

Californians Against Unfair Tax Increases

**TAKE A CLOSER LOOK
AT THE TOBACCO TAX INITIATIVE**

PRESS INFORMATION KIT

Californians Against Unfair Tax Increases,
A Committee Sponsored by the Tobacco Industry

1717 I Street, Suite B
Sacramento, California 95814
(916) 448-8507 FAX (916) 444-0382



TAKE A CLOSER LOOK
AT THE TOBACCO TAX INITIATIVE
It's Less Than Meets the Eye

California's major anti-tobacco organizations, an environmental policy group, education organizations and two state legislators have formed the "Coalition for a Healthy California" to promote the Tobacco Tax Initiative. Sponsors are now circulating petitions in an effort to qualify the constitutional amendment for the November 1988 state ballot.

The proposition would increase California's tobacco excise tax from the current 10 cents per pack of cigarettes to 35 cents per pack. It also would impose a new tax on all other tobacco products "equivalent" to the 35 cents per pack cigarette tax.

The rationale for such an increase as expressed by Coalition leaders is to raise the price of tobacco as a way to discourage people from using tobacco, and to raise money for "health research." According to the Legislative Analyst, the new tax would raise approximately \$650 million a year, to be divided among several beneficiary sponsoring organizations, primarily the health care industry.

Californians Against Unfair Tax Increases and other opponents of the initiative urge you to take a closer look at the proposition. We believe that as you learn of its deceptive provisions, its system of rewards for initiative sponsors, its regressive impact on working class Californians and its questionable medical and social consequences, you will see that the initiative is not the unselfish, health-motivated reform its sponsors would like you to believe.

**FACT SHEET:
The Tobacco Tax**

- * The initiative is a 250 percent excise tax increase that circumvents the 1979 Gann spending limit imposed on state and local government by the voters. It would make California's tobacco tax the highest in the nation.
- * Experience in other states has demonstrated that such a large tax increase will lead to bootlegging and other crime problems, yet the measure provides no new money to assist law enforcement.
- * The initiative divides the estimated \$650 million in proceeds among a handful of special interest beneficiaries who have banded together to sponsor the measure. The largest share, 45 percent, goes to doctors and other health care providers for purposes unrelated to tobacco or smoking.
- * Tobacco Tax is a regressive tax that hits hardest at blue collar working men and women, taking from their pockets to enrich the medical industry.
- * Twenty-five percent -- \$162.5 million -- is handed over to the Legislature for allocation. Lawmakers are likely to turn that money over to doctors and other health care providers as well, raising the medical industry's "take" to as much as 70 percent, about \$450 million.
- * Five percent goes to parks and wildlife management -- unrelated to tobacco or health -- in an effort to win campaign support from environmentalists.
- * Only 5 percent of the new revenue would go for health research even though the advocates claim that the major purpose of the initiative is to raise money for health research.
- * While 20 percent -- \$130 million -- is earmarked for health education said to be related to tobacco use, experience with previous financing schemes such as the Lottery suggest the money is likely to be used to replace money for math, English and other existing programs.
- * The initiative allows much of the education fund to be siphoned off by the sponsoring health societies -- heart, lung and cancer- - to finance their programs.
- * Assemblyman Lloyd Connelly's 1987 bill in the Legislature to accomplish many of the same things that are included in the initiative died without even getting a motion during committee hearings last year. The Legislature recognized that no reform should be achieved through bad law.

QUESTIONS AND ANSWERS
ON THE TOBACCO TAX INITIATIVE

What is the Tobacco Tax Initiative?

It is a constitutional amendment and a statute initiative targeted for the statewide ballot in November that would increase by 250 percent the state's tobacco excise tax -- hiking the existing 10-cents per pack tax to 35 cents, the highest in the nation -- and divvy the estimated \$650 million in proceeds among various special interests sponsoring it.

Who would pay the tax?

Working class Californians would bear the brunt of this highly regressive tax, according to a variety of independent sources, including the Congressional Budget Office in 1987. Blue collar and lower income wage earners smoke in disproportionately large numbers and spend a greater portion of their income on tobacco products than middle and higher income Californians. As a result, 20 percent of workers earning \$30,000 or less each year will pay 39.5 percent of the new tax even though they receive less than 7 percent of all wages.

Who would benefit from the tax?

