

# JAMES SAVARESE

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## AND ASSOCIATES

November 18, 1982

Mr. Michael J. Kerrigan  
Vice President, State Activities  
The Tobacco Institute  
1875 I Street, N.W.  
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Washington, D.C. 20006

Dear Mike:

It was good meeting with you again last week. Per your request, I will attempt to lay out a strategy for dealing with the cigarette excise tax problem in the state of New York. As we discussed, the potential for increased bootlegging activities as a result of self-extinguishing cigarette legislation -- and its implications for reduced excise tax collection -- may present the TI with an opportunity to take the offensive in both of these battles.

The mission is to target groups that are intensely interested both in the state's revenue-raising capacity and in the overall "fairness" of the state's tax structure. It seems obvious that government employee unions in New York State uniquely fit this description: teachers, fire-fighters, police, state workers, and employees of local government jurisdictions.

### Current Situation in New York State

- o The state is running a fundamental deficit of over \$500 million in the current fiscal year. As you know, it is bound by constitution to balance its budget by March 31, 1983..
- o New York state's subdivisions are in equally precarious shape. New York City is running a deficit of \$200 million in the current year with projections of a revenue shortfall in excess of \$1.3 billion next year. Koch has already proposed a cigarette excise tax increase.

- o The Governor-elect, Mario Cuomo, was elected with strong support from the government employee unions and the city of New York -- it is highly unlikely that he will attempt to make up the budget deficit with either cuts in state spending or drastic reductions in state aid to New York City.
- o The bootlegging of cigarettes is already a very serious problem in New York. Any attempt to either drive up their price by an excise tax or, more drastically, make them unavailable because of a restrictive self-extinguishing law would provide enormous economic incentives for massive bootlegging activities while drying up a critical revenue source.

#### Tobacco Institute Strategy in New York State

It is obvious that excise taxes -- especially on tobacco, alcohol, hotels, and entertainment -- will be the prime targets for both Cuomo and Koch for increasing revenues. The TI must separate itself from these other likely tax sources by drawing a distinction between the cigarette excise tax and others on the grounds of tax equity.

Note: In recent years, the beer lobby has been extremely successful in isolating itself from excise tax increases. While the industry arguments are extremely important in lobbying the issue, the basic perception that a beer tax falls most heavily on the average blue collar worker has yielded enormous benefits to that industry.

Action Plan: target the liberal/labor community as allies for the TI in opposing cigarette excise taxes on the grounds of regressivity and "fairness." This involves the following specific tasks:

- o We will assist the TI in producing materials which hammer away on the "fairness" issue with labor unions, citizens groups, and minorities to form coalitions opposing cigarette excise taxes. This means early involvement in the debate and well thought-out alternatives for revenue-raising that would be attractive to these groups.

Note: these groups are "tax-eaters." They are not interested in taking positions in favor of spending cuts to avoid the need for a tax increase.

- o We will work with the special legislative tax commission that has been established in New York state to study the entire tax structure. The Director of the Commission, Richard Pomp, is a personal and professional friend who would be receptive to "equity" arguments surrounding the cigarette excise tax.
- o We will assist the TI in developing ongoing working relationships with the key labor and citizens' groups in New York state. These include AFSCME, AFT, SEIU, and NYPIRG.
  - AFSCME has 400,000 members in New York state and is a legislative and political powerhouse in Albany. We are on retainer with AFSCME to work on state and local government-finance problems.
  - Both the Service Employees International Union (SEIU) and the American Federation of Teachers are powerful players in New York State tax matters. Both these unions are clients of our firm and we just finished a major tax forecast for them in Pennsylvania.
  - The New York Public Interest Research Group (NYPIRG) has a number of important legislative allies in the State Assembly and Senate. NYPIRG's tax director, Frank Domurad, is a close personal and professional friend of Marcia McGill.
- o We will assist the TI in establishing a working relationship with our contacts in the Governor's office and the state Department of Labor. Currently, our firm is on retainer with the state's Office of Labor Relations to serve as their Washington-based representative for generating federal grants-in-aid.
- o We will assist the TI in making the case against self-extinguishing cigarettes with these same groups. Joe Kilgallon would be a very useful resource in dealing with the public safety unions on this issue. We feel that a strong

"revenue loss" argument as the result of increased bootlegging would be very persuasive.

#### Firm's Experience

As you know, the senior associates in our firm have extensive experience in the state and local government finance area. When I served on the staff of AFSCME, the tax and budget problems of state governments was the single most important policy issue faced by the Union. Before becoming executive assistant to the President, I was director of the union's public policy division which had the lead responsibility for state and local government tax matters.

Marcia McGill, our firm's vice-president, served as AFSCME's director of economic affairs and has worked extensively with nearly all of the ad hoc coalitions that have been set up since the mid-1970's to deal with state revenue questions.

Two of our firm's associates are based in universities in New York state. Ken Greene, a public finance specialist, is Chairman of the Economics Department at SUNY, Binghamton. Harold Hochman is Director of the Center for Business and Government at Baruch College, CUNY.

#### The Painful Truth

The TI must reach out to these labor-oriented groups and engage in meaningful vote-trading. At the present time, the TI is viewed as unreliable among these groups and as notorious "takers" without being "givers." (This came through very clear during the federal excise tax battle). To counter this perception, it is important for the TI to assist some of these potential allies on votes that are of no concern to the TI, but are of vital importance to these other groups.

#### Bottom Line

The TI has a potential natural constituency for opposing the cigarette excise tax in New York composed of a number of groups with which our firm works very closely.

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We have access to the key players in these groups and have a great deal of credibility with them on tax issues. We propose to work with the TI to prepare targeted materials for these groups and get them injected into the debate surrounding the excise tax.

I appreciate your consideration, Mike, and I hope to hear from you soon.

Sincerely,



James M. Savarese, President  
JAMES SAVARESE AND ASSOCIATES, INC.

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