAJORITY** Employer identification number: **74-3014242**

Part I Contributors (See Specific Instructions)

(a) No	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
	PICKENS COMPANY, INC 8111 PRESTON RD #800 DALLAS, TX 75225	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	OLD COUNTRY STORE INC P.O. Box 787 LEBANON, TX 37088	\$ 25,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	PERFECT WAVE TECHNOLOGIES 10740 THOMMINT RD SAN DIEGO, CA 92127	\$ 15,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	RELIANT RESOURCES INC P.O. Box 148 HOUSTON TX 77001	\$ 25,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	REGIS MORTGAGE CORP 1111 WILCREST GREEN #250 HOUSTON TX 77042	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
	AMERICANS FOR A REPUBLICAN MAJORITY 1155 21ST STREET NW #300 WASH DC 20036	\$ 25,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)

Name of organization: **TEXANS FOR A REPUBLICAN MAJORITY** Employer identification number: **74 3014202**

Part I Contributors (See Specific Instructions)

(a) No	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
	ALLIANCE FOR QUALITY NURSING HOME CARE ONE BEACON ST SUITE 100 BOSTON, MA 02106	\$ 100,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	PRESTON GATES ELLIS & ROUVELAS LLP 1735 NEW YORK AVE NW WASH DC 20006	\$ 25,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	BARONA 1095 BARONA RD LAKESIDE CA 92040	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	ROM ENTERPRISES P.O. Box 549 TEMPLE TX 76503	\$ 5,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
	A707 919 CONGRESS #900 AUSTIN TX 78701	\$ 20,000.00	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
		\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)

Name of organization
TEXAS FOR A REPUBLICAN MAJORITY

Employer identification number
74 3019202

Part I Contributors (See Specific Instructions)

(a) No.	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
—	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
—	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
—	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
—	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
—	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
—	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
—	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)

Name of organization
TEXAS FOR A REPUBLICAN MAJORITY

Employer identification number
74-3014202

Part I Contributors (See Specific Instructions)

(a) No	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
---	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
---	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
---	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
---	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
---	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
---	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)
---	\$	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution.)

Part II Statement of Functional Expenses

All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others. (See page 21 of the instructions.)

Do not include amounts reported on line 6b, 6c, 9b, 10b, or 16 of Part I		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22	Grants and allocations (attach schedule) (cash \$ _____ noncash \$ _____)	22			
23	Specific assistance to individuals (attach schedule)	23			
24	Benefits paid to or for members (attach schedule)	24			
25	Compensation of officers, directors, etc.	25			
26	Other salaries and wages	26			
27	Pension plan contributions	27			
28	Other employee benefits	28			
29	Payroll taxes	29			
30	Professional fundraising fees	30	122,528.44		122,528.44
31	Accounting fees	31	19,065.00	19,065.00	
32	Legal fees	32	5,290.00	5,000.00	10,290.00
33	Supplies	33			
34	Telephone	34	4,031.69	4,031.69	
35	Postage and shipping	35	1,934.38	1,934.38	
36	Occupancy	36			
37	Equipment rental and maintenance	37			
38	Printing and publications	38	62,135.67	62,135.67	
39	Travel	39	19,530.30	19,530.30	
40	Conferences, conventions, and meetings	40	22,343.33	22,343.33	
41	Interest	41			
42	Depreciation, depletion, etc. (attach schedule)	42			
43	Other expenses not covered above (itemize):	43			
b	CONTRACT LABOR	43b	124,291.62	74,291.62	50,000.00
c	BANK CHARGES	43c	15.00		15.00
d	MISC.	43d	258.00		258.00
e	CAMPING ACTIVITIES	43e	102,086.19	1,027,086.19	
44	Total functional expenses (add lines 22 through 43). Organizations completing columns (B)-(D), carry these totals to lines 13-15	44	1,418,449.62	1,168,513.48	127,457.70

Joint Costs Check if you are following SOP 98-2

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services? Yes No

If "Yes," enter (i) the aggregate amount of these joint costs \$ _____, (ii) the amount allocated to Program services \$ _____,

(iii) the amount allocated to Management and general \$ _____, and (iv) the amount allocated to Fundraising \$ _____

Part III Statement of Program Service Accomplishments (See page 24 of the instructions)

What is the organization's primary exempt purpose? _____

All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)

Program Service Expenses (required for 501(c)(3) and (4) orgs. and 4947(a)(1) trusts, but optional for others)

a	ACTIVITIES RELATED TO SUPPORT OF REPUBLICANS FOR STATE LEGISLATURE AND STATEWIDE OFFICES IN THE STATE OF TEXAS	(Grants and allocations \$ _____)	1,168,513.48
b	_____	(Grants and allocations \$ _____)	
c	_____	(Grants and allocations \$ _____)	
d	_____	(Grants and allocations \$ _____)	
e	Other program services (attach schedule)	(Grants and allocations \$ _____)	
f	Total of Program Service Expenses (should equal line 44, column (B), Program services)		

Part IV Balance Sheets (See page 24 of the instructions)

Note		(A) Beginning of year		(B) End of year	
Assets	45	Cash—non-interest-bearing	116,000.01	45	77,279.99
	46	Savings and temporary cash investments		46	
	47a	Accounts receivable		47a	
		b Less allowance for doubtful accounts		47b	47c
	48a	Pledges receivable		48a	
		b Less allowance for doubtful accounts		48b	48c
	49	Grants receivable		49	
	50	Receivables from officers, directors, trustees, and key employees (attach schedule)		50	
	51a	Other notes and loans receivable (attach schedule)		51a	
		b Less allowance for doubtful accounts		51b	51c
	52	Inventories for sale or use		52	
	53	Prepaid expenses and deferred charges		53	
	54	Investments—securities (attach schedule)		54	
		▶ <input type="checkbox"/> Cost <input type="checkbox"/> FMV			
	55a	Investments—land, buildings, and equipment basis		55a	
		b Less accumulated depreciation (attach schedule)		55b	55c
	56	Investments—other (attach schedule)		56	
57a	Land, buildings, and equipment basis		57a		
	b Less accumulated depreciation (attach schedule)		57b	57c	
58	Other assets (describe ▶ _____)		58		
59	Total assets (add lines 45 through 58) (must equal line 74)	116,000.01	59	77,279.99	
Liabilities	60	Accounts payable and accrued expenses		60	
	61	Grants payable		61	
	62	Deferred revenue		62	
	63	Loans from officers, directors, trustees, and key employees (attach schedule)		63	
	64a	Tax-exempt bond liabilities (attach schedule)		64a	
		b Mortgages and other notes payable (attach schedule)		64b	
65	Other liabilities (describe ▶ _____)		65		
66	Total liabilities (add lines 60 through 65)	-0-	66	-0-	
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here ▶ <input type="checkbox"/> and complete lines 67 through 69 and lines 73 and 74				
	67	Unrestricted		67	
	68	Temporarily restricted		68	
	69	Permanently restricted		69	
	Organizations that do not follow SFAS 117, check here ▶ <input type="checkbox"/> and complete lines 70 through 74				
	70	Capital stock, trust principal, or current funds		70	
	71	Paid-in or capital surplus, or land, building, and equipment fund		71	
	72	Retained earnings, endowment, accumulated income, or other funds		72	
73	Total net assets or fund balances (add lines 67 through 69 or lines 70 through 72) (column (A) must equal line 19, column (B) must equal line 21)		73		
74	Total liabilities and net assets / fund balances (add lines 66 and 73)	116,000.01	74	77,279.99	

Form 990 is available for public inspection and, for some people, serves as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, please make sure the return is complete and accurate and fully describes, in Part III, the organization's programs and accomplishments.

Part IV-A Reconciliation of Revenue per Audited Financial Statements with Revenue per Return (See page 26 of the instructions)	Part IV-B Reconciliation of Expenses per Audited Financial Statements with Expenses per Return
<p>NA</p> <p>a Total revenue, gains, and other support per audited financial statements ▶</p> <p>b Amounts included on line a but not on line 12, Form 990</p> <p>(1) Net unrealized gains on investments \$ _____</p> <p>(2) Donated services and use of facilities \$ _____</p> <p>(3) Recoveries of prior year grants \$ _____</p> <p>(4) Other (specify) _____</p> <p>..... \$ _____</p> <p>Add amounts on lines (1) through (4) ▶</p> <p>c Line a minus line b ▶</p> <p>d Amounts included on line 12, Form 990 but not on line a</p> <p>(1) Investment expenses not included on line 6b, Form 990 \$ _____</p> <p>(2) Other (specify) _____</p> <p>..... \$ _____</p> <p>Add amounts on lines (1) and (2) ▶</p> <p>e Total revenue per line 12, Form 990 (line c plus line d) ▶</p>	<p>a Total expenses and losses per audited financial statements ▶</p> <p>b Amounts included on line a but not on line 17, Form 990</p> <p>(1) Donated services and use of facilities \$ _____</p> <p>(2) Prior year adjustments reported on line 20, Form 990 \$ _____</p> <p>(3) Losses reported on line 20, Form 990 \$ _____</p> <p>(4) Other (specify) _____</p> <p>..... \$ _____</p> <p>Add amounts on lines (1) through (4) ▶</p> <p>c Line a minus line b ▶</p> <p>d Amounts included on line 17, Form 990 but not on line a.</p> <p>(1) Investment expenses not included on line 6b, Form 990 \$ _____</p> <p>(2) Other (specify) _____</p> <p>..... \$ _____</p> <p>Add amounts on lines (1) and (2) ▶</p> <p>e Total expenses per line 17, Form 990 (line c plus line d) ▶</p>

Part V List of Officers, Directors, Trustees, and Key Employees (List each one even if not compensated, see page 26 of the instructions)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (if not paid, enter -0-)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances
JAMES ELLIS 5725 SAM HOUSTON CIRCLE AUSTIN TX 78731	DIRECTOR	5000.00		
JOHN COLYNDRO	EX DIRECTOR	50,000.00		
BILL CEVERA HA	TREASURER	-0-		

75 Did any officer, director, trustee, or key employee receive aggregate compensation of more than \$100,000 from your organization and all related organizations, of which more than \$10,000 was provided by the related organizations? Yes No
If "Yes," attach schedule—see page 26 of the instructions

Part VII Other Information (See page 27 of the instructions)

		Yes	No
76	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity		<input checked="" type="checkbox"/>
77	Were any changes made in the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes		<input checked="" type="checkbox"/>
78a	Did the organization have unrelated business gross income of \$1,000 or more during the year covered by this return?	<input checked="" type="checkbox"/>	
b	If "Yes," has it filed a tax return on Form 990-T for this year?		<input checked="" type="checkbox"/>
79	Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement		<input checked="" type="checkbox"/>
80a	Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers etc., to any other exempt or nonexempt organization?		<input checked="" type="checkbox"/>
b	If "Yes," enter the name of the organization _____ and check whether it is <input type="checkbox"/> exempt or <input type="checkbox"/> nonexempt		
81a	Enter direct or indirect political expenditures. See line 81 instructions	81a	YES
b	Did the organization file Form 1120-POL for this year?	81b	<input checked="" type="checkbox"/>
82a	Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value?	82a	<input checked="" type="checkbox"/>
b	If "Yes," you may indicate the value of these items here. Do not include this amount as revenue in Part I or as an expense in Part II (See instructions in Part III)	82b	
83a	Did the organization comply with the public inspection requirements for returns and exemption applications?	83a	<input checked="" type="checkbox"/>
b	Did the organization comply with the disclosure requirements relating to quid pro quo contributions?	83b	<input checked="" type="checkbox"/>
84a	Did the organization solicit any contributions or gifts that were not tax deductible?	84a	<input checked="" type="checkbox"/>
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	84b	<input checked="" type="checkbox"/>
85	501(c)(4), (5), or (6) organizations a Were substantially all dues nondeductible by members? <i>WA</i>	85a	
b	Did the organization make only in-house lobbying expenditures of \$2,000 or less? If "Yes" was answered to either 85a or 85b, do not complete 85c through 85h below unless the organization received a waiver for proxy tax owed for the prior year	85b	<input checked="" type="checkbox"/>
c	Dues, assessments, and similar amounts from members	85c	
d	Section 162(e) lobbying and political expenditures	85d	
e	Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices	85e	
f	Taxable amount of lobbying and political expenditures (line 85d less 85e)	85f	
g	Does the organization elect to pay the section 6033(e) tax on the amount on line 85f?	85g	
h	If section 6033(e)(1)(A) dues notices were sent, does the organization agree to add the amount on line 85f to its reasonable estimate of dues allocable to nondeductible lobbying and political expenditures for the following tax year?	85h	
86	501(c)(7) orgs Enter a Initiation fees and capital contributions included on line 12	86a	
b	Gross receipts, included on line 12, for public use of club facilities	86b	
87	501(c)(12) orgs Enter a Gross income from members or shareholders	87a	
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	87b	
88	At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership or an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Part IX	88	<input checked="" type="checkbox"/>
89a	501(c)(3) organizations Enter Amount of tax imposed on the organization during the year under section 4911 _____, section 4912 _____, section 4955 _____		
b	501(c)(3) and 501(c)(4) orgs Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach a statement explaining each transaction	89b	<input checked="" type="checkbox"/>
c	Enter Amount of tax imposed on the organization managers or disqualified persons during the year under sections 4912, 4955, and 4958 _____		
d	Enter Amount of tax on line 89c, above, reimbursed by the organization _____		
90a	List the states with which a copy of this return is filed _____ TEXAS		
b	Number of employees employed in the pay period that includes March 12, 2002 (See instructions)	90b	0
91	The books are in care of _____ SUSSEL F. ANDERSON Telephone no _____ (512) 318-8360 Located at _____ 5725 SAM HOUSTON CIRCLE, AUSTIN, TX 78773 ZIP + 4 _____ 78773		
92	Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of Form 1041—Check here <input type="checkbox"/> and enter the amount of tax-exempt interest received or accrued during the tax year _____ 92		

Part VII Analysis of Income-Producing Activities (See page 31 of the instructions)

Note Enter gross amounts unless otherwise indicated

	Unrelated business income		Excluded by section 512, 513, or 514		(E) Related or exempt function income
	(A) Business code	(B) Amount	(C) Exclusion code	(D) Amount	
93 Program service revenue					
a _____					
b _____					
c _____					
d _____					
e _____					
f Medicare/Medicaid payments					
g Fees and contracts from government agencies					
94 Membership dues and assessments					
95 Interest on savings and temporary cash investments					
96 Dividends and interest from securities					
97 Net rental income or (loss) from real estate					
a debt-financed property					
b not debt-financed property					
98 Net rental income or (loss) from personal property					
99 Other investment income					
100 Gain or (loss) from sales of assets other than inventory					
101 Net income or (loss) from special events					
102 Gross profit or (loss) from sales of inventory					
103 Other revenue					
a _____					
b _____					
c _____					
d _____					
e _____					
104 Subtotal (add columns (B), (D), and (E))					
105 Total (add line 104, columns (B), (D), and (E))					

Note Line 105 plus line 1d, Part I, should equal the amount on line 12, Part I

Part VIII Relationship of Activities to the Accomplishment of Exempt Purposes (See page 32 of the instructions)

Line No	Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes)
106	106

Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities (See page 32 of the instructions)

(A) Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets
	%			
	%			
	%			
	%			

Part X Information Regarding Transfers Associated with Personal Benefit Contracts (See page 33 of the instructions)

(a) Did the organization, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? Yes No
 (b) Did the organization during the year pay premiums, directly or indirectly, on a personal benefit contract? Yes No
Note If "Yes" to (b), file Form 8870 and Form 4720 (see instructions)

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Please Sign Here
 Signature of officer: John Colanardo Date: 3/14/03
 Type or print name and title: JOHN COLANARDO EXECUTIVE DIRECTOR

Paid Preparer's Use Only
 Preparer's signature: _____ Date: _____ Check if self-employed:
 Firm's name (or yours if self-employed), address and ZIP + 4: _____ EIN: _____
 Phone no: _____



Attachment C:

Form 8872, “Texans for a Republican Majority”

Form **8872**
(July 2000)

Political Organization Report of Contributions and Expenditures

OMB No. 1545-1696

Department of the Treasury
Internal Revenue Service

▶ See separate instructions.