The initiative divides the proceeds among a handful of special interest beneficiaries who have banded together to sponsor the measure.

- * The largest share, 45 percent (about \$292.5 million), goes to the medical industry for purposes unrelated to tobacco or smoking.
- * 25 percent (about \$162.5 million) would be handed over to the Legislature for allocation. Ample experience in Sacramento shows that the Legislature will give the money to the strongest lobby. If that is doctors and other medical providers, the total "take" for the medical industry could be as much as 70 percent of the new tax proceeds, or about \$455 million.
- * 20 percent (about \$130 million) is earmarked for "...programs for the prevention and reduction of tobacco use through school and community health education programs." Experience in Sacramento demonstrates that the "Lottery Syndrome" is likely to occur: the governor and Legislature will use the money to replace existing education programs even though it is supposed to augment school budgets. In addition, sponsoring health organizations will be eligible to siphon much of that money off for their own programs.
- * 5 percent (about \$33 million) will go "...for tobacco related disease research." Ironically, while proponents claim health research is one of their major goals, this is the initiative's smallest allocation.

- * 5 percent (about \$33 million) would be set aside "...for programs to protect, restore, enhance or maintain fish, waterfowl and wild life habitation" and "to enhance state and local park and recreation resources." This appropriation was contrived to win support of the Planning and Conservation League, an organization valuable for its volunteer ranks and large mailing list.

What's wrong with earmarking money raised by the new tax?

This proposition would lock its system of financial rewards into law, requiring a nearly impossible-to-achieve four-fifths vote of the Legislature to revise the apportionments as needs and priorities change over the years. As the staff of the Assembly Revenue and Taxation Committee said last year: "Fiscal experts have argued that earmarking is poor budgeting procedure, since it introduces rigidities and does not permit proper allocation of general revenue among competing uses."

It also rewards those who drafted the initiative behind closed doors, without proper public policy debate and to the exclusion of others who may be equally needy.

But don't some of the targeted programs deserve the financial support of California taxpayers?

The initiative has been drafted by members of California's medical industry to increase the amount they receive for patients treated under the medically indigent adults (MIA) program. They have failed for several years to convince the governor and Legislature to increase their payments under what may be a laudable program.

However, it raises several key public policy questions: Should broad social responsibilities be financed by taxing all citizens equally and fairly or with a regressive tax that inequitably burdens working class and poor Californians? What will be next? Will only parents with children be required to pay for schools? And, if this type of funding is acceptable, why exclude other programs benefitting lower-income Californians, such as Medi-Cal and Medicare?

The financing of education programs, while perhaps commendable, also contains some major traps. The initiative states that the money should be in addition to revenues otherwise allocated to the schools by the Legislature. But extensive experience with similar funding schemes demonstrates that the "Lottery Syndrome" is likely to result when the Legislature and the governor count the money toward their "55 percent" formula for financing public schools. The effect will be to force out money for math, English and other programs to make way for legally mandated anti-smoking programs.

Won't the money be used for the good of everyone?

Not at all. The medical industry will get a minimum of 45 percent of the \$650 million raised by the new tax -- and could get 70 percent. Sponsors of the initiative say a major goal of this 250 percent tax increase is to finance health research. But the \$33 million to be set aside for research could be funded with other taxes imposed fairly on all of society, not taken from the pocketbooks of Californians least able to afford it.

Similarly, the \$33 million earmarked for fish, wildlife and state parks -- for purposes unrelated to smoking or tobacco use -- was aimed at winning the endorsement of the Planning and Conservation League, an environmental group valuable for its large list of financial contributors and volunteers. Again, a disproportionate share of California's urban blue collar and lower income workers would be asked to finance the conservation programs of a more elite constituency.

It is for reasons such as this that even some sympathetic groups such as the Alameda County Lung Association so far has refused to endorse this proposal, which would provide a windfall of between \$292 million and \$455 million a year to the medical industry.

Will the nation's highest cigarette tax create crime problems?

Experience in other states has demonstrated that such a large tax increase will lead to bootlegging and other crime problems because the financial incentive is so great. A single truckload of untaxed cigarettes brought in from North Carolina, for example, would yield profits approaching \$200,000. And petty theft and vandalism are likely to rise because some people will steal cigarettes to avoid higher prices.

