

A PROPOSAL TO
DEFEAT
LLOYD CONNELLY'S TOBACCO TAX
INITIATIVE

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SECTION I:
THEMES AND STRATEGIES

There is no question that any effort to oppose an increase in "tobacco" excise taxes to finance health-related services and research as well as wildlife and recreation programs faces significant obstacles. Rich Ryan, a leading principal of the polling firm of Tarrance, Hill, Newport & Ryan, has commented that he keeps his pipe in his pocket whenever he's in California because he's never seen such aggressive anti-smokers anywhere else. In a single day, Mr. Ryan said, one stranger walked up and upbraided him for polluting the air, and another told him he was killing himself.

Indeed, Townsend & Company is well aware of the difficulty it would face in mounting an opposition campaign to a Tobacco Tax Initiative. But it is not an impossible task. A campaign constructed around the right themes and employing the right strategies would have a good chance of succeeding.

Outlined in this section are Townsend & Company's preliminary thoughts on effective positioning, themes and strategies for the campaign to defeat the Tobacco Tax Initiative sponsored by Assemblyman Lloyd Connelly, which is expected to qualify for the November 1988 ballot. We would like to underscore that the final campaign strategy and plan will be developed through extensive issues and public opinion research and many hours of strategy-planning sessions between the principal campaign consultants, pollsters and key industry representatives.

A. CAMPAIGN POSITIONING AND GENERAL THEMES

The Tobacco Tax Initiative must be characterized as an extreme approach with negative consequences not obvious to its supporters. We must shift the focus away from smokers, smoking and tobacco products to our own themes with a much broader populist appeal, such as fairness, equity, excessive taxation and social responsibility.

If the tobacco industry and other opponents of the initiative can define the terms of the debate in the press over the next few months preceding the actual campaign, much of the initiative's visceral appeal in California might be undercut.

In addition, such early theme-setting with political reporters and editorial boards would increase the saleability of the opposition campaign once the voting public begins to pay attention to the issue in the Fall next year.

It is not an unreasonable expectation that newspaper editorial boards could be persuaded to oppose the initiative.

The Sacramento Bee, for example, already has editorialized against Secretary of State March Fong Eu's "Dimes Against Crimes" liquor-tax increase initiative. The Bee contends it is wrong to impose a user-tax to finance responsibilities that rightly should be borne by society generally. A similar argument would apply to an excessive tax increase on tobacco products.

Likewise, early intensive approaches to newspaper and even some broadcast reporters and columnists would expose them to opposition arguments and preclude initiative sponsors from controlling news media sympathies before going into the campaign.

B. SPECIFIC THEMES

As alluded to above, the opposition campaign need not and should not include a defense of smokers, smoking and tobacco products. Rather, every effort should be made by opponents to cast the public spotlight on other key issues, some of which can only be identified after solid issues and public opinion research is completed. But we can anticipate several issues that will be available to opponents of the initiative:

-- Excessive Taxation

A significant number of conservative California voters will be prompted to vote against a 250 percent tax increase no matter what it is for. This new increase would come on top of a long list of real estate, utility, income, sales, excise, ad valorem, user and other taxes. Many of those voters ask, when is it all going to stop? Are we going to have to absorb new taxes on paint to deal with ozone depletion? New taxes on eggs and milk to finance heart research? New taxes on beef to fight cholesterol?

-- Lack of Fairness

Many liberals and civil libertarians will consider it unfair to impose taxes on only certain segments of society to finance broad social programs. Illustrations can be drawn to make the point, such as suggesting that a tobacco tax increase is similar to taxing only families with children to pay for schools.

-- Abrogation of Social Responsibility

This initiative would undercut the concept of society's responsibility to pay for programs that benefit all of society. More money for health care and recreation may be appropriate, but they are a responsibility of all the people.

-- Hidden Trap

Many state legislators, citizens and even advocates of groups that would benefit from the initiative may be persuaded that there is a hidden trap in the special tax concept. While money from the tax increase is supposed to supplement health and outdoors programs, there is more than ample evidence to argue that the Legislature, feeling the pinch of the 1979 "Gann" spending limit, will use the new taxes to justify cutting general fund appropriations for these same health and outdoors programs. State Superintendent of Public Instruction Bill Honig and many other educators use that very argument to criticize the state lottery. Rather than supplement education, Honig contends, the lottery has made it easier for the Legislature to reduce its general fund commitment to the schools. Some wildlife and recreation advocates, as well as health researchers, may be willing to criticize the new tax on similar grounds.