A For the period beginning **October 17**, 2002 and ending **November 23**, 2002

B Check applicable boxes: Initial report Change of address Amended report Final report

1 Name of organization
Texans for a Republican Majority Employer identification number
74 3014202

2 Mailing address (P.O. Box or number, street, and room or suite number)
5725 Sam Houston Circle

City or town, state, and ZIP code
Austin, TX 78731

3 E-mail address of organization **4** Date organization was formed
9/6/2001

5a Name of custodian of records
Russell F. Anderson **5b** Custodian's address
5725 Sam Houston Circle
Austin, TX 78731

6a Name of contact person
Russell F. Anderson **6b** Contact person's address
5725 Sam Houston Circle
Austin, TX 78731

7 Business address of organization (if different from mailing address shown above). Number, street, and room or suite number
City or town, state, and ZIP code

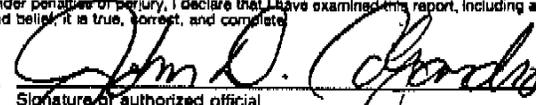
8 Type of report (check only one box)

- a** First quarterly report (due by April 15)
- b** Second quarterly report (due by July 15)
- c** Third quarterly report (due by October 15)
- d** Year-end report (due by January 31)
- e** Mid-year report (Non-election year only-due by July 31)
- f** Monthly report for the month of: _____
(due by the 20th day following the month shown above, except the December report, which is due by January 31)
- g** Pre-election report (due by the 12th or 15th day before the election)
(1) Type of election: _____
(2) Date of election: _____
(3) For the state of: _____
- h** Post-general election report (due by the 30th day after general election)
(1) Date of election: **November 5, 2002**
(2) For the state of: **Texas**

9 Total amount of reported contributions (total from all attached Schedules A) **200,376.45**

10 Total amount of reported expenditures (total from all attached Schedules B) **274,894.25**

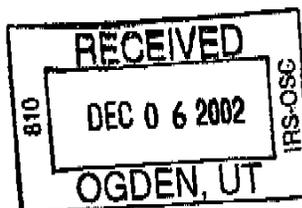
Sign Here

Under penalty of perjury, I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature of authorized official Date **12-02-02**

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 39406G

Form **8872** (7-2000)



16

FILMED DEC 1 2002

Schedule A Itemized Contributions		Schedule A page 1 of 2
Name of organization Texans for a Republican Majority		Employer identification number 74 3014202
Contributor's name, mailing address and ZIP code Reed Morlan 8 Shadder Way Houston, TX 77019	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation Executive	
	Aggregate contributions year-to-date ▶ \$ 5,000.00	
Contributor's name, mailing address and ZIP code Koch PAC 655 15th St. NW, #445 Washington, D.C. 20005	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$ 3,000.00	
Contributor's name, mailing address and ZIP code J.A. Elkins 1001 Fannin Street Houston, TX 77002	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation Executive	
	Aggregate contributions year-to-date ▶ \$ 15,000.00	
Contributor's name, mailing address and ZIP code David M. Underwood 909 Fannin, Suite 850 Houston, TX 77010	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation Executive	
	Aggregate contributions year-to-date ▶ \$ 10,000.00	
Contributor's name, mailing address and ZIP code S. Ray Huffines P.O. Box 869269 Plano, TX 75086	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation Executive	
	Aggregate contributions year-to-date ▶ \$ 250.00	
Contributor's name, mailing address and ZIP code Harvey Aikman 2400 Sendero Ave. Rissston, TX 78572	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation Executive	
	Aggregate contributions year-to-date ▶ \$ 1,000.00	
Contributor's name, mailing address and ZIP code Texas Business of Commerce PAC 1209 Nueces Street Austin, TX 78701	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$ 13,126.45	
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$	
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$	
Subtotal of contributions reported on this page only. Enter here and also include this amount in the total on line 9 of Form 8872		\$ 47,376.45

Schedule A Itemized Contributions		Schedule A page 2 of 2
Name of organization Texans for a Republican Majority		Employer identification number 74 3014202
Contributor's name, mailing address and ZIP code Alliance for Quality Nursing Home Care Inc. One Beacon St. #1100 Boston, MA 02108	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$ 100,000.00	
Contributor's name, mailing address and ZIP code Preston, Gates, Ellis, Rouvelas & Mead LLP 1735 New York Ave. NW Washington, D.C. 20006	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$ 25,000.00	
Contributor's name, mailing address and ZIP code Odessa Physical Therapy PC 4407 N. Grandview Ave. Odessa, TX 79762	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$ 1,000.00	
Contributor's name, mailing address and ZIP code Midland Physical Therapy PC 301 Dodson Street Midland, TX 79701	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$ 1,000.00	
Contributor's name, mailing address and ZIP code Pacific Care 8200 IH 10 West #1000 San Antonio, TX 78230	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$ 2,500.00	
Contributor's name, mailing address and ZIP code Barona 1095 Barona Road Lakeside, CA 92040	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$ 5,000.00	
Contributor's name, mailing address and ZIP code Texas Package Stores Association 1122 Colorado St., #311 Austin, TX 78701	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$ 1,500.00	
Contributor's name, mailing address and ZIP code RDM Enterprises P.O. Box 549 Temple, TX 76503	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$ 5,000.00	
Contributor's name, mailing address and ZIP code AT&T 919 Congress, Suite 900 Austin, TX 78701	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date ▶ \$	
Subtotal of contributions reported on this page only. Enter here and also include this amount in the total on line 9 of Form 8872		\$ 181,000.00

Schedule B Itemized Expenditures		Schedule B page 1 of 6
Name of organization Texans for a Republican Majority		Employer identification number 74 : 3014202
Recipient's name, mailing address and ZIP code Deborah Turner 3104 Scarlet Oak Cove Round Rock, TX 78684	Name of recipient's employer	Amount of each expenditure reported for this period \$ 1,800.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Ed Shack 814 San Jacinto #202 Austin, TX 78731	Name of recipient's employer	Amount of each expenditure reported for this period \$ 1,170.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Cathy Anderson 5725 Sam Houston Circle Austin, TX 78731	Name of recipient's employer	Amount of each expenditure reported for this period \$ 570.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Tri-South 5725 Sam Houston Circle Austin, TX 78731	Name of recipient's employer	Amount of each expenditure reported for this period \$ 370.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Contact America 7777 Cirard Ave., #206 La Jolla, CA 92637	Name of recipient's employer	Amount of each expenditure reported for this period \$ 65,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code AT&T Wireless P.O. Box 650054 Dallas, TX 75265	Name of recipient's employer	Amount of each expenditure reported for this period \$ 127.80
	Recipient's occupation	
Recipient's name, mailing address and ZIP code X-Roads Communication 1240 North Pitt Street #310 Alexandria, VA 22314	Name of recipient's employer	Amount of each expenditure reported for this period \$ 800.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code John Colyandro 6600 Austin Center Blvd. #1332 Austin, TX 78731	Name of recipient's employer	Amount of each expenditure reported for this period \$ 4,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Tri-South 5725 Sam Houston Circle Austin, TX 78731	Name of recipient's employer	Amount of each expenditure reported for this period \$ 1,400.00
	Recipient's occupation	
Subtotal of expenditures reported on this page only. Enter here and also include this amount in the total on line 10 of Form 8872.		\$ 75,237.80

Schedule B Itemized Expenditures		Schedule B page 2 of 6
Name of organization Texans for a Republican Majority		Employer identification number 74 3014202
Recipient's name, mailing address and ZIP code Loeffler, Jones, & Tuggey 755 East Mulberry San Antonio, TX 78212	Name of recipient's employer	Amount of each expenditure reported for this period \$ 10,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Kevin Brannon 1213 Cameron Allen, TX 75002	Name of recipient's employer	Amount of each expenditure reported for this period \$ 2,329.66
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Coastal Consulting 5907 Bayberry Way Sugarland, TX 77479	Name of recipient's employer	Amount of each expenditure reported for this period \$ 2,500.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Allegience Telecom 1950 Stemmons Expressway #3026 Dallas, TX 75707	Name of recipient's employer	Amount of each expenditure reported for this period \$ 49.51
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Deborah Turner 3104 Scarlet Oak Cove Round Rock, TX 78664	Name of recipient's employer	Amount of each expenditure reported for this period \$ 150.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Jim Ellis 1155 21st Street NW #300 Washington, D.C. 20036	Name of recipient's employer	Amount of each expenditure reported for this period \$ 5,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Ed Shack 814 San Jacinto #202 Austin, TX 78731	Name of recipient's employer	Amount of each expenditure reported for this period \$ 240.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code NIG ACCUPP 2301 Parkview #405 Ft. Worth, TX 76102	Name of recipient's employer	Amount of each expenditure reported for this period \$ 1,200.00
	Recipient's occupation	
Subtotal of expenditures reported on this page only. Enter here and also include this amount in the total on line 10 of Form 8872.		\$ 21,469.16

Schedule B Itemized Expenditures		Schedule B page 3 of 6
Name of organization Texans for a Republican Majority		Employer identification number 74 : 3014202
Recipient's name, mailing address and ZIP code Lilly & Co. 100 S. Congress Austin, TX 78780	Name of recipient's employer	Amount of each expenditure reported for this period \$ 7,190.72
	Recipient's occupation	
Recipient's name, mailing address and ZIP code WMR Consulting 1009 Statesman Court Frederick, MD 21701	Name of recipient's employer	Amount of each expenditure reported for this period \$ 175.55
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Tri-South 5725 Sam Houston Circle Austin, TX 78731	Name of recipient's employer	Amount of each expenditure reported for this period \$ 600.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Subtotal of expenditures reported on this page only. Enter here and also include this amount in the total on line 10 of Form 8872		\$ 7,966.27

Schedule B Itemized Expenditures		Schedule B page 4 of 6
Name of organization Texans for a Republican Majority		Employer identification number 74 3014202
Recipient's name, mailing address and ZIP code Bryan Hughes for State Rep P.O. Box 1462 Mineola, TX 75773	Name of recipient's employer	Amount of each expenditure reported for this period \$ 21,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Strategy Group for Media 100 East Broad Street, #1400 Columbus, OH 43215	Name of recipient's employer	Amount of each expenditure reported for this period \$ 9,200.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Ken Mercer for State Rep P.O. Box 781301 San Antonio, TX 78278	Name of recipient's employer	Amount of each expenditure reported for this period \$ 5,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Coalition to Elect Larry Taylor P.O. Box 1208 Friendswood, TX 77549	Name of recipient's employer	Amount of each expenditure reported for this period \$ 12,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Friends of Eddie Shaubarger 567 CR 2006 Liberty, TX 77575	Name of recipient's employer	Amount of each expenditure reported for this period \$ 6,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Rick Green Team P.O. Box 900 Dripping Springs, TX 78682	Name of recipient's employer	Amount of each expenditure reported for this period \$ 10,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Sid Miller Campaign 6407 Hwy 377 Stephenville, TX 76401	Name of recipient's employer	Amount of each expenditure reported for this period \$ 10,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Jack Stück for State Rep. P.O. Box 26825 Austin, TX 78755	Name of recipient's employer	Amount of each expenditure reported for this period \$ 5,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code E. Communication Advantage 8317 Cross Park Drive #350 Austin, TX 78759	Name of recipient's employer	Amount of each expenditure reported for this period \$ 3,500.00
	Recipient's occupation	
Subtotal of expenditures reported on this page only. Enter here and also include this amount in the total on line 10 of Form 8872		\$ 81,700.00

Schedule B Itemized Expenditures		Schedule B page 5 of 6
Name of organization Texans for a Republican Majority		Employer identification number 74 : 3014202
Recipient's name, mailing address and ZIP code E. Communication Advantage 8317 Cross Park Drive #350 Austin, TX 78759	Name of recipient's employer	Amount of each expenditure reported for this period \$ 4,500.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Clark Weider Campaign P.O. Box 1496 Beeville, TX 78104	Name of recipient's employer	Amount of each expenditure reported for this period \$ 3,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Bryan Hughes for State Rep P.O. Box 1462 Mineola, TX 75773	Name of recipient's employer	Amount of each expenditure reported for this period \$ 10,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Contact America 7777 Girard Ave. #206 La Jolla, CA 92037	Name of recipient's employer	Amount of each expenditure reported for this period \$ 17,387.52
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Mike Hamilton for State Rep P.O. Box 301 Mauriceville, TX 77626	Name of recipient's employer	Amount of each expenditure reported for this period \$ 5,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Eddie Shauberg for State Rep 567 CR 2006 Liberty, TX 77575	Name of recipient's employer	Amount of each expenditure reported for this period \$ 3,000.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Contact America 7777 Girard Ave. #206 La Jolla, CA 92037	Name of recipient's employer	Amount of each expenditure reported for this period \$ 30,652.65
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Weeks & Associates P.O. Box 5041 Round Rock, TX 78683	Name of recipient's employer	Amount of each expenditure reported for this period \$ 576.90
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Weeks & Associates P.O. Box 5041 Round Rock, TX 78683	Name of recipient's employer	Amount of each expenditure reported for this period \$ 127.50
	Recipient's occupation	
Subtotal of expenditures reported on this page only. Enter here and also include this amount in the total on line 10 of Form 8872		\$ 74,244.57