In divvying up the tax proceeds, the sponsors did not provide any money to cover the increased law enforcement problems. The U.S. Advisory Council on Intergovernmental Relations has recommended that any such tax increases include allocations to help compensate for crime-fighting costs. In addition, citing bootlegging and mail order transactions, the state Board of Equalization advised the Legislature last year that "it would be virtually impossible to enforce effectively a tobacco tax, and the administrative costs would be very high in relation to the revenue produced."

Won't an increase in the tobacco tax cut consumption?

No, although that is an argument raised by proponents of the Tobacco Tax Initiative. Both sides in the debate are predicting about a 13 percent drop in cigarette sales if the tax increase is approved.

Independent experts who have studied the issue in other states that increased their taxes predict decline will result from a decrease in the sale of legally taxed cigarettes (offset by an increase in bootlegged cigarettes), not from large numbers of people who quit. Studies show that high-tax states such as Pennsylvania, New York and New Jersey report higher than average cigarette consumption, with any dropoff rebounding to previous levels within a couple of years of a major tax increase. California, in fact, is one of the lowest consumption states in the country despite its current low tax--clearly a contradiction of the proponents' argument.

Do the new taxes fall under the Gann spending limit on state and local government?

The Gann Limit, adopted by California voters in 1979 to put some brakes on government spending, would be sidestepped by the Constitutional Amendment contained in this measure placing the revenues from this tax increase outside the spending limits. Proceeds of the taxes would be limited to the uses specified in the Tobacco Tax Initiative and not available for any other governmental purpose. The initiative process has never before been used successfully to raise taxes and this is the first effort to exempt a major share of new tax revenues -- \$650 million a year -- from the popular spending limit.

Didn't the Legislature kill a bill similar to this initiative last year?

Assemblyman Lloyd Connelly's 1987 bill in the Legislature to accomplish many of the same things that are included in the initiative died without even getting a motion during a hearing last year before the Assembly Revenue and Taxation Committee. The 18 members of the committee, including some of the most conservative and liberal members of the Legislature, recognized that it was replete with major flaws. They decided that noble principles cannot be achieved through bad law. Connelly, who wants to seek higher office and who is sponsoring several initiatives for the 1988 ballot, is widely regarded as a politician who purposely constructs unacceptable legislation so that he can get high visibility as a Don Quixote carrying his battles to the general public.

Whom should I contact for more information?

The mailing address of Californians Against Unfair Tax Increases is 1717 I Street, Suite B, Sacramento, CA, 95814. Jeff Raimundo is the official spokesman for the group and can be reached at 916-448-8507.

INITIATIVE MEASURE TO BE SUBMITTED DIRECTLY TO THE VOTERS

The Attorney General of California has prepared the following title and summary of the chief purpose and points of the proposed measure.

CIGARETTE AND TOBACCO TAX, BENEFIT FUND, CONSTITUTIONAL AMENDMENT, INITIATIVE STATUTE.

Imposes additional tax upon cigarette distributors of one and one-fourth cents (1 and 1/4 cents) for each cigarette distributed. Imposes tax upon distributors of other tobacco products which is equivalent to combined rate of tax imposed on cigarettes. Directs State Board of Equalization to determine this tax annually. Places moneys raised in a special account which can only be used for: treatment; research of tobacco related diseases; school and community health education programs about tobacco; fire prevention; and environmental conservation and damage restoration programs. Declares revenues not subject to appropriations limit. Summary of estimate by Legislative Analyst and Director of Finance of fiscal impact on state and local governments: If adopted in November 1988, will produce approximately \$320 million in special fund revenues in 1988-89 (part-year) and \$650 million in 1989-90 (first full-year). Annual administrative costs are estimated at \$500,000. There will be no substantial net effect on sales tax revenues to the state, cities and counties.

TO THE HONORABLE SECRETARY OF STATE OF CALIFORNIA:

We, the undersigned, registered, qualified voters of California, residents of the above mentioned County (or City and County), hereby propose amendments to the Constitution and statutes of California, relating to the imposition and distribution of excise taxes on cigarette and tobacco products, and petition the Secretary of State to submit the same to the voters of California for their adoption or rejection at the next succeeding general election or at any special statewide election prior to that general election or otherwise as provided by law. The proposed constitutional and statutory amendments read as follows:

TOBACCO TAX AND HEALTH PROTECTION ACT OF 1988

SECTION 1. This measure shall be known and may be cited as the Tobacco Tax and Health Protection Act of 1988.

