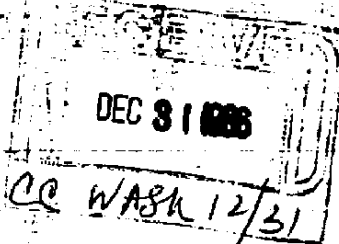


North State Advisers & Associates

December 16, 1986

Mr. Michael Brozek
Regional Vice President
Tobacco Institute
Suite 201
22 North Carroll
Madison, WI 53703



Dear Michael,

As I informed you earlier this month, North State projects a very active legislative session in Minnesota this year regarding tobacco issues. We think there will be major work in at least three areas:

1. Taxes - The most recent budget forecast by the Minnesota Department of Revenue indicates a shortfall for the 1987-88 biennium of at least \$820 million. Some observers feel this amount could rise to \$1.2 billion. With this situation as the backdrop, we have to assume that the state will be looking for revenue wherever it might be available.

It is virtually certain that an attempt will be made to increase excise taxes on tobacco. Our most recent information indicates that a request for a 20-cent increase is possible this year. North State is monitoring this situation daily, and we will keep you informed of any formal proposal as soon as it becomes available.

For your information, other potential sources of revenue this year include an expansion of the Minnesota sales tax to clothing and services, as well as retention of some of the "windfall" generated by changes in the federal tax code.

2. Sampling - As you know, we were successful last year in mitigating the effects of the smokeless sampling bill on other forms of tobacco. We fully expect the "pro-ban" faction of our legislature to be active again in 1987. As in the past, we will notify you of specific initiatives in this area as soon as they become apparent.

3. Minnesota Clean Indoor Air Act - There is some indication that Representative Phyllis Kahn, the original author of this Act, will attempt to strengthen its provisions dealing with smoking in the workplace. We think she will be particularly interested in redefining what constitutes a private office. The point of such a change will be to allow further restrictions on smoking in individual cubicles in large office areas where both smokers and non-smokers work.

During this year's Government Relations Seminar, Mr. Guy Smith IV, of Philip Morris, described a program of assistance available to legislative counsel. As you know, this program is designed to help mobilize "pro-smoking" forces in individual states. I am requesting now that the Philip Morris program be activated in Minnesota.

Please let me know what I need to do to assist in setting up this program. Given the large number of tobacco related issues likely to surface this year, we need to discuss which ones lend themselves to public involvement, and which ones are best dealt with through other more low-profile methods.

Thank you in advance for your help in this matter. Your outstanding record of providing support and assistance to TI legislative counsel is appreciated by all of us here at North State.

Sincerely,

NORTH STATE ADVISERS, INC.



David M. Horezdovsky

DHH/ach

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