Schedule B Itemized Expenditures		Schedule B page 6 of 6
Name of organization Texans for a Republican Majority		Employer identification number 74: 3014202
Recipient's name, mailing address and ZIP code Strategy Group for Media 100 East Broad Street, #1400 Columbus, OH 43215	Name of recipient's employer	Amount of each expenditure reported for this period \$ 1,150.00
	Recipient's occupation	
Recipient's name, mailing address and ZIP code Thomas Graphics P.O. Box 142226 Austin, TX 78714	Name of recipient's employer	Amount of each expenditure reported for this period \$ 13,126.45
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period \$
	Recipient's occupation	
Subtotal of expenditures reported on this page only. Enter here and also include this amount in the total on line 10 of Form 8872.		\$ 14,276.45

Attachment D:

Jake Bernstein and Dave Mann, “The Rise of the Machine,”
The Texas Observer (August 29, 2003)

T Feature: [8/29/2003](#)

The Rise of the Machine

How a small group of politicians and corporations bought themselves a legislature

BY JAKE BERNSTEIN AND DAVE MANN

The facts are widely known. An unprecedented coordination between the Republican administration and big corporate interests held the country tightly in its grip. In most instances, the machine simply enjoyed the exercise of raw power with little effort to justify its actions. Come election time though, the party of privilege and its moneyed patrons drowned out opponents with the sheer volume of their propaganda. Never before had so many dollars been spent to mass-market a political image. Above all, the machine pushed the message that it was the true guardian of patriotism, indistinguishable from the Stars and Stripes. Then, once in power, it opened the public treasury to a rapacious corporate elite.

As conditions worsened for a growing underclass, the victims of the system felt powerless to change it. Several years back, an effort to organize a viable national third political party to counter the corporate control had failed. And now, business lobbyists dictated the law at every level. Legislation was cooked behind the closed doors of private clubs and then passed into law. While the lobby fought ferociously against any check on its prerogatives, it had a special distaste for new corporate taxes. Aided by its legislative enablers, the corporate elite indulged in a natural inclination toward monopoly—especially when it came to media and transportation.



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Illustration by Doug Potter

In Texas in 1905—about the time all this was happening—miraculously, some reform crept through the state legislature. Farmers, laborers, women, and prohibitionists had joined together to make the Lone Star State one of the centers of the populist movement. To stymie them, business lobbied the legislature under the umbrella of the Federated Commercial Clubs of Texas. Despite the FCCT's efforts, during the 1905 legislative session the reformers passed laws to raise taxes on the intangible assets of corporations, to tax the gross receipts of insurance companies, and to create franchise taxes on the stock and profits of corporations.

Without doubt one of the most meaningful reforms of the period came during a special session that year. Rep. Alexander Watkins Terrell, a former brigadier general, spearheaded legislation to prohibit corporate donations to political campaigns. Terrell hoped to starve what he called the "corrupt machine politicians" who gorged themselves on

special interest money. The law would also protect shareholders. It stopped company officers from using corporate funds to contribute to political races without stockholder consent. The Texas measure predated a similar prohibition at the federal level by two years. But unlike the federal law, which would simply ban corporate money, the Texas statute also prohibited "in-kind" gifts of goods and services such as office space, staff time, and polls.

Fast-forward almost 100 years. In Austin, Texas, home to the Public Integrity Unit of the Travis County District Attorney, a grand jury is empanelled. Its mission is to investigate one of the most audacious electoral efforts seen in Texas since Lyndon Johnson stole the 1948 U.S. Senate election from Coke Stevenson. The inquiry revolves around whether business leaders and Republicans—including possibly U.S. House Majority Leader Tom DeLay (R-Sugar Land)—conspired to break state law to funnel corporate cash into local elections. At the center of the scheme is the Texas Association of Business (TAB), which purports to represent business and chambers of commerce, but in reality has become a de facto appendage of the Republican Party.

Although Travis County District Attorney Ronnie Earle launched his inquiry in December 2002, TAB lawyers have prevented a complete airing of the facts, delaying the grand jury's work with a series of appeals. While the full picture of the multi-million-dollar operation has yet to be revealed, what is beyond dispute are the results of the machine's activities. In 2002, for the first time in 130 years, Republicans won a majority of seats in the Texas House. These winning candidates did not resemble your grandmother's GOP. By systematically marking for elimination moderate Republicans in contested primaries, the TAB and DeLay furnished a right-wing majority guaranteed to elect their anointed candidate for Speaker of the House, Tom Craddick (R-Midland). What transpired in the legislative session that followed is public record. Under Craddick, wielding his Republican majority like a cudgel, the Texas House passed legislation

That saved their corporate patrons hundreds of millions, if not billions, of dollars.

Those who know Bill Hammond characterize him as "a true believer." The 55-year-old president of the Texas Association of Business fought for Republican causes like deregulation and school testing long before they were fashionable. During the campaign, he was the frontman for the TAB's electoral strategy. Hammond flew around the state shaking down corporate executives. And after the election, he could be seen hovering outside the legislative chamber as lawmakers enacted the TAB's agenda. Currently, TAB lawyers are engaged in a tenacious struggle to keep Hammond from having to testify before the Travis County grand jury. Even though some doubt whether the tall and portly president deserves the credit for authorship of the TAB plan, if there is to be a fall guy in this tale of alleged wrongdoing, it could well be him.

The former owner of an awning company, Hammond served four terms in the Texas Legislature in the early 1980s. It was a good time to be a state representative. The economy was booming. Hammond became close with a tight-knit group of fellow members who shared both youth and a conservative ideology. A number of them lived in a house they dubbed "Macho Manor." And while the thought that some day they would become the political bosses of Texas would have been laughable then, that is in fact what happened.

The class of 1983 in the Texas House included Hammond, Tom DeLay, Tom Craddick, the current Speaker's gatekeeper-lobbyist Bill Messer, Republican consultant Bill Ceverha, and Gov. Rick Perry's chief of staff Mike Toomey. By the following session DeLay had moved on to Congress and a future governor, Rick Perry, then a West Texas Democrat, joined the group.

Twenty years later, these players—and some new faces—were in place to create a political dynasty. Karl Rove, with an assist from the U.S. Supreme Court, had deftly maneuvered George W. Bush into the White House. Tom DeLay was soon to become U.S. House Majority Leader. His vindictiveness, unmatched even in Washington, D.C., had earned him the nickname, "The Hammer." DeLay's ability to control a seemingly endless flow of campaign cash made him one of the most powerful politicians in Washington.

Perry had switched parties, scaled the steps of Texas politics, and slid into the governor's mansion in January 2001 as a replacement for George W. Bush. His close friend Mike Toomey was one of the most influential lobbyists in Austin with a client list that included among others AT&T, large insurance companies, and Enron. The long-suffering Tom Craddick had risen to Republican caucus chair and desperately wanted to be House Speaker. A cadre of former legislators-turned-lobbyists, all seemingly named Bill, stood ready to volunteer their expertise and reap the rewards of victory.

The stage had been set. Thanks to Rove, Bush, and Democratic bungling, Texas had tacked hard to the right. For years, Texas Republicans struggled to displace the Democratic majority in the statehouse. Leading the charge was the Houston-based Texans for Lawsuit Reform (TLR). The group had funded loosely organized attempts to overthrow Speaker Pete Laney (D-Hale Center), whom they believed had not sufficiently embraced tort reform. Not only would such



TAB President Bill Hammond
Photos by Jana Birchum

Legislation free business from costly lawsuits, it was a natural for Republicans since it targeted a pillar of Democratic funding: trial lawyers. TLR and the TAB had joined for the first time in 2000 to oust Laney, spending \$1.4 million and \$30,000 respectively. They had whittled the Democratic edge in the House down to six seats but had fallen short of total victory.

The 2001 legislative session, coinciding as it did with the census, brought redistricting. During the session the Republican-controlled Senate stopped a House redistricting plan. This allowed a GOP-dominated legislative redistricting board to draw a highly favorable map. But even with legislative districts slanted in their favor, the machine needed a big margin of victory in order to install Craddick as Speaker and not some moderate Republican.

In a press release immediately after the November, 2002 general election, Hammond would recount boastfully: "There was a unique opportunity to change the face of the legislature. [TAB] made a decision to participate on an unprecedented level. That is why at the close of the session in 2001, TAB devoted all its efforts to raising money to promote pro-business candidates in key House and Senate races."

The TAB needed money quickly and in a quantity most easily found through corporate sources. Under Terrell's 1905 law, a corporation can't spend its own money for non-administrative election activities, even for its own political action committee. Hammond desperately wanted to tap corporate funds. But how to spend that money and not run afoul of the law? The TAB couldn't use its regular political action committee. State law makes it a third-degree felony to knowingly give corporate money directly to a candidate.

TAB lawyers advised that the group could promote the candidates it liked and vilify those it did not simply by using "issue ads." TAB lawyer Ed Shack explained in a letter to potential donors that federal courts had ruled that independent organizations like the TAB could legally produce "issue ads" with corporate money so long as the mailers were designed simply to educate voters—not advocate for the election or defeat of a candidate. It's a fine line. The TAB would naturally be advocating for Republican candidates. (The organization did endorse one Democrat: John Sharp, a candidate for Lieutenant Governor who seemed guaranteed to win election but instead lost to David Dewhurst.)

The trick, according to Shack, was to avoid certain "magic words," which some federal courts have defined as obvious "express advocacy," words and phrases such as "vote for," "elect," "cast your ballot for," "defeat," and so on. As long as the TAB avoided these magic words, corporate-funded direct mail, phone banks, push polls, or any other election effort could say just about anything. Although the TAB availed itself of all the different means of expressing its views, the group focused primarily on glossy, lushly colored mail pieces. Finally, Shack explained, the campaign had to be truly independent. The TAB couldn't coordinate with Republican campaigns on the timing and content of corporate-funded mailers. Such coordination would constitute in-kind contributions, an illegal use of corporate money for campaign activities. If it followed these two guidelines, Shack wrote, the TAB could legally use corporate money for its attack ads and never divulge the origin of the cash.

But, as Shack noted, there was one caveat: The legal definition of express advocacy is not clear. The U.S. Supreme Court has never defined it, though it may do so this fall when it rules on the McCain-Feingold campaign finance law. By clinging to the so-called magic words test, the TAB

took a calculated risk.

In the general election, the TAB targeted 22 House races and two Senate races for its issue ads, spending a total of \$1.9 million in corporate money. But the TAB was not the only entity funneling corporate cash to the same group of Republican candidates.

On September 5, 2001, Tom DeLay formed an Austin-based political action committee whose mission was stated plainly in its name—Texans for a Republican Majority (TRM). TRM was a carbon copy of DeLay’s Americans for a Republican Majority PAC that has helped elect conservatives to the U.S. House for years. DeLay appointed one of his top aides, Jim Ellis, a director of TRM. The group’s treasurer was Bill Ceverha, another well-connected former Republican lobbyist who, while a member of the House, co-founded the Texas Conservative Coalition. Ceverha works principally on behalf of Dallas businessman Louis Beecherl, one of the state’s biggest Republican benefactors. Beecherl first hired Ceverha in 1988, when Beecherl successfully killed a Dallas light-rail referendum.

Candidate (Bold—Winners)	TAB PAC	TRM PAC	ARM PAC	RNSEC PAC	TLR PAC	Bob Perry	Subtotal
Nelson H. Balise		\$18,778			\$1,000	\$72,500	\$92,278
Todd A. Baxter	\$500	\$22,434	\$2,000	\$35,000	\$30,722	\$7,500	\$98,156
Ben Bentzin					\$115,890	\$62,500	\$178,390
Dwayne A. Behac	\$1,000	\$11,290	\$2,000	\$20,000	\$22,222	\$12,500	\$69,012
Betty J. Brown	\$1,000	\$23,000	\$5,000		\$16,792	\$15,000	\$60,792
Walter W. Christian	\$500		\$2,500		\$15,000	\$23,000	\$41,000
Byren Curtis Cook	\$1,000	\$20,662			\$25,188	\$13,500	\$60,350
Glenda L. Dawson	\$1,500	\$31,056	\$1,000	\$40,000	\$1,000	\$34,000	\$108,556
Robert F. Deuell	\$4,500		\$10,000		\$390,222	\$192,500	\$597,222
Dan Flynn	\$1,500	\$23,580		\$64,000	\$52,500	\$8,000	\$149,580
Halt E. Getteman	\$12,395	\$33,706	\$2,000		\$49,398	\$11,000	\$108,499
Rick Green	\$37,068	\$27,815	\$2,500	\$20,000	\$31,559	\$19,000	\$137,943
Michael Hamilton	\$1,500	\$36,369	\$1,000		\$58,125	\$11,000	\$107,994
Richard Hardcastle	\$1,000	\$10,000	\$2,500		\$74,787	\$25,000	\$113,287
D. Bryan Hughes	\$2,000	\$65,087	\$1,000				\$68,087
Kenneth B. Mercer	\$500	\$5,939			\$48,500	\$15,000	\$69,939
Sidney C. Miller	\$1,000	\$53,245	\$10,000		\$106,158	\$15,500	\$185,903
Dianne L. Roberts	\$500	\$53,224				\$25,000	\$78,724
Eugene J. Seaman	\$14,600	\$31,610	\$2,500		\$50,500	\$15,000	\$114,210
Edward Shauberg	\$3,000	\$25,793	\$1,000			\$2,500	\$32,293
Jack Stick	\$12,523	\$46,579	\$1,000	\$35,000	\$20,500	\$7,500	\$123,102
Larry Taylor	\$15,258	\$55,124	\$1,000	\$20,000	\$23,989	\$27,500	\$142,870
Martha J. Weng	\$1,000	\$44,351			\$73,980	\$27,500	\$146,831
TOTALS:	\$113,844	\$839,642	\$47,000	\$234,000	\$1,208,032	\$642,500	\$2,885,018
With TAB's \$1.9 million corporate issue-ad expenditures:							\$4,785,018

This chart, courtesy of Texans for Public Justice, shows how money from the machine played an integral part in the election of the above car cycle contributors through November 5 (post-election "late-train" money excluded). PAC donors are Texas Association of Business (TAB), Tex (TRM), Americans for a Republican Majority (ARM), Republican National State Elections Committee (RNSEC), and Texans for Lawsuit Reform

Later in the fall of 2001, TRM received \$50,000 in seed money from DeLay’s Americans for a

A construction magnate Bob Perry. Perry (no relation to the governor) is an ardent opponent of the civil justice system, and not surprisingly, a perpetual focus of lawsuits. He was the largest individual Republican donor in the 2002 cycle, writing close to \$4 million in checks to various Republican campaigns and PACs.