SEC. 2. The people find and declare as follows:

- (a) Tobacco use is the single most preventable cause of death and disease in America.
- (b) Tobacco-related diseases cause immense suffering and personal loss, and a staggering economic cost which all Californians have to pay.
- (c) Tobacco-related diseases are a major burden on state and local governments by requiring them to provide medical care and health services.
- (d) Tobacco use causes substantial environmental damage, and property damage and loss of life due to fire.
- (e) To reduce the incidence of cancer, heart, and lung disease and to reduce the economic costs of tobacco use in California, it is the intent of the people of California to increase the state tax on cigarettes and tobacco products and do all of the following:
 - (1) Reduce smoking and other tobacco use among children.
 - (2) Support medical research into tobacco-related cancer, heart, and lung diseases.
 - (3) Treat people suffering from tobacco-related diseases.
 - (4) In recognition of the uncompensated costs of tobacco-related illness, support treatment of patients who cannot afford to pay for services.

SEC. 3. Section 12 is added to Article XIII B of the Constitution, to read:

SEC. 12. "Appropriations subject to limitation" of each entity of government shall not include appropriations of revenue from the Cigarette and Tobacco Products Surtax Fund created by the Tobacco Tax and Health Protection Act of 1988. No adjustment in the appropriations limit of any entity of government shall be required pursuant to Section 3 as a result of revenue being deposited in or appropriated from the Cigarette and Tobacco Products Surtax Fund created by the Tobacco Tax and Health Protection Act of 1988.

SEC. 4. Article 2 (commencing with Section 30121) is added to Chapter 2 of Part 43 of Division 2 of the Revenue and Taxation Code, to read:

Article 2. Cigarette and Tobacco Products Surtax 30121. For purposes of this article

- (a) "Cigarettes" has the same meaning as in Section 30003, as it read on January 1, 1988.
- (b) "Tobacco products" includes, but is not limited to, all forms of cigars, smoking tobacco, chewing tobacco, snuff, and any other articles or products made of or containing at least 50 percent tobacco, but does not include cigarettes.
- (c) "Fund" means the Cigarette and Tobacco Products Surtax Fund created by Section 30122 30122. (a) The Cigarette and Tobacco Products Surtax Fund is hereby created in the State Treasury. The fund shall consist of all revenues deposited therein pursuant to this article. Moneys in the fund may only be appropriated for the following purposes:
 - (1) Tobacco-related school and community health education programs.
 - (2) Tobacco-related disease research.
 - (3) Medical and hospital care and treatment of patients who cannot afford to pay for those services, and for whom payment will not be made through any private coverage or by any program funded in whole or in part by the federal government.
 - (4) Programs for the prevention, environmental conservation, protection, restoration, enhancement, and maintenance of fish, waterfowl, and wildlife habitat areas, and enhancement of state and local park and recreation purposes.
- (b) The fund consists of six separate accounts, as follows:
 - (1) The Health Education Account, which shall only be available for appropriation for programs for the prevention and reduction of tobacco use, primarily among children, through school and community health education programs.
 - (2) The Hospital Services Account, which shall only be available for appropriation for payment to public and private hospitals licensed pursuant to subdivision (a) of Section 1250 of the Health and Safety Code for the treatment of hospital patients who cannot afford to pay for that treatment and for whom payment for hospital services will not be made through private coverage or by any program funded in whole or in part by the federal government.

(3) The Physician Services Account, which shall only be available for appropriation for payment to physicians for services in patients who cannot afford to pay for those services, and for whom payment for physician services will not be made through private coverage or by any program funded in whole or in part by the federal government.

(4) The Research Account, which shall only be available for appropriation for tobacco-related disease research.

(5) The Public Resources Account, which shall only be available for appropriation in equal amounts for both of the following:

(A) Programs to prevent, restore, enhance, or maintain fish, waterfowl, and wildlife habitat on an equally funded basis.

(B) Programs to enhance state and local park and recreation resources.

(6) The Unallocated Account, which shall be available for appropriation for any purpose specified in subdivision (a).