-- Radical Front

Some voters will be persuaded to vote against the initiative merely because of who is supporting it. For example, Jack Nicholl, a

former executive director of Tom Hayden's Campaign California, is the fulltime director of the Tobacco Tax Initiative. Similarly, Assemblyman Lloyd Connelly of Sacramento is viewed by many as a highly ambitious liberal legislator whose real agenda is to run for State Attorney General in 1990. Lastly, the initiative might be viewed by many as an effort by the Malibu-Marin County-set to impose their Yuppie values on the working man.

-- Crime

Raising the excise tax on tobacco products by up to 250 percent could generate a new form of crime in California that is all too familiar to law enforcement officials in other states -- hijacking and other forms of trafficking in untaxed cigarettes. Will organized crime elements find that they can make a significant profit by trading in untaxed cigarettes in California as they have in other high-tax states?

C. THE APPROACH FOR THE CAMPAIGN

We should be aware of a couple major factors in the development of this campaign. The feelings against smokers and smoking are very intense in California. This issue will be a vote against smoking; against anyone who ever blew smoke in the air near a non-smoker; and a vote to stop people who want to smoke, by people who "know what is best." This will be a very volatile and emotional campaign. The "YES" campaign will be well financed by the California Medical Association, the American Cancer Society, the American Lung Association, and liberal activists in the entertainment business. They will have many "white hat--good guy" spokespersons available for their cause.

Certainly new ideas must be used if we are to be successful, but we must incorporate those new ideas with the time-tested methods that win campaigns. Townsend & Company and Hal Larson have never lost a statewide issue campaign. We win because we develop the best strategy and produce the media that influences the key segments of the electorate to vote our way.

In 1984, we handled the "NO on Proposition 41" campaign. The proponents offered an initiative that would "cut welfare." When we came on board, 60% of the voters were inclined to support the measure. We polled, analyzed the poll data, found the weaknesses, produced television and radio commercials zeroing in on the measure's weaknesses, bought air time wisely and reversed the trend ... winning the campaign with a 63% "NO" vote.

We would undertake the same time-tested processes in this campaign. We also would add some other dimensions. In the recent campaign concerning reform of California's civil liability system, we expanded the strategy team of the campaign to include California's "best and brightest" political talent. This team met on an as-needed basis to discuss poll results, press approaches, research needs and overall strategy considerations. The final product of such a group proves the value of the theory of synergism, that the whole is greater than the sum of its parts.

This strategy team concept is new to California politics because campaign consultants are fearful of "letting go" in a campaign. They tend to be insecure and do not seek outside advice for fear of being "exposed" as not knowing what the proper course should entail. David Townsend of Townsend & Company has a different view. He wants to win the campaign. Winning to Mr. Townsend is more important than who gets the credit. Therefore, we strongly suggest fielding a strong team of experts to assist in the development of strategy. In this campaign, we must do everything smarter and better to win. We need the best talent in order to accomplish that goal.

We need to fight the proponents at every turn. They will build a sophisticated grassroots network on a county-by-county basis. We must use everyone in the tobacco stream of commerce to serve as our grassroots team. We must out-organize the other side, so that we too will have local people speaking out against this measure in every area of the state.

The initiative's proponents will have trade associations (e.g., California Medical Association and Lung Association) working and speaking on their behalf. For our side of the fight, we must organize trade associations like the California Chamber of Commerce and their local chapters, the California Taxpayers Association, the California Manufacturers Association, the California Grocers Association and the California Retailers Association.

They will have non-smoker activists. We must get civil libertarians who speak out against the unfairness of the tax. We do not want this to become a liberal vs. conservative campaign ... rather, it should be a fair vs. unfair campaign.

They will have medical researchers saying that smoking is the cause of lung cancer. Smokers should pay for the research. We must have enlightened researchers speaking out against this measure because they know in the long run it will mean less money to cancer research because other funding sources may cut back on their commitment.