But exactly how much money flowed through Texans for a Republican Majority depends on which documents you look at. According to IRS documents, TRM received \$1.5 million in contributions and spent \$1.4 million during the 2002 election cycle. That's nearly double what TRM told the state ethics commission it raised and spent, even though the Austin-based TRM was actively involved in Texas campaigns and bound by state disclosure laws. But there's more going on here than reporting errors. Of the \$751,285 in contributions TRM didn't report to the state, at least \$602,300 (80 percent) was corporate money. This creates the appearance that DeLay's PAC may have poured illegal corporate money into Texas campaigns and hid it from state election officials.

DeLay aide Jim Ellis insists there is a simple explanation for the discrepancy between what TRM reported to the state ethics commission and what it filed with the IRS. TRM, he says, operated with two distinct accounts. One account, known as TRMPAC, functioned like any other PAC, raising hard-money contributions from individuals and other PACs and using that money for electioneering—all of it reported to the Texas Ethics Commission. The other account was registered with the IRS. It housed \$751,285 in mostly corporate (or soft) money that went for "administrative expenses," which he says doesn't need to be reported on the state level.

Campaign watchdogs disagree. While some of TRM's corporate money was used for legitimate administrative expenses, much of it went for political polls and consultants. Critics argue that is electioneering and should be paid for with hard money. Using corporate cash for polling and consultants allowed TRMPAC to spend more hard money on donations directly to candidates, potentially an in-kind contribution. "If political workers, consultants and polls are 'administrative expenses' then there is no corporate prohibition in Texas," asserts Fred Lewis of Campaigns for People. "No state has ever interpreted administrative expenses as political workers or political goods and services."

At first glance, it's easy to underestimate Jack Stick. At 37, he has boyish good looks and often wears slightly oversized suit jackets that give him the look of a child play-acting politician. But that exterior belies the tenacity of a man who served nine years as a local and federal prosecutor. In 2001, Stick leapt into the Republican primary for the newly created House District 50 that spans the conservative-leaning suburbs north of Austin.

"I knew I was going to win," Stick says. "I believed if I talked to enough people and told them what I wanted to do and what my ideas were, they would give me a shot."

One of the few people who seemed to share Stick's optimism was lobbyist Mike Toomey, who gave an early \$500 contribution. To most observers, though, Stick's initial run for office looked doubtful. Stick was a young political novice unknown to most voters. His campaign lacked the money necessary to overcome that anonymity. Relying on his own savings and donations from his friends, Stick spent \$24,000 in the month before the primary. In a competitive four-way Republican primary that included Bob Richardson, a well-funded former state legislator, Stick seemingly had little chance.

And indeed, Richardson handily won the first round of voting on March 12, 2002. Stick finished second, outlasting businesswoman Kris Gillespie by a mere 90 votes to squeak into a runoff with Richardson. The second round of voting was just a month away. Stick again faced long odds. But that's when Stick's fortunes began to turn.

In early April, Stick found himself on the receiving end of a \$5,000 contribution from Texans for a Republican Majority PAC. TAB's political action committee chipped in \$1,000. Texans for Lawsuit Reform added \$500 and Bob Perry gave \$2,500. Then came the mailers. The TAB and its political action committee flooded the district with five separate attack ads against Richardson. One lambasted the conservative Republican as a liberal personal injury attorney. Another labeled him a "wolf in sheep's clothing." "Bob wants you to think he's a Republican, but the truth is that Bob makes a living off of suing people," the ad read. "Bob Richardson is one wolf we need to keep out of the Texas Legislature." DeLay's PAC mailed out its own pro-Stick flier. It was clear that the machine had decided Stick was its boy.

On April 9, 2002, Stick—a lost-cause candidate just two months before—routed Richardson in the runoff election, winning 69 percent of the vote to reach the general election. (Almost half of the \$326,652 Stick received for the general election came from the machine.) Stick insists that he is not someone else's creation. "Did I talk to the TAB or Texans for a Republican Majority in terms of coordination? Absolutely not," he says.



Rep. Jack Stick

Stick wasn't the only candidate in the primary to receive the machine's largesse. The TAB and TRM backed candidates in 54 Republican primaries. The groups' money and mailers carried 48 of those candidates to victory. In the runoff, the TAB and TRM targeted 12 runoff races in the same way. Nine of the 12, including Stick, reached the general election. In all, the TAB claims to have sent out more than 500,000 pieces of mail during the primary season in support of its select group of Republicans. (Thomas Graphics, an Austin-based outfit with close ties to

Karl Rove, printed those mailers, and all subsequent TAB ads.)

The TAB paid for its primary campaigning out of two separate accounts. One belonged to the TAB's political action committee, the Business and Commerce PAC (or, more hilariously, BACPAC). This account seemingly operated as any PAC would, using legal hard-money contributions from individuals and other PACs for campaign activities. But the TAB also used a second account, its general operating fund, to pool corporate cash for a series of attack ads. It refuses to divulge the identities of the donors or how much they gave to this account.

Many of the primary mailers—including four of the anti-Richardson ads created to aid Stick—were paid for by BACPAC. According to state records, BACPAC spent just \$40,000 on the primary campaign. In fact, Hammond was never all that successful raising money from individual donors for BACPAC, taking in a measly \$135,000 in hard money during the 2002 election cycle. Tapping corporations with the promise that their contributions would remain anonymous proved much easier. While it's impossible to know how much money the TAB spent in the primary,

since it's unreported, Hammond later bragged in a fund-raising letter that "the voter education direct mail program we implemented in the March primary was made possible with corporate money."

Some of that corporate money may have come by way of TRM. In April 2002, TRM paid \$10,200 into the TAB's corporate fund, according to campaign documents. This payment, which most news accounts have overlooked, indicates TRM knew of and contributed to the TAB's corporate-funded mailer campaign. It also shows the two groups were likely working closely together in their primary efforts. "We certainly liked the program they were doing," says DeLay aide Ellis, who characterized the two organizations as "allies."

If in fact there was coordination between the political action committees and the TAB's secret account, it helps make the case that this was a partisan conspiracy designed to funnel illegal corporate cash to a specific slate of candidates.

For its part, TRM dumped more than \$200,000 on the primaries between January and April 2002, according to federal records. Among the expenditures was more than \$13,400 in payments to the Rove-linked Thomas Graphics, presumably for TRM's own direct mail campaign, including its one pro-Stick flier. The effect of these combined efforts was clear: The TAB, TRM, and Texans for Lawsuit reform had hit on a winning formula that cemented their grip on the Republican Party. So when the November general election rolled around, the Republican representative in almost every race would be a TAB-TRM candidate. Said one political observer, "What they did in the primary was a practice run for the general election."

On August 21, 2002, TAB president Bill Hammond delivered a letter to a statewide conference of insurers. The missive, circulated to representatives of the state's major insurance companies—State Farm, Allstate, USAA, and Farmers—was at once a call to arms and a plea for cash.

"As you know, the Texas Association of Business launched a successful voter education project during the March primary," the letter began. "Through a highly-targeted direct mail program, TAB made Texas voters aware of the voting records of a number of legislators—both good and bad. The November election is upon us, and we are preparing to do battle once again. There are at least 15 races that we plan to target. Every race we target will have two to four separate mail pieces. Each mailing will cost approximately \$17,500. While this program is costly, there is no doubt that this is a real opportunity to make a difference in the political climate in Austin."

That last line likely caught the attention of many of the assembled executives. After all, it had been a tough year for the insurance industry in Texas. Profits were in free-fall, and the big four insurers had jacked up homeowners and car insurance rates, in some cases as much as 110 percent. The state was descending into a full-blown insurance crisis. Farmers stopped writing homeowners policies and threatened to abandon the Texas market. Legislators argued the rate hikes were caused by too many mold and water damage lawsuits. Analysts largely agreed the industry had lost big in the stock market by passing them onto consumers.



Rep. Todd Baxter

real reform: forced rate rollbacks that could cost the insurance companies millions. If ever an industry needed the right political allies in power, it was Texas insurance companies in 2002. And, as luck would have it, here was Hammond asking them for money.

Hammond wrote in his August 21 letter that the TAB had raised \$650,000 for its planned "voter education program" in the general election and hoped to reach a million. "I hope you will consider asking your colleagues in the insurance industry to write a check for \$50,000 or \$100,000 to the TAB voter education effort." Just so they were clear what kind of campaign this was, Hammond added, "Contributions for this purpose are not reportable."

During the next two months, the TAB raised \$1.3 million in corporate money for its mailer campaign. It's impossible to know which companies contributed since the TAB won't release its donor list. But it's likely money came from the big four insurance companies. Farmers spokesperson Michelle Levy strenuously denied that the company donated money to the TAB's effort. Even if that's true, Farmers helped finance the machine in other ways.

Three months before Hammond's letter to the insurance industry, in May 2002, an executive at Westar Energy discovered his company was about to make a political donation that, on its face, seemed rather odd. Westar Executive Vice President Douglas Lake didn't understand why his Kansas-based energy company with no operations in Texas and no stake in the state's elections would give \$25,000 to a Texas congressman's PAC that operates solely in Texas campaigns.

"DeLay is from TX. What is our connection?" Lake emailed a colleague. Westar Vice President Douglas Lawrence responded that contributions to DeLay, Texas Republican Joe Barton, Billy Tauzin (R-La), and Sen. Richard Shelby (R-Ala.) were necessary to get "a strong position at the table" during a House-Senate conference committee hammering out a federal energy bill, according to documents unearthed by a federal investigation and first reported by The Washington Post. Westar wanted language added to the final bill exempting the company from certain forms of regulation. Even though Westar has no connection to Texas, the company needed DeLay's approval. The price, Westar executives were allegedly told, would be a \$25,000 contribution to DeLay's TRM. Lawrence wrote, "DeLay is House Majority Leader. His agreement is necessary before the House conferees can push the language we have in place in the House bill."

Once Westar made all the donations, Barton slipped the desired Westar exemption into the energy bill. (When Westar came under federal investigation several weeks later, Barton quietly removed the language.) Though all four legislators flatly deny that Westar money bought legislation, Westar executives were clearly under the impression that a certain amount of cash sent to the right places, in fact, would get them what they wanted. The incident not only reveals the implied quid pro quo between corporate campaign cash and legislation, but it also illustrates DeLay's power.

It isn't hard to imagine that many other non-Texas TRM contributors—such as the Washington, D.C.-based Alliance for Quality Nursing Home Care (\$100,000), a consortium of 11 for-profit nursing home companies; Questerra Corp. (\$50,000), a Richmond, Va.-based energy firm; and California-based Perfect Wave Technology (\$15,000)—probably found themselves in a similar position as Westar.

Those in the Texas market likely saw the efficacy of DeLay's goals immediately. The Farmers employee PAC was one of TRM's biggest benefactors, donating \$150,000 in the 2002 cycle, according to state records.

Insurance companies weren't the only ones to sign onto the TAB/TRM plan. AT&T was another firm desperate for a more friendly legislature. It was widely known that telecommunications giant SBC would push a deregulation bill during the 2003 session to dislodge AT&T from Texas' high-speed Internet market. This would have been a disaster for AT&T. High-speed Internet service is the crown jewel of the telecom industry, and ceding the Texas market to SBC would have cost AT&T billions. In the past, locally based SBC always got what it wanted in the Texas statehouse. Fortunately for AT&T, it had hired as a lead lobbyist a man who could tether AT&T's fortunes to the prospective Republican leadership—Mike Toomey.

AT&T spokesman Kerry Hibbs confirmed that AT&T donated corporate money to the TAB during the 2002 election cycle. "We don't know what they used it for," he said. He declined to say how much AT&T contributed. Federal and state records show AT&T gave \$20,000 to TRM.

By most accounts, Rep. Ann Kitchen had a remarkably successful freshman term in 2001. The west Austin Democrat earned accolades in the Capitol for yeoman's work on prompt pay and medical privacy bills. But in 2002, a stellar record would not be enough.

Kitchen knew it would be a tough fight to win reelection. The GOP-controlled legislative redistricting board redrew her district to not only make it more Republican, but removed her home from it. Kitchen had to rent an apartment in the district in order to qualify as a resident. She knew her opponent, Todd Baxter, a former county commissioner, would likely be well funded by wealthy Republican backers. And although the Austin American-Statesman had endorsed her as "a proven success," the Texas Association of Business had not been as kind.

In October 2001, the TAB, for the first time in its 75-year history, had released a legislative scorecard. In its ranking, the average score for Democrats was 37 percent while Republicans received an average score of 89 percent. The scorecard sparked public condemnation from some chambers of commerce along the border and several canceled their memberships. Under the TAB ratings, Ann Kitchen scored 27 percent.

The TAB would use the ratings to great effect as part of its "issue" campaign against Democrats. "You don't want to be seen as anti-business, especially in swing districts," notes one member of the Democratic coordinated campaign.

A year after the release of the scorecard, with the election less than a month away, Baxter sent out mail pieces in the district attacking Kitchen's record on state spending. Kitchen, in order to counter what she describes as misleading information, left recorded phone messages for voters.



TAB lawyer Andy Taylor

The very next day, a TAB phone bank also left messages directing voters to call it to learn "the truth about Ann Kitchen's spending [and] taxes." On another occasion, Baxter sent a positive mailing outlining his stance on education. By the next day, voters received a mailer from the TAB attacking Kitchen's position on education.

Kitchen believes these two incidents demonstrate that the TAB at some level coordinated its advocacy campaign with Baxter, which would be illegal. "On the face of it, that all required coordination of message and timing," she says.