30123. (a) In addition to the tax imposed upon the distribution of cigarettes by this chapter, there shall be imposed upon every distributor a tax upon the distribution of cigarettes at the rate of twelve and one-half mills (\$0.0125) for each cigarette distributed.

(b) There shall be imposed upon every distributor a tax upon the distribution of tobacco products, based on the wholesale cost of these products, at a tax rate, as determined annually by the State Board of Equalization, which is equivalent to the combined rate of tax imposed on cigarettes by subdivision (a) and the other provisions of this part.

30124. (a) With the exception of payments of refunds made pursuant to Article 1 (commencing with Section 30101) of Chapter 6, and reimbursement of the State Board of Equalization for expenses incurred in the administration and collection of the tax imposed by Section 30123, pursuant to its powers vested by this part, all moneys raised pursuant to the taxes imposed by Section 30123 shall be deposited into the fund as provided in subdivision (b).

(b) Moneys shall be deposited in the fund according to the following formula:

(1) Twenty percent shall be deposited in the Health Education Account.

(2) Thirty-five percent shall be deposited in the Hospital Services Account.

(3) Ten percent shall be deposited in the Physician Services Account.

(4) Five percent shall be deposited in the Research Account.

(5) Five percent shall be deposited in the Public Resources Account.

(6) Twenty-five percent shall be deposited in the Unallocated Account.

(c) Any amounts appropriated from any account specified in subdivision (b) which is not encumbered within the period prescribed by law shall revert to the account from which it was appropriated.

30125. Funds expended pursuant to this article shall be used only for the purposes expressed in this article and shall be used to supplement existing levels of service and not to fund existing levels of service.

30126. The annual determination required of the State Board of Equalization pursuant to subdivision (b) of Section 30123 shall be made based on the wholesale cost of tobacco products as of March 1, and shall be effective during the state's next fiscal year.

30126. This article shall take effect on January 1, 1989.

30129. The tax imposed by Section 30123 shall be imposed on every cigarette and tobacco product in the possession or under the control of every dealer and distributor on and after 12:01 a.m. on January 1, 1989, pursuant to rules and regulations promulgated by the State Board of Equalization.

30130. This article may be amended only by vote of four-fifths of the membership of both houses of the Legislature. All amendments to this article must be consistent with its purposes.

SEC. 5. If any section of this measure, or part thereof, is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.

INSTRUCTIONS TO CIRCULATOR

1. Election officials will check each signature, address and date on this petition and will invalidate signatures of all persons who do not follow the instructions below. Please read and follow carefully.
2. **YOU MUST BE CURRENTLY REGISTERED VOTER TO SIGN OR CIRCULATE THIS PETITION.** If you have moved since voting and have not yet re-registered, you must do so in order to validly circulate this petition. Also, all signers of this petition must be currently registered to vote in order for their signatures to be valid.
3. **FILL IN THE COUNTY WHERE PETITION IS TO BE CIRCULATED.** You may circulate petitions in any county, but each individual petition may be circulated for only ONE county, and signed only by registered voters in that county.
4. **YOU MAY CIRCULATE AS MANY PETITIONS AS YOU LIKE, BUT MAY SIGN ONLY ONE PETITION IN SIGNATURE SPACES.**
5. **MAKE SURE SIGNERS COMPLETE ALL INFORMATION IN THIS AND IN SIGNATURE SPACES.** Information must be accurate and complete. **NO DITTO MARKS, ABBREVIATIONS OR P.O. BOXES** are allowed. Married women must sign and print their names as requested. For example, "Mary J. Smith" instead of "Mrs. John Smith".
6. **PLEASE USE BALL POINT PENS ONLY TO FILL IN REQUIRED INFORMATION.**
7. **AFTER THIS PETITION IS FILLED WITH AS MANY SIGNATURES AS YOU CAN GET, COMPLETE "DECLARATION OF CIRCULATOR" SECTION AT BOTTOM OF SIGNATURE PAGE.** All signatures must be obtained in your presence. Do not fill out the Declaration of Circulator until you are ready to return the petition. The Declaration must be signed and dated after the signatures are collected. This petition and all names on it will be invalid unless ALL requested information, including the county in which you are registered, and the three dates requested.
8. **WHILE IT IS MOST HELPFUL IF ALL THE SIGNATURE SPACES ARE FILLED WITH VALID SIGNATURES, THIS PETITION IS VALID AND IMPORTANT EVEN IF IT CONTAINS ONLY ONE SIGNATURE.** Remember, even with one signature, you must still complete the Declaration of Circulator section.
9. **IT IS VERY IMPORTANT THAT WE KEEP AN ACCURATE COUNT OF SIGNATURES COLLECTED. THEREFORE, WE ASK THAT YOU RETURN THIS PETITION WITHIN TWO WEEKS,** with as many signatures as you can get. We'll be glad to send you more petitions. PLEASE RETURN VIA FIRST CLASS MAIL BY MARCH 25, 1988.
10. **DO NOT REPRODUCE THIS PETITION.** If you need more petitions, contact your local committee on the telephone listed below.

