



## **Political Fundraising in Texas is Target of Probe**

Officials Look at Whether Money Linked to House Majority Leader Tom DeLay Improperly Financed Republican Campaigns

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Authorities are conducting a criminal investigation into whether corporate money, including hundreds of thousands of dollars linked to U.S. House Majority Leader Tom DeLay, improperly financed the Republican Party's takeover of the Texas Capitol.

The probe is focused on several political and fundraising organizations run by Republican activists, investigators said. One of the organizations, the political action committee Texans for a Republican Majority, has direct ties to DeLay, a Texas Republican and one of the most powerful politicians in Washington.

At issue is whether the organizations improperly used corporate contributions to help finance the campaigns of more than 20 Republican candidates for the Texas House of Representatives in 2002, according to documents and interviews with prosecutors and government investigators.

Many campaign finance watchdog organizations believe the investigation is a test of whether "soft money" -- unlimited contributions from corporations, unions and wealthy individuals -- will begin playing a more direct role in state and local elections.

Such donations were outlawed at the national level by a campaign finance reform law, recently upheld by the Supreme Court, but the measure does not ban the contributions at the state level. Reform advocates worry that soft-money donors will begin contributing at the state level to curry favor and advance their causes.

Texas law bans corporations from contributing money to candidates for office. Corporations are allowed to fund many ancillary costs of a political campaign, such as office rental or telephone lines, and in many cases are allowed to educate voters through advertisements and other programs, provided they do not specifically advocate a candidate's defeat.

Texans for a Republican Majority is an offshoot of DeLay's Americans for a Republican Majority, created in 1994 to elect conservatives to public office. The Texas group was created in 2001, with the 2002 elections in mind, using seed money from Americans for a Republican Majority.

Investigators said they suspected that the Texas group spent hundreds of thousands of dollars on telephone banks and other initiatives during the election -- projects, they said, that went beyond the administrative costs corporations are allowed to fund in Texas elections. The money, in effect, represented a direct contribution to Republican candidates, they argue.

DeLay, whose office did not respond to requests for interviews, long has been viewed as one of the most innovative and prodigious fundraisers in politics. He has not been accused personally of any campaign finance violations.

Republican leaders said they worked with lawyers who specialize in election law to ensure that their corporate money was used legally. They denied wrongdoing and pointed out that the force behind the investigation, Dist. Atty. Ronnie Earle of Travis County, Texas, is a Democrat. They said the investigation -- and two lawsuits containing similar allegations brought by five Democrats who lost in the 2002 election -- represent sour grapes among Democrats.

"I think it is definitely politically motivated. And I think it is without merit," said Bill Hammond, a former Republican member of the Texas House of Representatives.

Hammond's business and lobbying organization, which is based in Austin and known as TAB, is another focus of the investigation. According to TAB's newsletter, it spent nearly \$2 million to mail Texas voters 4 million advertisements that attacked Democratic candidates and supported Republicans.

Sources close to the investigation said that as many as 20 people, including several of Austin's power brokers, have appeared before two grand juries as prosecutors push for indictments. Most, including Hammond, have retained criminal lawyers. The sources said at least two people, including the former director of Texans for a Republican Majority, John Colyandro, have been granted limited immunity in exchange for testimony.

Colyandro, also the executive director of the legislative group Texas Conservative Coalition, did not return a phone call seeking comment.

Almost all the candidates supported by the organizations won their races in the 2002 election, which was a turning point in Texas. According to documents distributed among Republican activists and gathered by investigators, several of the GOP candidates concede that they would not have won without the advertisements produced by Hammond's organization.

The election gave Republicans their first majority in the House of Representatives in 130 years. That paved the way for a host of initiatives favored by conservative advocates. The Legislature, for example, last year set limits on lawsuits brought by consumers against manufacturers and health-care companies, passed abortion restrictions and, most controversially, redrew congressional districts in Texas.

The new congressional maps are expected to hand the Republican Party as many as seven new seats in Congress, shoring up the GOP's power in Washington.

Details of the investigation are emerging just weeks after a divided Supreme Court upheld the major provisions of Congress' new federal campaign finance law.

The law prohibits soft-money donations from corporations and labor unions to political parties. That money had been widely used by activists and politicians across the ideological spectrum -- a trend the majority of the Supreme Court called a "growing evil ... of big money."

If the Republican activists behind the financing in Texas were vindicated, and they say they will be, they have suggested that similar arrangements could, and should, be used in local elections everywhere.