Baxter denies that there was any coordination. "[The TAB] had independent expenditures that were totally unrelated to my campaign," he insists.

These two incidents were both submitted by Kitchen to the grand jury in the form of an affidavit. The former representative is also a party to one of three civil suits against the TAB and TRM for their conduct during the election. It's litigation, Andy Taylor, the TAB's lawyer never misses a chance to characterize as "losing-candidate lawsuits."

Taylor is a prime example of the incestuous nature of the TAB/TRM effort. It extends to family members of those involved and goes all the way to the White House through Karl Rove. In 2001, Taylor worked for then-Attorney General and Rove protege John Cornyn in the Republican redistricting effort. He then left to join the law firm of Locke Liddell and Sapp that represents Texans for Lawsuit Reform. Soon after, Cornyn hired Taylor to do the same redistricting work he did as a state employee, this time paying Locke Liddell and Sapp \$804,478. Now Taylor is the chief lawyer and spokesman for the TAB. He also represents TRM in the civil lawsuits. This summer, Taylor is again the state's outside counsel on congressional redistricting.

Tom DeLay is another example. He picked his daughter Danielle Ferro's company, Coastal Consulting, to raise corporate money for TRM. She received a total of \$30,897 for her work. In essence, businesses that hoped to stay in the good graces of the U.S. House Majority Leader had to pay his daughter.

Chuck McDonald, who has worked for Texans for Lawsuit Reform, created the TAB mailers. McDonald has said that Hammond instructed him to put the logos of TRM and an NRA-sponsored group called the Law Enforcement Alliance of America (LEAA) on an unused TAB mailer.

In September 2002, TRM sent \$190,000 to the Republican National State Elections Committee (RNSEC). The money was corporate cash that would be illegal to give directly to candidates. Two weeks later, on October 4, RNSEC turned around and sent \$190,000 in seven contributions to Texas Republican House candidates. Critics charge TRM illegally laundered corporate money through the Republican Party. An RNC spokesman says the group complied with all campaign finance laws. DeLay's lieutenant Jim Ellis freely admits that the \$190,000 TRM sent included corporate cash. He says they gave it to the Republican Party because, "we like what the party does."

Come election day, the Republican machine performed almost perfectly. All told, TAB, TRM, TLR, and LEAA had spent more than six million dollars in the 2002 election. Not only did the machine capture the statehouse, it did so with a margin of 88 seats, easily catapulting Tom

S investment.

n January 14, 2003, the first day of the 78th Legislative Session, Tom Craddick was finally elected Speaker of the Texas House. His good friend Tom DeLay sat in the front row for the occasion. Five months later, at the end of the session, it would be abundantly clear just how valuable a Republican majority that voted as a bloc could be. When the leadership declared something a priority—even if it plainly went against the interests of their own constituents—Republicans in the House fell in line.

For DeLay, the purpose of Texans for a Republican Majority could be summed up in two words: congressional redistricting. The historic effort to redistrict in an off-census year without a court order has shattered the peace in the legislature. The famed bipartisanship of Governor George W. Bush is history. But despite the damage it is doing to the institution, and the disenfranchisement redistricting will wreak on rural Texas, those who took DeLay's money continue to try to do his bidding. As DeLay put it to reporters during the session: "I'm the majority leader and I want more seats."

Local business interests that supported the machine also scored big. During the session, for the first time in anyone's memory, telephone giant SBC's pet legislation died a quick death. The deregulation bill that would have given SBC dominance over the Texas high-speed Internet market never even got a hearing in committee. Its demise conservatively saved AT&T hundreds of millions of dollars.

Even with a protracted, divisive debate, a mammoth overhaul of the civil justice system sailed quickly to passage. This was the long-held dream of Texans for Lawsuit Reform and its sugar daddies such as Bob Perry. Tort reform also was likely a priority for all the businesses that contributed.

But the biggest winner in the 78th Legislature was the insurance industry. Big insurance gave well over a million dollars to the Republican machine. At the beginning of the session Democrats and a smattering of moderate Republicans had clamored for a bill to mandate rate rollbacks of at least 15 percent. (According to the Center for Economic Justice, homeowners insurance rates had surged an average of 58 percent over the past two years.) Instead of forcing the insurance companies to do right by consumers, Craddick and conservative Senate Republicans opted to allow them largely to police themselves. The final legislation had no guaranteed rate rollbacks. Instead, the companies would be required to submit their rates to the Texas Department of Insurance for approval. The final bill also allowed insurers to continue the controversial practice of using a person's credit history when writing policies.

On August 8, the Department of Insurance ordered rate rollbacks of an average of 13 percent. The department determined that rates were about \$510 million too high. Consumer advocates believe this is a lowball figure. They also doubt whether the companies who are appealing the decision will ever reduce their rates by the mandated figure. Even with the rollbacks, the Center for Economic Justice estimates that, since 2001, the insurance industry will have managed to sock Texas consumers for \$1.3 billion.

Shortly after the election, Travis County District Attorney Ronnie Earle started to hear stories of the TAB campaign. Austin American Statesman reporter Laylan Copelin was the first to reveal

many of the details about the TAB and TRM's election activities. Earle's investigation has seemed at times to track the veteran newsman's stories. What Earle heard and read worried him. The TAB effort appeared to cross the line that divides genuine efforts to educate voters from partisan political attacks funded with secret corporate money. After Hammond boasted of the TAB's efforts in a post-election press release, Earle says he decided the allegations against the TAB were worth looking into. "You can't break the law and brag about it," he has said.

In response to Earle's tenacious pursuit of the truth behind the TAB, Republicans have blasted the Democratic prosecutor for being on a witch hunt to undo an election his party lost handily.

On Jan. 16, 2003, the Travis County grand jury subpoenaed documents including ones that would identify the corporate donors to the TAB's mailer campaign. The grand jury also subpoenaed Hammond and the TAB contractor Chuck McDonald to testify. At first, Andy Taylor, the TAB attorney and spokesman, promised to cooperate with the inquiry. But when someone leaked news of the subpoenas, Taylor used it as an excuse to call into question the entire investigation.

The TAB refused to release any of the subpoenaed documents. Hammond declined to testify before the grand jury. Taylor and Hammond maintain that the TAB's mailers adhered to the U.S. Supreme Court's definition of "issue ads." That, according to Taylor, makes the ads legal free speech which, unlike electioneering, the government has no right to regulate. Taylor also contends that forcing the TAB to disclose its donor list constitutes an unconstitutional infringement on the corporate donors' First Amendment rights. He has compared the TAB's effort to protect its donor list to the NAACP's fight to keep its membership list secret in 1950s Alabama. "The point we were trying to make is that even though in theory grand jury proceedings are secret, in practice they're not," Taylor says. "So we felt like our donors' anonymity would be lost through cooperating with the grand jury."

Taylor's legal strategy has been a scattershot approach. In the eight months since the original subpoenas, he has filed about a dozen motions and asked five different courts to squash the grand jury investigation. Judges will almost never halt a grand jury investigation, and Taylor has lost every appeal. One witness to testify before the grand jury was John Colyandro, former executive director of TRM. His appearance stirred speculation that Earle is also investigating TRM. The district attorney's office would not comment, but DeLay aide Jim Ellis denies the group is under investigation.

Outside of the courtroom, Taylor and Earle have sparred through the media. In dueling briefings, Taylor—the slick, well-spoken Houston-based attorney—decries the injustice perpetrated against the TAB's right to free speech. Earle—the plodding, philosophical prosecutor from outside Fort Worth—warns that if the TAB gets away with using secret corporate money, the electoral system could become hopelessly corrupted.

The case currently sits before the state Court of Criminal Appeals on a procedural motion. Even with the TAB's considerable pull among influential Republicans, the Court of Criminal Appeals has already turned down Taylor's motions twice. Now, the nine-member court must decide if it will hear the TAB's plea to halt the grand jury investigation. If it does, Taylor will argue that the TAB shouldn't be subjected to the public embarrassment of Earle's investigation unless the district attorney can show that the TAB's ads were not simply issue-oriented and that election

R laws were broken. Earle will contend that the grand jury has a right to investigate potential crimes, period.

If the Court of Criminal Appeals rules that the grand jury inquiry can continue, Taylor says he will appeal to the U.S. Supreme Court.

Republicans note that this is not the first time corporate money has seeped into elections. And Democrats have used issue ads advantageously in the past. They are right on both counts. What made the 2002 election unique was the enormous amount of corporate money involved and the highly organized way it was applied.

Billy Clayton, a four-term House Speaker from 1975 to 1983, says he has never witnessed anything quite like the TRM-TAB campaign of 2002. "We just didn't do things like that," he says.

Clayton believes the high cost of elections and the never-ending lust for contributions corrupts politics and leads to voter apathy. He remembers his first House race cost him all of \$6,000 for the primary, runoff, and general election. Those days are, of course, long gone. To run for the state House now will cost as much as seven hundred thousand dollars. Aspire to the Senate? Be prepared to spend as much as two million. The spiraling cost of campaigns and pricey attack ads ensures that in modern politics the winning candidate will most always be the one with the most money. In this environment, enough corporate cash funneled into just the right race can swing an election, or even tilt the balance of power in a state legislature.

TRM's Jim Ellis says his boss Tom DeLay hopes to create similar political action committees for other states. The only obstacle in his path seems to be Ronnie Earle. And it's an open question how far Earle's investigation will go and what if any prosecution will come of it.

Based on the scant public testimony to date, it appears Earle's case is strongest on the issue of in-kind corporate contributions. Even in 1905, General Terrell recognized the corrosive impact of this kind of corporate influence. At issue now is whether TRM and the TAB used corporate money for political work that benefited their respective PACs.

Still, it seems doubtful that Earle can expose the true architects of the machine. Some believe a prime mover behind it is Perry's chief of staff, Mike Toomey. He was a lobbyist for Texans for Lawsuit Reform, AT&T, and big insurance. His schedule shows a meeting with Tom DeLay on the first day of the legislative session. And Toomey was also paid a small fee by TRM, presumably for consulting.

"He's always got his finger in the middle of everything but he never leaves any finger prints," notes one business lobbyist, who compares Toomey to Kaiser Soze, the elusive, all-powerful character in the movie *The Usual Suspects*.

Toomey did not respond to several requests for comment.

Regardless of how far he gets, Earle knows what's at stake. In his closing arguments in one of the TAB hearings, Earle spoke passionately about a return to the days a century ago when groups like the Federated Commercial Clubs of Texas wielded undue influence.

"TAB will take us back to the future to that time when the robber barons wielded power," he said. "The lessons from Enron and these other corporate scandals is that we really can't allow corporate wealth to translate into political power without abusing the public interest."

Support for this article was provided by the Observer's Maury Maverick Jr. Fund for Cantankerous Journalism.

Attachment E:

**“Salute to Texas Women in Leadership,”
TRMPAC Fundraising Invitation**

SALUTE TO TEXAS WOMEN IN LEADERSHIP

You are invited to attend a special luncheon honoring our Republican Texas Women Leaders. Come hear their thoughts on the issues for the 78th Legislative Session as we encourage and support their efforts to make history!

REPLY PAGE

_____ Yes, I will join you in hosting the luncheon honoring our Texas Women in Leadership!

The Four Seasons ★ 98 San Jacinto Boulevard ★ Austin, Texas 78701
Monday, February 24, 2003 ★ 12:00 p.m. to 1:30 p.m.

_____ \$5000 (PAC, Corporation, or Personal) Underwriter

Underwriters will receive special recognition on the invitation and at the event and seating for 10 guests. Corporate signage may be displayed at the event, as well.

Name(s)/Organization (as you would like to be listed on the invitation)

Address City State Zip

Phone Fax Email

Employer Occupation

Names of attendees for nametag purposes

Please make checks payable to:
Texans for Republican Majority
And Mail Care of:
1001 Congress, Ste. 340, Austin, Texas 78701

1001 Congress, Suite 340 ★ Austin, Texas 78701

Attachment F:

S10079, Congressional Record (October 17, 2002)

Mr. REID. Mr. President, I ask unanimous consent that the resolution be agreed to, the preamble be agreed to, the motion to reconsider be laid upon the table, and that any statements related thereto be printed in the RECORD.

The PRESIDING OFFICER. Without objection, it is so ordered.

The resolution (S. Con. Res. 148) was agreed to.

The preamble was agreed to.

The resolution, with its preamble, reads as follows:

S. CON. RES. 148

Whereas bread is a gift of friendship in the United States;

Whereas bread is used as a symbol of unity for families and friends;

Whereas the expression "breaking bread together" means sharing friendship, peace, and goodwill, and the actual breaking of bread together can help restore a sense of normalcy and encourage a sense of community;

Whereas bread, the staff of life, not only nourishes the body but symbolizes nourishment for the human spirit;

Whereas bread is used in many cultures to commemorate milestones such as births, weddings, and deaths;

Whereas bread is the most consumed of grain foods, is recognized by the Department of Agriculture as part of the most important food group, and plays a vital role in American diets;

Whereas Americans consume an average of 60 pounds of bread annually;

Whereas bread has been a staple of American diets for hundreds of years;

Whereas Americans are demonstrating a new interest in artisan and home-style types of breads, increasingly found in cafes, bakeries, restaurants, and homes across the country;

Whereas bread sustained the Pilgrims during their long ocean voyage to America and was used to celebrate their first harvest in the American wilderness; and

Whereas bread remains an important part of the family meal when Americans celebrate Thanksgiving, and the designation of November 2002 as National Bread Month would recognize the significance of bread in American history, culture, and daily diet: Now, therefore, be it

Resolved by the Senate (the House of Representatives concurring), That it is the sense of Congress that the President should issue a proclamation—

(1) designating November 2002 as National Bread Month in recognition of the significance of bread in American history, culture, and daily diet; and

(2) calling on the people of the United States to observe such month with appropriate programs and activities.

CONDEMNING THE POSTING ON THE INTERNET OF VIDEO AND PICTURES OF THE MURDER OF DANIEL PEARL

Mr. REID. Mr. President, I ask unanimous consent that the Senate immediately proceed to the consideration of S. Res. 351.

The PRESIDING OFFICER. The clerk will state the resolution by title.

The legislative clerk read as follows:

A resolution (S. Res. 351) condemning the posting on the Internet of video and pictures of the murder of Daniel Pearl and calling on such video and pictures to be removed immediately.