Return signed petitions to:

Coalition for a Healthy California - 5858 Wilshire Blvd., Suite 400 - Los Angeles, CA 90036 (213) 937-6464
State LTB #1092821

07/22/88

CALIFORNIANS AGAINST UNFAIR TAX INCREASES
ID #871687

1713 J Street, #201
Sacramento, CA 95814

916-448-8507

CONTACT LIST

TOWNSEND & COMPANY
1717 I St., Suite B
Sacramento, CA 95814

916-444-5701

Telecopier: 916-444-0382 (auto)

DAVID TOWNSEND
(Campaign Manager)
(CEO & Wife, Sharon Usher)

(Secty., Hilde Nivens)

Home: 2939 27th St.
Sacramento, CA 95818

916-453-1509 (H)

JOSE HERMOCILLO
(Deputy Campaign Manager)

(Secty., Kit Dillon-Givas)

Home: 4337 I St.
Sacramento, CA 95819

916-452-0154 (H)

JEFF RAIMUNDO
(Press/Communications Director)

916-444-5701

Home: 2362 American River Dr., #111
Sacramento, CA 95825

916-483-9411 (H #1)
916-444-0464 (H #2)

NANCY HEFFERNAN
(No. Cal. Press)

916-486-9901 (H)

BILL BERMAN
(No. Cal. Press)

916-753-8340 (H)

OGILVY & MATHER, INC.
5757 Wilshire Blvd.
Los Angeles, CA 90036

213-930-6666

Telecopier: 213-937-6283 (auto)

SUSAN E. FRANSON
(So. Cal. Press)

213-826-7731 (H)

L. MICHAEL DOWLING
(So. Cal. Press)

213-395-1851 (H)

MAX BESLER
(Statewide Field Director)

916-736-0189 (H)

AILES COMMUNICATIONS, INC.
456 West 43rd St.
New York, NY 10036

M + F 212-563-1970
Tu, W, Th 202-842-1988 x 692

ROGER AILES
(Media Director)

Telecopier 212-563-3373

(Asst., Judy Laterza)

Home: 26 Mount Green Road
Croton-On-Hudson, NY 10520

914-271-3236

FARRELL MEDIA, INC.
211 East 43rd St.
New York, NY 10017

212-983-7060

CATHY FARRELL
(Media Buyer)

212-983-7060 (WK)
516-283-9494 (WND)

RAY MC NALLY & ASSOCIATES
820 18th St.
Sacramento, CA 95814

916-447-8186

RAY MC NALLY
(Direct Mail Consultant)

(Secty., Aldebran Morrison)

Home: 1625 Cordano Way
Sacramento, CA 95818

916-446-6745 (H)

BENCHMARK RESEARCH GROUP
1225 8th St., #205
Sacramento, CA 95814

916-444-0317

JOSEPH D. RODOTA, JR
(Issues Research Consultant)

(Asst., Bob Michitarian)

Home: 1570 Waterwheel Dr., #3
Sacramento, CA 95814

916-929-2119 (H)

STEVE PRESSON & ASSOCIATES
7311 Greenhaven Drive, #100-B
Sacramento, CA 95831

916-427-2737

STEVE PRESSON
(Field Organization Consultant)

916-427-7529 (H)

KENNETH L. KHACHIGIAN, ESQ.
(Issues Research Director)

714-498-3879

209 Avenida Del Mar, #203
San Clemente, CA 92672

Telecopier: 714-498-6197 (auto)

(Secty., Joni Johnson)