In short, we cannot concede any level of the campaign effort in order to be successful.

D. PUBLIC SPOKESPERSONS

It is imperative that the opposition campaign identify and recruit non-smoker spokespersons not associated with the tobacco industry and not otherwise perceived as having personal conflicts or enjoying potential personal benefits from the defeat of this ballot measure. These spokespersons should include small businessmen and prominent figures who can credibly and convincingly address the problems and pitfalls of the Tobacco Tax Initiative. Richard Simpson, Executive Vice President of the California Taxpayers Association, and Kirk West, President of the California Chamber of Commerce, could speak to the tax issue and its longer-term adverse implications for Californians -- moving the debate away from smoking and smokers.

SECTION II:
CAMPAIGN PHASES AND ACTIVITIES

The campaign will be conducted in three phases, beginning immediately in October. In each phase, four key components will serve as the building blocks around which the campaign strategy will be developed. Those components are: (1) research (issues and public opinion); (2) news media relations; (3) constituent outreach (special interest organizations, grassroots network and speakers' bureau); and (4) paid advertising (radio, television, outdoor advertising and targeted direct mail).

This section highlights the key activities that will be conducted in each phase.

A. PHASE I (October 15, 1987 - January 14, 1988)

1. Issues/Public Opinion Research: The campaign issues and themes will be developed. Extensive issues and public opinion research will be conducted to determine the most effective arguments, the most credible spokespersons, voter reaction to the initiative and the demographics of the voters most likely to oppose the initiative. Based on this research, a detailed campaign strategy and timeline will be developed.
2. Printed Materials: Printed materials, including letterhead, brochures and "fact" sheets, will be developed.
3. Constituent Outreach: An outreach program for endorsements (or neutrality) from special interest organizations will be developed and put into place. This program will be designed to secure organizational support from interest groups in the stream of commerce--vendors, grocers, restaurant owners and other retail establishments at the point-of-sale. A grassroots organizing plan for educating and mobilizing each of the

major groups opposing the initiative will be developed. This plan also will address what efforts can be made to blunt the outreach efforts of the proponents and organizations supporting the initiative.

4. Fundraising Assessment: The ability of the campaign committee to generate financial support from groups other than tobacco companies and individuals motivated by civil libertarian beliefs will be assessed and tested.
5. News Media Relations: A news media relations strategy for a "free media" campaign will be developed and put into place. Activities that may be conducted include developing and distributing briefing packets to editors and political reporters from newspapers and television and radio stations throughout California, as well as conducting one-on-one news media relations activities.
6. Speakers' Bureau: Initial contacts will be made with credible individuals who may be interested in participating in the Speakers' Bureau.

B. PHASE II (January 15 - May 14, 1988)

1. Issues/Public Opinion Research: The major themes of the campaign will be refined. Tracking polls will be undertaken to assess the campaign themes' and activities' impact on voter subgroups.
2. Ballot Arguments/Rebuttals: The communications consultants for the campaign, in conjunction with the key industry representatives, will prepare effective ballot arguments and rebuttals against the initiative for the official ballot pamphlet.

3. Printed Materials/Direct Mail: Fact-based materials will be refined and distributed to all targeted organizations and individuals to urge them to oppose the initiative, including a Speakers' Bureau briefing kit.
4. News Media Relations: A public relations firm experienced in statewide political campaigns will be brought aboard to assist with an expanded media operation, featuring more intensive contact with political reporters and the first round of press conferences where they are deemed appropriate.
5. Speakers' Bureau: Credible individuals who can speak persuasively about the unfair and radical nature of the initiative will be identified and recruited. To the extent feasible, the Speakers' Bureau will be regionalized and will cover all major media-market areas in order to respond quickly to local press inquiries or local speaking engagement requests. Activities that will be conducted include training public spokespersons and scheduling speaking engagements.
6. Paid Advertising: The advertising strategies involving electronic media, outdoor advertising and targeted direct mail will be developed.

All other campaign activities, such as constituent outreach and fundraising, will continue.

C. PHASE III (May 15 - November 15, 1988)

1. Public Opinion Research: Tracking polls will be undertaken to measure the effectiveness of the anti-tobacco tax campaign. The tracking research will allow the campaign to refine and alter its messages to increase the impact on important voter subgroups.