There being no objection, the Senate proceeded to consider the resolution.

Mr. REID. Mr. President, I ask unanimous consent that the resolution and preamble be agreed to en bloc, the motion to reconsider be laid upon the table, and that any statements related thereto be printed in the RECORD.

The PRESIDING OFFICER. Without objection, it is so ordered.

The resolution (S. Res. 351) was agreed to.

The preamble was agreed to.

The resolution, with its preamble, reads as follows:

S. RES. 351

Whereas Daniel Pearl, a reporter for the Wall Street Journal, was murdered by terrorists following his abduction in Pakistan on January 23, 2002;

Whereas video of Mr. Pearl's gruesome murder has been posted on web sites;

Whereas this video was made by terrorists for anti-American propaganda purposes, in an attempt to recruit new terrorists and to spread a message of hate;

Whereas posting this video on web sites undermines efforts to fight terrorism throughout the world by glorifying such heinous acts;

Whereas posting this video on web sites could invite more abductions and more murders of innocent civilians by anti-American terrorists because of the attention these heinous acts might gain from such posting; and

Whereas posting this video on the Internet shows a complete and utter disrespect for Mr. Pearl's life and legacy and a complete and utter disregard for the respect of his family: Now, therefore, be it

Resolved, That the Senate—

(1) calls on all terrorist-produced murder video and pictures to be removed from all web sites immediately; and

(2) encourages all web-site operators to refrain from placing any terrorist-produced murder videos and pictures on the Internet.

AMENDING SECTION 527 OF THE INTERNAL REVENUE CODE OF 1986

Mr. REID. Mr. President, I ask unanimous consent that the Senate immediately proceed to the consideration of H.R. 5596.

The PRESIDING OFFICER. The clerk will state the bill by title.

The legislative clerk read as follows:

A bill (H.R. 5596) to amend section 527 of the Internal Revenue Code of 1986 to eliminate notification and return requirements for State and local party committees and candidate committees and avoid duplicate reporting by certain State and local political committees of information required to be reported and made publicly available under State law, and for other purposes.

There being no objection, the Senate proceeded to consider the bill.

Mr. LIEBERMAN. Mr. President, I am very pleased that the Senate today is passing H.R. 5596, a compromise bill aimed at improving disclosure by Section 527 political organizations and relieving certain 527 organizations from arguably duplicative filing requirements. I want to thank my colleague, Senator HUTCHISON, as well as our colleagues in the House, for working steadfastly with us to draft this bill in a manner that achieves its purpose, but

does not open any loopholes in the original section 527 reform law.

In June 2000, Congress passed the first significant campaign finance reform measure in a quarter of a century. The so-called Section 527 reform bill dealt with a truly troubling development, one whereby organizations that received tax-exempt status by telling the IRS that they exist to influence elections denied the very same thing to the FEC. As a result, these self-proclaimed election organizations engaged in election activity without complying with any aspect of the election laws, influencing our elections without the American public having any idea who—or what—was behind them.

The 527 reform law enacted in 200 put a stop to that, by requiring organizations claiming tax-exempt status under Section 527 of the Internal Revenue Code to do three things: (1) give notice of their intent to claim that status; (2) disclose information about their large contributors and their big expenditures; and (3) file annual informational returns along the lines of those filed by virtually all other tax-exempt organizations.

During the approximately two years that the 527 reform law has been in effect, that law has blasted sunshine onto the previously shadowy operations of a multitude of election-related organizations. Through the filings Section 527 now mandates, the American public has learned a great deal about who is financing many of these organizations and how these organizations are spending their money. As outlined in report issued earlier this year by the group Public Citizen, the 527 reform law brought us the knowledge that 25 of the largest 527s raised over \$67 million between July 2000 and December 2001, and that they spent it on a plethora of campaign activities—most significantly those pre-election issue ads that we all know so well and that are often indistinguishable from candidate ads. We've also learned from these IRS filings the specifics about who was trying to influence particular elections and where their money came from. Were it not for the 527 disclosure law, we probably wouldn't have any of this information, and we probably would have had a lot more shadowy groups operating in the election system—ones that slithered away on their own because they didn't want to face the disinfectant of sunshine.

These filings will become all the more important come this November, when the Bipartisan Campaign Reform Act—the McCain-Feingold bill—goes into effect. As we all know, at least some of the soft money donors who will no longer be able to give to political parties will be looking for other ways to influence our elections. Donations to 527 groups will probably top many of their lists, because these are the only tax-exempt groups that can do as much election work as they want without jeopardizing their tax status. With the

potential for all this new money coming in, it is critical that we have a healthy 527 disclosure regime in place.

Although the 2000 law has been a tremendous boon in the fight for clean and open elections, the 527 disclosure regime does have some problems. Public interest groups that use the disclosure reports tell us that those reports lack important information needed to understand 527s' activities, and, more importantly, that the reports are hard to access and analyze. A new report by the nonpartisan Campaign Finance Institute's blue ribbon Task Force on Disclosure, for example, concludes that "there is a serious lack of meaningful web disclosure" by the IRS of 527 group activities, and calls upon Congress to mandate a fully searchable database and electronic filing. Put simply, the public needs more information to be reported and it needs the IRS to provide better access to it.

Just as importantly, concerns have been raised about the law's impact on State and local political organizations that already fully disclose to the public all of the activities covered by the 527 reform law. When we first enacted the 527 reform law, we made clear that we believed that 527 organizations, as a condition of receiving the federal benefit of tax exemption, owed the public disclosure of certain information about themselves and their activities. A number of State and local political organization have now convinced us that they already disclose that information on the State level, thereby already serving the law's purpose, and that there is no reason to require them to report the same information again to the IRS.

The bill we are considering today seeks to comprehensively address all these problems. First, it makes important and necessary improvements to the reporting and disclosure requirements, to enable the public to have better access to more information. For example, organizations will have to provide more information about the contributions they receive and the expenditures they make—providing the dates of both them, as well as the purpose of their expenditures. The added requirement to state the purpose of an expenditure will be particularly helpful in allowing the public to see whose money is supporting particular candidates. I hope that in implementing this provision, the IRS makes clear that organizations should state the purposes of expenditures with specificity, including whether particular expenditures are in support of, or opposition to, particular candidates, as well as the name and office sought by any such candidates. The bill we are considering today also requires 527s to provide updated information on themselves if there is any material change in the basic identifying information they filed with the IRS. This important change will make sure that the public can at all times locate these groups and know who is running them.

At the same time, as we are improving the nature of the filings, we are

also mandating better disclosure of them. From here forward, all 527 filing reports on their contributors and expenditures will have to do so electronically, and the IRS will have to make those reports searchable on, and downloadable from, the Internet. This will vastly improve the public's access to information about, and understanding of, 527 organizations and their activities.

The second major feature of this bill is its elimination of arguably duplicative reporting requirements. In particular, it grants relief from the 527 reform law to a number of organizations that focus on State and local elections and that are regulated by State disclosure laws.

First, the bill fully exempts from its mandates State and local candidate and party committees. Under the reform law, these committees must notify the IRS of their intent to claim Section 527 status, and they have to file annual information returns if they have over \$25,000 in gross receipts. They do not, however, have to file contribution and expenditure reports. Since the reform law went into effect, we have become convinced that the burden imposed on these committees by the two relevant disclosure mandates outweigh the public purpose served by requiring them to comply with these mandates.

By exempting them from the contribution and expenditures reporting requirements that lie at the heart of the Section 527 law's disclosure regime, the original reform law recognized that State and local candidate and party committees do not generally pose the threats the 527 law intended to address. In contrast to other political committees, there is never any doubt as to who is running these committees or whose agenda they aim to promote. Just as importantly, State laws regulate and require disclosure from all of these committees.

Different considerations apply to the case of so-called State and local PACs. The bill grants more limited relief to a carefully defined set of these groups. In granting this relief, we have walked a very fine line. On one hand, we want to recognize the fact that every State requires disclosure from political committees involved in that State's elections and that many State and local PACs covered by the 527 reform law therefore are already disclosing the information the 527 law seeks. On the other hand, we still believe that there is a strong public interest in knowing how the federal tax-exemption under Section 527 is being used by these organizations, and we most decidedly do not want to exempt from the law's disclosure requirements any State or local PAC that does not otherwise publicly disclose all of its activities.

To exempt a State or local PAC merely it claims that it is involved only in State elections and files information about some of its activities with a State agency would risk cre-

ating a massive loophole that could undermine the 527 reform law. That is because just as prior to the passage of the 527 reform law, some 527 groups were claiming that they were trying to influence elections for the purposes of the tax code, but not for the purposes of the election laws, a broad exemption for State or local PACs could lead some groups to claim that they are influencing State elections for the purposes of Section 527 but not for the purposes of the State disclosure laws.

So, we have reached the following compromise. First, we are not exempting any of these organizations from the Section 527(i) requirement to notify the IRS of the intention to claim Section 527 status. Unlike candidate and party committees, it is not always clear to the public who is behind these groups or what their purposes are, making the information filed in these notices important sources of otherwise unavailable information. Moreover, because we are not completely exempting these groups from the law's other disclosure requirements, the notice requirement will be critical in helping the IRS and outside groups monitor compliance with the law's other mandates. In light of that, we believe the minimal effort required to file the 527(i) notice is worth the tremendous value of giving the public some basic information about these groups.

Second, we are granting an exemption from the Section 527(j) contribution and expenditure reporting requirements to some of these organizations, but only if they can meet certain strict requirements. The group's so-called exempt function activity must focus exclusively on State or local elections; a group that engages in even the smallest amount of activity related to a federal election will not be entitled to this exemption. The group also must file with a State agency information on every contribution and expenditure it would otherwise be required to disclose to the IRS. This requirement ensures that Congress' conditioning of tax exemption on complete and full disclosure is not compromised.

In addition, these State filings must be pursuant to a State law that requires these groups to file the State reports; this requirement seeks to prevent organizations from hiding truly federal activity by voluntarily reporting to a State where reports may not be as readily accessible as are federal reports. Moreover, no group will be able to take advantage of this exemption if the State reports its files are not publically available both from the State agency with which the report is filed and from the group itself. Finally, this exemption also is not available to any organization in which a candidate for federal office or someone who holds elected federal office plays a role—whether through helping to run the organization, soliciting money for the organization or deciding how the organization spends its money. I should note here that the use of the word "solicit"

in this case is meant broadly; if a federal candidate or office holder suggests that money be given to a committee or directs it there in anyway, then federal disclosure is mandated.

In short, this bill exempts from Section 527(j)'s contribution and expenditure reporting obligations only those groups that truly and legitimately engage in exclusively State and local activity and only when they already report to their State on all of the information the 527 law seeks. This latter condition is important not just because it precludes the hiding of federal activity, but also because we believe that even those groups involved in exclusively State and local elections should face some disclosure requirement if they are to take the federal benefit of tax exemption under Section 527.

Finally, the bill makes a small change to these State and local groups' obligation to file an annual information return when they do not have taxable income. Under the current law, they must file such returns when they have \$25,000 in annual receipts; the bill increases that trigger to \$100,000. Like all other 527 organizations, though, they still will have to file such returns if they have taxable income.

To help walk my colleagues through this bill, I am attaching at the end of my statement a section-by-section of the bill and ask unanimous consent that it be printed in the RECORD after my statement.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

Mr. LIEBERMAN. Again, let me thank Senator HUTCHISON in particular for her efforts on this bill. I believe we have worked out a good compromise, one that grants relief where it is warranted, but does not in any way threaten to open up a loophole in the law. I thank her for that, and I yield the floor.

EXHIBIT 1

SECTION-BY-SECTION

Section 1 exempts State and local candidate and party committees from the requirement to notify the IRS of their Section 527 status (Form 8871) and makes that exemption retroactive to the date of the 2000 law's enactment.

Section 2 exempts qualified State or local PACs from the requirement to file reports with the IRS detailing their contributions and expenditures (Form 8872). It defines a qualified State or local political organization as one which: (a) focuses solely on State or local elections; (b) reports and discloses information about all of its sizable contributions and expenditures under State law; and (c) does not have a federal candidate or elective office holder playing any material role in the organization or raising money for it. The provision makes clear that an otherwise qualified exempt State or local PAC does not lose its exemption simply because there are certain variations between State and federal law with respect to reporting of contributor and expenditure information.

Sections 3(a)–(b) repeal certain changes the 2000 law made to the requirements governing the filing of tax returns (Form 1120) by political organizations. Although political organizations are exempt from taxation on most

of their income (such as contributions), certain income may be subject to federal tax. Prior to the 2000 law, only Section 527 groups with taxable income had to file the Form 1120. The 2000 law required most 527s to file the form, whether or not they had taxable income. Section 3(a) restores the pre-2000 law and puts 527s on a similar footing to other tax-exempt organizations with respect to the 1120 Form by requiring filing of the form only if the organization has taxable income. Section 3(b) restores the pre-2000 law by making clear that the tax returns of 527s with taxable income are confidential.

Section 3(c) exempts a number of organizations from the requirement to file the Form 990 annual information return. Exempt groups will now include State or local candidate and party committees, associations of State or local officials and groups filing with the FEC. The section also provides that qualified State and local PACs must file the 990 only if they have at least \$100,000 in annual gross receipts (other non-exempt groups must file the 990 if they have at least \$25,000 in annual gross receipts). Finally, the section directs the Treasury Secretary to adapt the 990 form, which was not developed for political organizations, to seek information relevant to the activities of Section 527 organizations.

Section 4 directs the Treasury Department to work with the FEC to publicize the 527 law's reporting requirements.

Section 5 authorizes the Treasury Secretary to waive amounts imposed for failing to file 8871 notices or 8872 reports if he concludes that the failure to file was due to reasonable cause and not willful neglect.

Sections 6(a), (b) and (d) modify existing law regarding noncompliance. Section 6(a) provides that organizations that fail to notify the IRS of their intent to claim Section 527 status will have all of their so-called exempt-function income subject to taxation, regardless of whether that income was segregated for use for an exempt function. Section 6(b) provides that the procedures used for collecting amounts imposed for failing to comply with the 8872 contributor/expenditure reporting requirement are akin to those used to collect penalties from tax-exempt organizations that fail to file the form 990 (this section affects the process of collection, not the amount collected). Section 6(d) makes clear that the tax code's existing criminal fraud penalties for anyone who willfully furnishes information to the IRS he knows is false or fraudulent also applies to 8871 and 8872 filings.