Home: 501 W. Avenida de los
Lobos Marinos
San Clemente, CA 92672

714-498-6352 (H)

TARRANCE & ASSOCIATES, INC.
14550 Torrey Chase Blvd., #600
Houston, TX 77014

713-444-9010

Telecopier: 713-444-6993 (auto)

V. LANCE TARRANCE
(Survey Research Consultant)

(Secty., Linda Spiegelhauer)
Home: 23503 Holly Hollow
Tomball, TX 77375

713-351-7680 (H)

RICHARD E. RYAN
(Survey Research Consultant)

(Asst., Felice Myers)

Home: 2164 Settlers Way
The Woodlands, TX 77380

713-363-3416 (H)

A-K ASSOCIATES, INC.
1024 - 10th St., #300
Sacramento, CA 95814

916-446-7505

Telecopier: 916-443-4694 (auto)

J. MICHAEL ALLEN
(Special Consultant)

(Secty., Dayvene Harrah)

Home: 104 Gold Creek Way
Folsom, CA 95630

916-989-3195 (H)

NIELSEN, MERKSAMER, HODGSON,
PARINELLO & MUELLER

770 L Street, #800
Sacramento, CA 95814

916-446-6752

Telecopier: 916-446-6106 (auto)

STEVEN A. MERKSAMER
(Special Consultant)

(Secty., Elsie Nakamoto)

Home: 5209 Yorkville Pl.
Carmichael, CA 95608

916-483-8583 (H)

650 California St., #2650
San Francisco, CA 94108

415-989-6800

Telecopier: 415-362-2701 (auto)

VIGO G. (Chip) NIELSEN, JR.
(Treasurer)

(Secty., Dorothy Cossaboon)

Home: 29 Mark Terrace
Tiburon, CA 94920

415-435-2703 (H)

DIANE ELAN WICK
(Assistant Treasurer)

(Secty., Victoria McBride)

Home: 2584 Greenwich St.
San Francisco, CA 94123

415-929-7654 (H)

KIRK ALAN PESSNER
(Paralegal/Administrator,
Political Reports Unit)

(Secty., Tom Maxwell)

Home: 10 Skylark Dr., #72
Larkspur, CA 94939

415-924-7159 (H)

R. J. REYNOLDS TOBACCO USA
401 N. Main St.
Winston-Salem, NC 27102

919-741-5000

Telecopier: 919-727-4882 (auto)

GENE AINSWORTH, Sr., Vice President
Government Relations

919-741-2749

(Secty., Jackie Hemric)

Home: 3434 Scarsborough Dr.
Winston-Salem, NC 27104

919-765-7239 (H)

ROGER MOZINGO, Vice President
State Government Relations

919-741-7665

(Secty., Connie Bodsford)

Home: 4807 Prestwick Dr.
Fairfax, VA 22030

703-691-8593 (H)

TOM L. OGBURN, Jr., Vice President
Public Issues

919-741-7530

(Secty., Carolyn Brinkley)

Home: 3521 Buena Vista Rd.
Winston-Salem, NC 27106

919-722-7564 (H)

TIMOTHY N. HYDE, Director
National Field Operations

919-741-6820

(Secty., _____)

Home: _____

919-773-0236

PHILIP MORRIS, USA
120 Park Ave.
New York, NY 10017

212-880-5000
800-223-1403

Telecopier: 212-878-2165 (auto)

JOHN A. KOCHEVAR
Director, Public and Government Affairs

212-880-3354

(Secty., Juany Terrero)

Home: 108 1/2 Douglass St.
Brooklyn, NY 11231

718-624-7522 (H)

JOHN R. NELSON, JR.
Director of Government Affairs and
Issues Planning

212-878-2462

(Secty., Yvette Garces)

Home: 15 Old Orchard Rd.
Easton, CT 06612

203-372-3081 (H)

K. MICHAEL IRISH
Director of Corporate Affairs
Projects

212-880-3123

(Secty., Anne Christensen-Burke)

Home: 360 Autumn Ridge Rd.
Fairfield, CT 06430

203-374-4765 (H)

TINA WALLS
Regional Manager
Government Affairs
5700 Stoneridge Mall Road, #250
Pleasanton, CA 94566

415-463-3339

(Secty., Aleece Weycker)

Home: 561 Boden Way, #2F
Oakland, CA 94610

415-645-1836 (H)