2. Paid Advertising: The paid advertising strategies will be refined and finalized. Four to nine weeks of electronic media advertising will probably be necessary for this campaign to be successful. Production and placement of radio and television commercials will take place in this phase, directed at general and targeted audience viewing.

All other campaign activities will continue.

SECTION III:
CAMPAIGN ORGANIZATION AND MANAGEMENT

Townsend & Company's proposed campaign organizational structure and management approach is designed to achieve an efficient decision-making process with effective checks and balances. The following campaign organization and management approach is recommended:

1. An Executive Committee consisting of representatives of all major financial contributors opposed to the initiative would be established in order to (a) make the key decisions concerning the direction and operation of the campaign, and (b) serve as the communications and organizing link with key constituencies opposing the initiative.
2. A Finance Committee would be established to (a) assess the fundraising capability within and outside of the tobacco industry, and (b) raise funds.
3. A Research Committee would be established to (a) examine carefully the provisions of the initiative, (b) document its deficiencies, and (c) work with the communications consultants in developing informational materials highlighting the strongest "points of attack."
4. David Townsend would manage the operation of the campaign and serve as the "point" person on designing the campaign's overall strategy.
5. Jose Hermocillo would serve as the campaign manager, overseeing the day-to-day operations of the campaign.
6. A strategy team consisting of key Townsend & Company personnel, Hal Larson, key industry representatives and other consultants (e.g., Steve Merksamer and Ken Khachigian) would be established to

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plan and develop all elements of the campaign.

7. David Townsend, in conjunction with Hal Larson, would oversee the media creation, production and placement program as well as the targeting analysis for the paid advertising campaign.
8. Jeff Raimundo would manage the internal communications and news media relations programs and serve as the "point" person with the Capitol Press Corps and other political reporters around the state.
9. A Field Director with staff in Northern, Central and Southern California would be hired by the campaign to (a) coordinate the constituent outreach program, and (b) work with Mr. Raimundo in developing the Speakers' Bureau.
10. Townsend & Company personnel would be responsible for (a) producing printed materials, (b) supervising the targeted direct mail program and (c) supervising all other vendors (e.g., pollsters, printers and graphic artists) to guarantee performance on contracted services.

SECTION IV:
CAMPAIGN BUDGET AND FEES

A. CAMPAIGN BUDGET

The budget is the blueprint for the campaign and requires research and input from the campaign's Executive Committee to develop the final working document. As a result, the following budgets reflect our preliminary estimates of line-item costs. However, these figures do not include fees for additional consultants or services that the committee may deem necessary.

PHASE I (October 15 - January 14)

Townsend & Company	\$ 60,000
Operations/Overhead	18,000
Communications	33,000
Constituent Outreach/ Field Operations	25,500
Issues/Public Opinion Research	35,000
Direct Mail/Printing	15,000
Legal/FPPC	<u>30,000</u>
<u>TOTAL</u>	<u>\$216,500</u>

PHASE II (January 15 - May 14)

Townsend & Company	\$ 80,000
Operations/Overhead	20,000
Communications	98,000
Constituent Outreach/ Field Operations	54,000
Issues/Public Opinion Research	35,000
Direct Mail/Printing	25,000
Legal/FPPC	<u>40,000</u>
<u>TOTAL</u>	<u>\$402,000</u>

PHASE III (May 15 - November 15)

	<u>OPTIMAL</u>	<u>% of TOTAL</u>	<u>MINIMAL</u>	<u>% OF TOTAL</u>
Townsend & Co.	\$180,000	2.2	\$180,000	3.3
Operations/ Overhead	45,000	0.5	30,000	0.5
Communications	147,000	1.8	147,000	2.7
Constituent Outreach/Field Operations	129,000	1.6	81,000	1.5
Issues/Public Opinion Research	75,000	0.9	60,000	1.1
Electronic Media				
TV Production	250,000	3.0	150,000	2.7
TV Buy	6,000,000	73.0	4,000,000	72.6
Radio Production	75,000	0.9	50,000	0.9
Radio Buy	500,000	6.0	350,000	6.4
<u>Subtotal</u>	<u>6,825,000</u>	<u>83.0</u>	<u>4,550,000</u>	<u>82.6</u>
Direct Mail/ Printing				
Slates	500,000	6.0	300,000	5.5
Informational Materials/Signs	250,000	3.0	100,000	1.8
Legal/ FPPC	<u>60,000</u>	<u>0.7</u>	<u>60,000</u>	<u>1.1</u>
<u>TOTAL</u>	<u>\$8,211,000</u>	<u>100.0%</u>	<u>\$5,508,000</u>	<u>100.0%</u>