Sections 6(c), (e), (f) and (g) make changes to certain disclosure requirements. Section 6(c) streamlines the 8871 notice requirement by eliminating the need to file the notice in writing; only electronic reporting of the notice will remain. Section 6(c)(1) adds the date and purpose of expenditures and the date of contributions as required information on the Form 8872. Section 6(e)(2) mandates electronic filing of the 8872 contributor/expenditure reports, and Section 6(e)(3) requires that the IRS make information in those reports available to and searchable by the public on the Internet and downloadable to personal computers. Section 6(f) amends the 8871 notice to require filers to note whether they intend to claim an exemption from the 8872 contribution/expenditure reporting requirement or the form 990 annual return requirement. Finally, Section 6(g) requires organizations to file amended 8871 notices within 30 days of any material change of the information on the previous 8871.

Section 7 provides that forms already filed and made public by the IRS under current law will remain public after this bill becomes law. This provision is needed because many of the bill's exemptions are retro-

active, and without Section 7, the IRS could be found in violation of taxpayer confidentiality rules for posting filings that were public under the original law but will no longer be public after this bill's enactment.

Mr. REID. Mr. President, I ask unanimous consent that the bill be read the third time and passed, the motion to reconsider be laid upon the table, and that any statements related thereto be printed in the RECORD.

The PRESIDING OFFICER. Without objection, it is so ordered.

The bill (H.R. 5596) was read the third time and passed.

AUTHORIZING REPRESENTATION BY SENATE LEGAL COUNSEL

Mr. REID. Mr. President, I ask unanimous consent that the Senate proceed to the consideration of S. Res. 352, submitted earlier today by Senators DASCHLE and LOTT.

The PRESIDING OFFICER. The clerk will report the resolution by title.

The legislative clerk read as follows:

A resolution (S. Res. 352) to authorize representation by the Senate Legal Counsel in the case of *Judicial Watch, Inc., v. William J. Clinton, et al.*

There being no objection, the Senate proceeded to consider the resolution.

Mr. DASCHLE. Mr. President, this resolution concerns a civil action commenced in the U.S. District Court for the District of Columbia against several current and former Members of the Senate and House of Representatives. The plaintiff, *Judicial Watch, Inc.*, is a legal watchdog group that has pursued numerous civil suits against the Government and its agencies and officials. In this case, *Judicial Watch* has sued former President Clinton and several current and former Members of the Senate and the House of Representatives, alleging that those officials conspired to pressure the Internal Revenue Service to initiate and continue an audit of *Judicial Watch* in retaliation for its activities.

The plaintiff in this case has named the current and former Senators as defendants in this suit based solely on the fact that these Senators sent routine transmittal letters to the IRS forwarding constituent correspondence inquiring why *Judicial Watch* was entitled to the benefits of tax-exempt status. Merely because of those routine buck letters, *Judicial Watch* alleges that those Senators entered into an unlawful conspiracy to pressure the IRS to continue to audit it in violation of its constitutional rights.

This resolution authorizes the Senate Legal Counsel to represent the Senate defendants in this action.

Mr. REID. Mr. President, I ask unanimous consent that the resolution and the preamble be agreed to; that the motion to reconsider be laid upon the table; and that any statements in relation thereto be printed in the RECORD.

The PRESIDING OFFICER. Without objection, it is so ordered.

Attachment G:

I.R.S. Publication No. 4216 (7-2003)

Political Organization Filing and Disclosure

If there is more than one individual required to be listed, use the form to enter each officer's information, following each entry by clicking the "Add Officer" button until all names are entered, then click the "Proceed to Next Step" button.

Q

Qualified State or Local Political Organizations

Qualified state or local political organizations (defined below) are exempt from filing Form 8872. If you are claiming this exemption for the organization, you must check the "Yes" box and enter the state where the organization files its reports. If not, check the "No" box.

A qualified state or local political organization is a political organization that meets the following requirements:

- The organization's exempt functions are solely for the purpose of influencing or attempting to influence the selection, nomination, election, or appointment of any individual to any state or local public office or office in a state or local political organization.
- The organization is subject to state law that requires it to report information similar to that required on Form 8872.
- The organization files the required reports with the state.
- The state makes such reports public and the organization makes them open to public inspection in the same manner that organizations must make Form 8872 available for public inspection.
- No federal candidate or office holder controls or materially participates in the direction of the organization, solicits contributions to the organization, or directs any of the organization's disbursements.

For additional information, see § 527(e)(5) and Revenue Ruling 2003-49, 2003-20 I.R.B. 903 (May 19, 2003).

R

Related Entities

List the name, relationship, and address of all related entities. An entity is a related entity if either 1 or 2 below applies:

1. The organization and that entity have (a) significant common purposes and substantial common membership or (b) substantial common direction or control (either directly or indirectly).
2. Either the organization or the entity owns (directly or through one or more entities) at least a 50% interest in the capital or profits of the other. For this purpose, all entities defined as related entities under 1 above must be treated as a single entity.

If 1 applies, choose "connected" under relationship. If 2 applies, choose "affiliated" under relationship.

Political Organization Filing and Disclosure

If there is more than one related entity, use the form to enter each entity's information, following each entry by clicking the "Add Entity" button until all related entities are entered, then click the "Proceed to Next Step" button.

If there are no related entities, check the No Related Entities box and use the "Proceed to Next Step" button.

Report Period

For a Form 8872, enter the beginning and ending date for the period to which this report relates. If the organization filed a prior report for this calendar year, the beginning date must be the first day following the ending date shown on the prior report.

S

Schedule A — Itemized Contributions

The organization must list on Schedule A each contributor from whom it accepted contributions during the calendar year if:

- The aggregate amount of the contributions accepted from that person during the calendar year as of the end of this reporting period was at least \$200 and
- Any of those contributions were accepted during this reporting period.

Treat contributions as accepted if the contributor has contracted or is otherwise obligated to make the contribution.

- **Name of Contributor's Employer:** If the contributor is an individual, enter the name of the organization or person by whom the contributor is employed (and not the name of his or her supervisor). If the individual is self-employed, enter "Self-employed." If the contributor is not an individual, enter "N/A".
- **Contributor's Occupation:** If the contributor is an individual, enter the principal job title or position of that contributor. If the contributor is not an individual, enter "N/A".
- **Aggregate Year-to-Date Contributions:** Enter the total amount of contributions accepted from the contributor during this calendar year as of the end of this reporting period.
- **Amount of Contribution:** If a contributor made more than one contribution in a reporting period, report each contribution separately by entering the amount of the contribution and then clicking on the "Add Contribution" button.

Non-Disclosed Amounts: As the last entry on Schedule A, list the aggregate amount of contributions that are required to be reported on this schedule for which the organization does not disclose all of the information

Attachment H:

Christy Hoppe and Todd Gilman, “Soft’ funds help fuel House flip,”
Dallas Morning News (June 29, 2003)



'Soft' funds helped fuel House flip; DeLay, business group defend contributions; jury inquiry proceeds

CHRISTY HOPPE and TODD J. GILLMAN, Staff Writers

AUSTIN, TX June 29, 2003, Sunday SECOND EDITION

AUSTIN - For the first time in state politics, large amounts of corporate contributions made their way into political races during 2002, helping cement a GOP takeover of the Texas House, state and federal records show.

U.S. House Majority Leader Tom DeLay, R-Sugar Land, and the state's largest business group led behind-the-scenes efforts that have prompted lawsuits and investigations into whether the infusion of money was legal - which they vigorously contend it was.

"That was a sea change. The soft money game that played in Washington for years - no one had done that to any appreciable degree before this in state races," said Fred Lewis, director of the watchdog group Campaigns for People.

It is illegal for corporations or unions to donate directly to candidates in Texas, and the extensive ways corporate money became involved in the low-ballot legislative races raised the legal questions.

The expenditures have led to a grand jury inquiry into the Texas Association of Business; a citizen's criminal complaint against Texans for a Republican Majority political action committee - an offshoot of Mr. DeLay's Americans for a Republican Majority; and a series of civil lawsuits.

Directors of the committees that used corporate money said their actions represented a smart use of available resources, but were not illegal or improper.

The emergence of corporate money - whether used to produce advertisements, pay administrators or hire consultants - in 22 key House races last year helped the GOP overrun the last Democratic bastion in Texas government, campaign experts said.

Redistricting a result

Prompted by Mr. DeLay, the Republican majority has paved the way for the special session on redistricting that begins Monday, threatening Texas Democratic incumbents in Congress.

"We followed the law. It's that simple," said John Colyandro, former executive director of the Texans for a Republican Majority. "I feel very comfortable about where we are."

Andy Taylor, an attorney representing the business association officers, said his clients did nothing wrong and were only exercising their free-speech rights during an election. Mr. Taylor also represents the Texans PAC in a civil suit related to the corporate contributions.

Business focus

Businesses helped fuel the key House races in three major ways:

- * They contributed about \$ 1.9 million last year to Americans for a Republican Majority.
- * They furnished another \$ 600,000 for the group's little sister, Texans for a Republican Majority.
- * And they provided \$ 1.9 million for "issue" ads in a Texas Association of Business campaign.

"I don't think we've seen that before in Texas politics," said Craig McDonald, director of Texans for Public Justice, a private, nonpartisan research group that tracks political contributions.

"The infusion is in part due to DeLay's involvement and making sure that the right Republican faction took over the House," said Mr. McDonald, who filed a March 31 letter asking Travis County District Attorney Ronnie Earle to investigate corporate funding of the Texans PAC.

"There are a lot of expenditures that went way beyond what Texas law says are legitimate administrative expenses. The polling, the fund raising, the message development - those aren't administrative expenses under Texas law," Mr. McDonald said.

Mr. Earle has acknowledged receipt of the letter but is already at odds with the business association, which has been fighting grand jury subpoenas over testimony and records.

The business association says that its 2002 ads praising GOP candidates and attacking Democrats in House races were protected speech that didn't specifically advocate the election or defeat of anyone.

For that reason, the group is arguing that its records, finances and corporate donors are protected and private material.

Mr. Earle said at a recent court hearing, "Democracy is at risk here."

"If we lose the right to know through schemes like this, designed specifically to avoid legal reporting requirements, there will be no checks and balances on the great power of wealth and no protection for ordinary taxpayers," he said.

Texans PAC issues

There are different questions involving Texans for a Republican Majority, which reported its corporate donors in federal papers filed with the IRS. The issue is over whether any of that money was improperly used for political purposes.

The Texans PAC raised about \$ 1.5 million in 2002, including \$ 50,000 from El Paso Energy, \$ 25,000 from Phillip Morris, \$ 20,000 from AT&T and \$ 25,000 from Kansas-based Westar Energy, a company embroiled in a fund-raising controversy.

In all, more than \$ 500,000 of the PAC's money came from out-of-state corporations, many with interests in federal legislation, records indicate.

In the 2002 Texas elections, the PAC gave \$ 747,000 in contributions to the 22 key Republican candidates, 18 of whom won their races and provided the margin for the GOP takeover in the House.

"Our objective was to win the statehouse, maintain a majority in the Senate and help the statewide candidates," Mr. Colyandro said.

As PAC officers became confident about the Senate and statewide efforts, "we ended up focused on the state House in the last cycle," he said.

Mr. DeLay created ARMPAC in April 1994 to elect like-minded conservatives and consolidate his leadership.

He created the similar-sounding Texans PAC in 2001 to focus on Texas races.

The Texans PAC's goals were to elect a Republican House speaker and advance the party's agenda, said Jim Ellis, executive director of ARMPAC and Mr. DeLay's point man on redistricting.

"He has great affinity for that body. His longtime friend Tom Craddick was going to be a very strong candidate for speaker, and DeLay wanted to help both those things," Mr. Ellis said.

Redistricting was not a front-burner topic. "Certainly it was an issue that was in the back of our minds," said Mr. Ellis.

ARMPAC gave Texans for a Republican Majority \$ 75,000 in seed money and shared staff, consultants and corporate contributors, according to federal and state records.

Criticism of DeLay

Critics believe that Mr. DeLay's involvement in the state elections was unprecedented, and they question the intent of some of his backers, such as the Westar Energy.

As congressional negotiators fashioned an energy bill last year, Westar executives wanted to free the company from certain regulations and devised a plan to get a "a strong position at the table" by dedicating \$ 55,000 for political donations, according to internal company e-mails that have become public in recent weeks.

Mr. DeLay and Rep. Joe Barton, R-Ennis, received donations. They said they did nothing wrong and made no promises to Westar, regardless of the company's expectations about access or favorable treatment.

Mr. Barton introduced a provision that could have saved the company billions of dollars but dropped his support when a grand jury began investigating former Westar CEO David Wittig, who was indicted on charges unrelated to campaign fund-raising.

Texans PAC records on file with the IRS indicate that Westar gave the donation a few weeks before several Westar executives attended a two-day retreat and "energy roundtable" with Mr. DeLay at a mountain resort in Virginia.

DeLay aides say the majority leader did not solicit the donation. He met with Westar representatives last September to discuss the company's problem, which involved tax treatment for utility holding companies.

Mr. Lewis said the Westar contribution to a state committee indicates Mr. DeLay's level of involvement.

"The bottom line is that Tom DeLay and his aides and his affiliated PACs took a tremendous interest in Texas and used their influence to produce a lot of money to elect House Republican members," Mr. Lewis said.

"I've never seen a politician on the federal level, whether a senator or representative or anybody else, get this involved in raising money and trying to influence who's going to be a member of the state House."

E-mail choppe@dallasnews.com; tgillman@dallasnews.com

Attachment I

**EC Complaint filed by Public Citizen v. Mitch Delk and Epiphany
Productions, Inc**

BEFORE THE FEDERAL ELECTION COMMISSION

Public Citizen

v.

MUR No. _____

Robert Mitchell Delk
Senior Vice President
Freddie Mac
401 9th Street, NW
Suite 600 South
Washington, DC 20004
(202) 434-8600;

and

Epiphany Productions,
104 Hume Avenue
Alexandria, VA 22301
(703)683-7500

COMPLAINT

1. Public Citizen requests that the Federal Election Commission undertake an immediate investigation into, and enforcement action against, prior and potentially ongoing violations of the contribution limits, contribution source prohibitions, and reporting requirements of the Federal Election Campaign Act of 1971, as amended, by Epiphany Productions, Inc., a for-profit political fundraising corporation, and Robert Mitchell Delk, Senior Vice President of Government Relations, Freddie Mac.
2. During the 2002 election cycle, Mr. Delk hosted at least 45 political fundraising events at Galileo Restaurant, 1110 21st Street, NW, for Members of Congress and their leadership PACs as well as candidates for Congress. It appears that all of these fundraising events were organized by Epiphany Productions, Inc. To the extent that Epiphany charged fees for its services for these events, they ranged between \$367 to \$1,351 or more, depending on the size and nature of the fundraising event.