LORILLARD, INC.
One Park Avenue, 18th Floor
New York, NY 10016-5895

212-545-3000

Telecopier: 212-545-3297 (auto)

JAMES R. CHERRY, ESQ.
Vice President and
Deputy General Counsel

212-545-3343

(Secty., Phyliss Digiaimo)

Home: 230 East 50th St.
Apt. 2-A
New York, NY 10022

212-421-8960 (H)

BROWN & WILLIAMSON TOBACCO CORPORATION
1500 Louisville Galleria
(P.O. Box 35090)
Louisville, KY 40232

502-568-7000

Telecopier: 502-568-7297 (auto)

THOMAS HUMBER
Director - Government Affairs

502-568-7934

(Secty., Pat LaFollette)

Home: 846 Breckinridge Ln.
Louisville, KY 40207

502-897-2807 (H)

U.S. TOBACCO COMPANY
100 W. Putnam Ave.
Greenwich, CT 06830

203-661-1100

Telecopier: 203-661-0298 (auto)

JOSEPH R. TADDEO
Vice President, Industry Relations

203-661-0270

(Secty., Gerri Cortese)

Home: 40 Beechwood Ln.
Ridgefield, CT 06877

203-438-7287 (H)

LIGGETT & MYERS TOBACCO COMPANY
300 N. Duke St.
(P.O. Box 1572)
Durham, NC 27702

919-683-9000

Telecopier: 919-683-5573

DONALD E. MOTT
Vice President, Employee Relations

919-683-8848

(Secty., Bobbie Clark)

Home: 114 Bruce Dr.
Cary, NC 27511

919-467-2001 (H)

AMERICAN TOBACCO COMPANY, THE
13203 N. Enon Church Rd.
P.O. Box 1100
Chester, VA 23831-8100

804-751-2100

JOHN H. HAGER
Leaf Services Director

804-751-2629

(Secty., Lorraine Kindervater)

Home: 4600 Sulgrave Road
Richmond, VA 23221

804-355-6210 (H)

SMOKELESS TOBACCO COUNCIL
1925 K St., N.W., #504
Washington, D.C. 20006

202-452-1252

MICHAEL J. KERRIGAN
President

TOBACCO INSTITUTE, THE
1875 I St., NW
Washington, D.C. 20006

202-457-4800
800-424-9876

Telecopier: 202-457-4857

GEORGE MINSHEW, Vice President
(AA, Sheryl Carter)

202-457-4857

Home: 7727 Rockledge Court
Springfield, VA 22151

703-866-3721 (H)

1225 8th St., #38
Sacramento, CA 95814

916-448-3543

Telecopier: 916-448-3939 (auto)

JOHN D. KELLY

(Secty., Yvonne Heinrich)

Home: 448 Wyndgate Rd.
Sacramento, CA 95864

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COVINGTON & BURLING
1201 Pennsylvania Ave., NW
(P.O. Box 7566-20044)
Washington, D.C. 20004

202-662-6000

Telecopier: 202-662-6283 (auto)

Stanley L. Temko, Esq.

202-662-5514

John P. Rupp, Esq.

202-662-5650

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TAKE A CLOSER LOOK
AT THE
TOBACCO TAX INITIATIVE

It's Less Than Meets The Eye

THE TOBACCO TAX RIPOFF

An initiative on the November election ballot would raise taxes for "health research and education." Don't be misled. Before you support the Tobacco Tax Initiative, consider these facts:

- **IT WILL NOT STOP CIGARETTES FROM BEING LIT.** It is a tax increase, not a smoking ban.
- **IT IS A 250% TAX INCREASE.** Despite claims, only a tiny fraction will go to health research.
- **IT ROBS FROM THE POOR.** The tax hits working men and women hardest.
- **IT IS A TAX INCENTIVE FOR CRIME.** Law enforcement officials say smuggling, bootlegging and vandalism have been triggered in other states where large tobacco tax increases have been imposed. Yet this initiative includes no money to fight crime.

Now you know the facts about THE TOBACCO TAX INITIATIVE...

...join us in opposing it.

Californians Against Unfair Tax Increases,
A committee sponsored by the tobacco industry



Yes, I oppose unfair tax increases.

Please send me more information on the Tobacco Tax Initiative.

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