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B. CAMPAIGN MANAGEMENT FEE

In addition to the management fees mentioned above, the management fee for Townsend & Company would include normal agency commissions of fifteen percent (15%) for print production, printing, radio and television media production and placement. Townsend & Company will contract with a media-placement service for television and radio. Mr. Larson receives a share of the commissions on electronic media placement.

The professional fees for Mr. Larson and Mr. Raimundo (although formally associated with Townsend & Company) are covered under the "communications" line-item of each budget.

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SECTION VI:
PROFILES, RESPONSIBILITIES AND OBLIGATIONS
OF TOWNSEND & COMPANY

A. PROFILE OF DAVID TOWNSEND

As one of California's most highly regarded political consultants, David Townsend has managed candidate and issue campaigns throughout the state for more than a decade.

Earlier this year, Mr. Townsend was picked by a coalition of businesses, health care organizations, insurance companies and the tobacco industry to direct a campaign in support of a major tort reform initiative for the June 1988 ballot. The quality of the organization of that campaign contributed to pressuring the California Trial Lawyers Association into making major concessions resulting in a landmark legislative compromise.

Mr. Townsend's most recent victories include state Senator Robert Presley's and March Fong Eu's reelection bids in November of 1986, and Los Angeles Mayor Tom Bradley's successful mayoral reelection campaign in 1985.

In 1984, Mr. Townsend directed the successful campaign to defeat Proposition 41 (Health and Welfare cuts). He took over the campaign with a 20-point deficit in the polls. Mr. Townsend, Mr. Larson and the campaign team won the campaign by a 26 point margin. That same year, Townsend directed the passage of Measure A in Santa Clara County to raise the local sales tax by 1/2 cent for freeway construction.

Mr. Townsend has managed and won campaigns covering the full spectrum of politics, and his record of successes is unequalled by his peers.

B. PRINCIPALS' RESPONSIBILITIES

Mr. Townsend is personally involved in every component of political campaigns, but he is particularly skilled at pulling together a team of experts and utilizing their combined talents and strengths. Mr. Townsend would assign the following Townsend & Company staff and consultants to this campaign.

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David J. Townsend (50% - Phases I and II; 60%-Phase III): Responsible for overall campaign management, including strategy, budget development, and media production.

Jose Hermocillo (50% - Phases I and II; 60%-Phase III): Responsible for day-to-day management of the campaign, including supervising the constituent outreach, fundraising and communications programs.

Jeff Raimundo (50% - Phases I, II and III): Responsible for planning and managing statewide press strategy, monitoring press coverage, and supervising the public relations firm and regional press offices.

Sharon Usher (30% - Phases I, II and III): Responsible for serving as financial liaison between Townsend & Company and the campaign. Will interface with all vendors, monitor spending, and ensure adherence to the established budget.

Stacy Welsh (40% - Phases I and II; 50% - Phase III): Responsible for production and delivery of all campaign materials. Will supervise writers, designers, typesetters, printer, mail houses, etc.

William Berman (30% - Phases I and II; 60% - Phase III): Responsible for implementing strategy, writing and editing, and organizational troubleshooting.

C. OBLIGATIONS OF TOWNSEND & COMPANY

With regard to other campaign management commitments for the November 1988 elections, Townsend & Company is, at this time, under contract to manage one state Senate campaign and one supervisorial campaign should they prevail in the June primary. We also have been retained by Pacific, Gas and Electric Company to manage its campaign to take over the Sacramento Municipal Utility District should PG&E decide to take this issue to the voters on the June 1988 ballot.

In each of the above campaigns, Mr. Townsend has assigned experienced personnel to ensure quality service to our clients, allowing him to provide strategy and overall direction to each campaign.

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