3. In at least 19 of the Delk fundraising events organized by Epiphany Productions, Inc. in the 2001-2002 election cycle, financial records with the Federal Election Commission (FEC) indicate that Epiphany Productions was not paid by the campaigns for its fundraising services. These unpaid services mark an illegal in-kind contribution by the company to the recipient federal campaign committees.
4. Galileo Restaurant, which is operated by a corporation (SER Corp.), charged Mr. Delk for the dinners at these fundraising events. The cost of each dinner was paid by Mr. Delk or his wife, Amanda Delk, and reported to the Federal Election Commission as an in-kind contribution by Mr. or Ms. Delk to the specific campaign for whose benefit the fundraising occurred. The Delks reported a median in-kind contribution for these dinners of \$500 per campaign per fundraising event. These amounts fall far short of the market value of dinners at a fundraising event held at Galileo Restaurant. Even if Mr. Delk received a discount from Galileo on the price of these dinners, Mr. Delk – as an experienced fundraiser for candidates and frequent customer of Galileo’s – must have been aware that the prices charged by Galileo were much less than the market value of the meals provided. Thus, the amounts reported to the FEC by Mr. Delk do not reflect the actual value of the in-kind contributions provided by Mr. Delk to the recipient campaigns.
5. In addition to the reporting violations involved in understating the actual value of the in-kind contributions made by Mr. Delk to the recipient campaigns, the actual (but unreported) value of individual in-kind contributions may have violated the individual contribution limits applicable to the contributions to the specific campaigns involved in some of the 49 fundraising events.
6. In addition to the foregoing violations, the actual (but unreported) value of Mr. Delk’s in-kind contributions in the aggregate is likely to have violated Mr. Delk’s aggregate contribution limit under FECA for all federal candidates in 2002.
7. Accordingly, Public Citizen urges the Commission to undertake a prompt investigation of the fundraising events organized by Epiphany Productions, Inc., and hosted by Mr. Delk in the 2001-2002 election cycle, for violations of contribution limits, contribution source prohibitions, and reporting requirements under the Federal Election Campaign Act of 1971, as subsequently amended.

The Interests of Epiphany Productions, Inc.
and Robert Mitchell Delk

8. Epiphany Productions, Inc., describes itself as a service event planning, fund raising and development company. The for-profit business was co-founded by Julie Wadler, former Deputy Finance Director of the National Republican Congressional Committee (NRCC) and current Secretary-Treasurer of the Leadership Forum, a Section 527 group controlled

- by two prominent Republican lobbyists, former Representative Bill Paxon (R-N.Y.) and Susan Hirschmann, a former aide to House Majority Whip Tom DeLay (R-Tex.).
9. The primary activity of Epiphany Productions, Inc., is to organize fundraising events and provide political consulting services to Republican officeholders and their leadership committees and to Republican candidates.
 10. Epiphany Productions, Inc., listed most of its fundraising clients and fundraising events for the years 2000 through 2003 on its Web site at www.epiphanyproductions.com. [See Attachment A, "List of Epiphany Productions Fundraising Events."] Following the development of an accounting controversy involving Freddie Mac, Mr. Delk (Freddie Mac's lobbyist) contacted Ms. Wadler and canceled future Epiphany Productions fundraising events to be hosted by Mr. Delk. According to a July 18, 2003, *Associated Press* article by Pete Yost, Ms. Wadler said that her company inadvertently deleted all references to Mr. Delk's past fundraisers from the Web site at the same time the company canceled Mr. Delk's schedule. [See Attachment B, Pete Yost, "Freddie Mac lobbyist staged 50 GOP fund-raisers as Congress let legislation die," *Associated Press* (July 18, 2003).] After subsequent telephone queries by Public Citizen and the July 18, 2003, interview by Pete Yost, Epiphany Productions closed down its Web site entirely.
 11. Mr. Delk is Senior Vice President of Government Relations for Freddie Mac. Freddie Mac is a stockholder-owned corporation specially chartered by the U.S. Congress in 1970 to manage the supply of funds to mortgage lenders. Freddie Mac conducts its business primarily by buying mortgages from lenders, packaging the mortgages into securities and selling the securities. Mortgage lenders use the proceeds from selling loans to Freddie Mac to finance new lending.
 12. Though it is not a governmental agency, Freddie Mac's congressional charter subjects the company to regulatory oversight under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. The U.S. Department of Housing and Urban Development (HUD) has oversight responsibilities for the housing mission of Freddie Mac, and the Office of Federal Housing Enterprise Oversight (OFHEO) has oversight responsibility for Freddie Mac's capital standards. Both regulatory agencies, as well as Freddie Mac itself, are also subject to congressional oversight by the House Financial Services Committee, chaired by Rep. Michael Oxley (R-Ohio).
 13. Freddie Mac came under criminal scrutiny for its accounting practices after the company's auditor, PriceWaterhouseCoopers, raised questions about understated earnings of as much as \$4.5 billion over a three-year period between 2000 and 2002. The accounting scandal eventually led to the dismissal of three top executives at Freddie Mac, including Chief Executive Officer Leland Brendsel. [See Attachment C, BBC News, World Edition (June 12, 2003).]

14. Since January 2002, the House Financial Services Committee has held a series of hearings regarding corporate-accounting scandals, including those of Freddie Mac, which continue to date.

The Delk-Epiphany Productions **Fundraising Events in the 2002 Election Cycle**

15. Prior to and during House oversight hearings on Freddie Mac in 2002, Mr. Delk hosted at least 45 fundraisers at Galileo Restaurant in the 2002 election cycle for U.S. Representatives, U.S. Senators, their leadership PACs, and candidates for Congress. Mr. Delk hosted eight other fundraising events at other locations. Rep. Michael Oxley was advertised as a “special guest” at 24 of Mr. Delk’s fundraising events. Of the 24 fundraising events featuring both Mr. Delk and Rep. Oxley, 19 benefited a member of Oxley’s House Financial Services Committee. [See Attachment D, Sample invitation to a Delk-Oxley fundraising event.] According to FEC records, neither Chairman Oxley nor his Leadership PAC 2002 incurred any expenses for the events, except for fundraising events on behalf of Leadership PAC 2002 on May 27, 2001, and another on January 21, 2002.
16. As far as can be determined from public records, such as FEC financial statements and the former Epiphany Productions Web site, Mr. Delk enlisted the services of only Epiphany Productions, Inc., to organize these fundraising events. No other fundraising firm showed any financial activity at these events.¹
17. For most of the fundraising events, Mr. Delk or his wife, Amanda Delk, reported either a \$500 or \$750 in-kind contribution to the campaign that benefited from each fundraising event, representing the amount the Delk’s paid for the dinners provided by Galileo Restaurant. [See Attachment E, FEC Disclosure Records, “Mitch/Mandy Delk Contributions and Fundraising Events, 2002 Election Cycle.”] According to FEC records, there were four exceptions:
- A fundraising event at Galileo Restaurant organized by Epiphany Productions for Sen. Phil Gramm (R-Tex.) on May 8, 2001, for which no in-kind contribution for the event from anyone is reported.
 - A fundraising event at Galileo Restaurant organized by Epiphany Productions for Rep. Bob Riley (R-Ala.) on May 9, 2001, for which no in-kind contribution for the event from anyone is reported.

¹ In the 2002 election cycle, Robert Mitchell Delk and Amanda Delk used different names in their FEC financial disclosure records depending on whether the event benefited a Republican or a Democrat. For Republicans, their names were recorded as “Mitch Delk” and “Mandy Delk.” For Democrats, their names were recorded as “Robert Delk” and “Amanda Delk.”

- A fundraising event at Galileo Restaurant organized by Epiphany Productions for Rep. Melissa Hart (R-Pa.) on June 7, 2001, for which no in-kind contribution for the event from anyone is reported.
 - A joint fundraising event at Galileo Restaurant organized by Epiphany Productions for Rep. Deborah Pryce (R-N.C.) and Rep. Pat Tiberi (R-Ohio) on December 18, 2001, for which an in-kind contribution of \$350 to the Tiberi campaign is reported by Mr. Delk, but no in-kind contribution is reported to the Pryce campaign.
1. Galileo Restaurant charged the Delks \$500 for three-course dinners for 20 or fewer persons; \$750 for more than 20 persons. That price works out to be an average of \$25 per person for a three-course dinner, wine, drink, tax and tip. According to the special events office at Galileo Restaurant, the least expensive rate available to the public for a three-course meal for a party of 10 or more is \$55 per person, *not* including wine, drink, tax and tip. [See Attachment F, Kathleen Day, “Influence by volume; Freddie Mac lobbyist got a big discount on GOP fundraising dinners at Galileo,” *Washington Post* (Aug. 4, 2003).] According to the Zagat Survey, a regular dinner at Galileo averages \$58 per person, including drink and tip. [See Attachment G, *Zagat Survey 2003*]
 2. No other person reported to the FEC in-kind contributions to the recipient campaigns reflecting the difference between the Delk in-kind contributions and the actual value of the Galileo dinners.
 3. Galileo Restaurant general manager Michael Nayeri said that the restaurant provided a special discount to Mr. Delk for the fundraising events as a business investment for a favored customer. [See Attachment F, Kathleen Day, “Influence by volume; Freddie Mac lobbyist got a big discount on GOP fundraising dinners at Galileo,” *Washington Post* (Aug. 4, 2003).] Though these deep discounts likely constituted illegal corporate contributions to federal campaigns by Galileo Restaurant, such violations probably involve little more than the restaurant management’s naiveté concerning federal campaign finance laws. By contrast, Mr. Delk and Epiphany Productions, Inc., who are in a position to be intimately familiar with federal campaign finance laws, appear to have committed a more serious violation of FECA by knowingly accepting and passing along corporate discounts for the benefit of federal campaigns without reporting the actual value of the benefits received by the campaigns.
 4. In calendar year 2002, FECA limited the amount of contributions an individual could make to any federal candidate to \$1,000 per election. FECA also limited contributions to all federal candidates, PACs and party committees in the aggregate to no more than \$25,000 per year. Mr. Delk reported \$20,100 in federal contributions to all candidates and committees in 2002. Amanda Delk reported \$6,600 in additional contributions in 2002. [See Attachment E, FEC Disclosure Records, “Mitch/Mandy Delk Contributions and Fundraising Events, 2002 Election Cycle.”] These aggregate figures are largely made up of

reported in-kind contributions of either \$500 or \$750 representing the cost of Galileo dinners.

5. By providing the discounted Galileo dinners to campaigns on a regular basis, Mr. Delk made unreported in-kind contributions that may have exceeded the individual contribution limits to some of the recipient campaign committees and that, when aggregated, must have exceeded the aggregate limit on Mr. Delk's contributions to all federal candidates in calendar year 2002.

Epiphany Productions Corporate Contributions

6. In at least 19 of the fundraising events organized by Epiphany Productions, Inc., in the 2001-2002 election cycle, financial records with the Federal Election Commission indicate that Epiphany Productions was not paid by the campaigns for its fundraising services. In at least another 19 fundraising events, Epiphany Productions, Inc., was paid the cost of its services late by the benefiting campaign committee, sometimes up to 20 months late. Nearly all late payments were received only after a news story on the Delk fundraisers was published by the *Wall Street Journal* on July 30, 2002. [See Attachment H, John McKinnon, "Freddie Mac's Friend in Need: Bills Languish as Top Lobbyist Raises Funds for Key House Members," *Wall Street Journal* (July 30, 2002).] The 19 events in which Epiphany Productions received no payment for its services constituted illegal in-kind contributions by the company to the recipient federal campaign committees. The 19 events in which Epiphany Productions received very late payments for its services following the *Wall Street Journal* expose on the fundraising activities further suggest the existence of a standing practice by the company to support Republican Members of Congress through illegal corporate in-kind contributions, covered up in some cases by late repayment for services by the candidate campaigns that had then come under public scrutiny.
7. According to an August 4, 2003, *Washington Post* article by Kathleen Day, some campaigns said they were never billed or were billed late by Epiphany Productions, Inc. for the fundraising events. Rep. Katherine Harris's (R-Fla.) campaign manager, Jessica Furst, said "we never received an invoice" from Epiphany for a Galileo dinner on June 4, 2002. A spokesman for Rep. Michael Ferguson (R-N.J.) said he received no invoice from Epiphany for either of two Galileo dinners. Rep. Gary G. Miller (R-Calif.) never received a bill for a Galileo dinner on July 9, 2002. [See Attachment G, Kathleen Day, "Influence by Volume; Freddie Mac Lobbyist Got a Big Discount On GOP Fundraising Dinners at Galileo," *Washington Post* (August 4, 2003).]

Conclusion

8. Mr. Delk and Epiphany Productions, Inc., on behalf of Members of Congress and federal candidates, orchestrated campaign fundraising events in the 2002 election cycle in which

violations were made of the individual contribution limits, the contribution source prohibitions, and the reporting requirements of the Federal Election Campaign Act of 1971, as subsequently amended.

9. Many of these fundraising events were designed to benefit the candidacies and leadership PACs of officeholders with oversight responsibility over Freddie Mac and, consequently, to promote the interests represented by Mr. Delk.
10. In order to promote their interests, Mr. Delk and Epiphany Productions systematically under-reported the actual value of the fundraising events and/or absorbed the costs of these events in excess of federal contribution limits and contribution source prohibitions. Only after public disclosure of these illicit fundraising events has Delk decided to cancel similar fundraising events in the immediate future, and has Epiphany Productions attempted to cure its illegal in-kind corporate contributions to some of the campaign committees that benefited from the fundraising events.
11. Public Citizen therefore strongly urges the Federal Election Commission to carry out its investigative and enforcement responsibilities against violations of federal campaign finance law by Robert Mitchell Delk and Epiphany Productions, Inc., and to undertake a prompt investigation into the possibility of any additional, related violations that may be indicated by a full review of the evidence concerning Mr. Delk's and Epiphany's activities.

Respectfully Submitted,

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