Political activists have tried similar money arrangements in other states, like Wisconsin, according to campaign finance reformers. Nowhere, however, have those efforts been as widespread and disciplined as they were in Texas during the last election cycle, several reform advocates said.

"We've never seen this before," said Fred Lewis, director of the Austin-based watchdog group Campaigns for People, which works to reduce the influence of money on state government. "The level and the impact of it were profound."

If the Texas financing is upheld as proper and legal, "it would essentially allow very powerful financial entities, corporations being the biggest, to have a tremendous impact on [local] elections," said Nick Nyhart, executive director of Public Campaign, a nonprofit campaign finance reform group in Washington that supports public financing of elections. "It means we get a government that isn't serving the interest of the people, but special interests."

Earle, who has been district attorney for 27 years, said he was aware of claims that the investigation was motivated by partisan politics. But he said he had brought charges against 15 politicians over the years; 11 of them, he said, were Democrats. He called the financing of the 2002 election "the greatest threat to democracy I've ever seen."

"This represents the corruption of the democratic process by large amounts of money given by people with a stake in who gets elected -- whose profit depends on who holds the regulatory range of government," he said. "Basically, it's an attempt to buy influence in government, to use secret money from hidden sources to hijack democracy."

Both Texans for a Republican Majority and TAB said that they funneled money into the 2002 election. Both, however, disputed charges that the money was used improperly, saying they were merely exercising their 1st Amendment rights to participate in the political process.

Texans for a Republican Majority, whose leaders did not return phone calls, raised about \$1.5 million during the 2002 election, investigators said. About a third of that came from corporate donors, many outside Texas. Among the group's purposes, leaders have said, was to elect a Republican speaker of the Texas House and to gain a GOP majority in the House. Both goals were accomplished in the 2002 election.

Sources close to the investigation said they are looking at several aspects of Texans for a Republican Majority's finances.

They said, for instance, that the group reported one batch of finances to the Texas Ethics Commission, but a different set of numbers to the IRS.

They also are interested in a \$190,000 transaction in September 2002, two months before the election. The sources said they suspect the money was sent from Texans for a Republican Majority to an arm of the Republican National Committee, which in turn donated it to Republican candidates in Texas -- among the allegations GOP leaders deny.

Some corporations that gave money to Texans for a Republican Majority have worked with DeLay on federal issues. For instance, the tobacco company Philip Morris donated \$20,000. DeLay has long opposed raising taxes on cigarettes.

The investigation's connections to DeLay represent just another way that Democrats have tried to attack him in recent years, Republicans said.

"This whole thing has amounted to a partisan witch hunt," said Ted Royer, spokesman for the Republican Party of Texas. "The Democrats have been trying to make Tom DeLay into the boogeyman for a long time."

Like other companies that donated money, Philip Morris said there was no relationship between contributions and policy decisions that might affect its business.

"We tend to support candidates who generally are in the same position we are on a whole host of issues," said David Sylvia, director of external communications for Altria, the parent company of Philip Morris. "There is no quid pro quo."

Investigators said they believed that Texans for a Republican Majority and TAB coordinated their efforts during the election, sharing staff, for instance, meeting to plot strategy and supporting virtually the same slate of Republican candidates. It is unclear whether that combined effort violated any campaign law, investigators said. Hammond said the two groups did not coordinate their efforts.

TAB raised nearly \$2 million during the election in an effort to sway 22 House races, according to its newsletter. The money was spent on advertisements, most of them mailers.

Many of the ads attacked Democratic candidates. Some supported Republicans, noting their opposition to taxes and the GOP's links with President Bush, a former Texas governor.

Hammond said the ads, which he calls "voter education," were legal because they did not use what some courts have termed "magic words" -- words that directly encourage people to vote for or against a candidate.

The group has refused to disclose the source of the money it collected, saying that information is private under constitutional grounds. The American Civil Liberties Union is supporting TAB's effort to keep the donors secret.

"The question revolves around the ability of an association such as ours to criticize the government," Hammond said. "It is a sad day when a group of people can't band together and express their feelings to the public about what the Legislature is doing. We feel very strongly about this."

TAB boasted about the influence it had on the elections. One of its newsletters contained testimonials from GOP candidates, including one who said TAB ads "absolutely won the race for me." Weeks before the election, Hammond sent a letter to supporters saying that his organization had "caught the attention of statewide governmental leadership."

"The Texas business community is a force to recon [sic] with," the letter said. "Thank you again for helping to make this effort such a success! P.S. Don't forget to vote!!"