

September 18, 1992

MEMORANDUM

TO: Samuel D. Chilcote, Jr.
FROM: William A. Adams *WAA*
Susan M. Stuntz *SM*
RE: 1993 Budget

Evolution of 1992 Approved Budget

A year ago The Institute's members asked that we phase in over a two-year period reductions totaling 10 percent of our 1991 authorized budget. We also were asked to reduce our authorized staff positions by 27 percent, from 107 to 78.

Instead of a two-year phase-in, all staff reductions were made immediately, and a one-time budget reduction amounting to 10 percent was agreed upon for 1992, with the 1993 budget to be frozen at the 1992 level. In fact, the 1992 authorized budget for The Institute was 10.4 percent below 1991 levels. The net result of this one-time 10 percent budget reduction in 1992, with the 1993 budget to be frozen at the 1992 level, would have been a reduction in funding of more than 17 percent, after two years of increases in the consumer price index were factored in.

Mid-Year Adjustment of the 1992 Budget

In July The Institute volunteered \$1.262 million in further reductions in its 1992 operating budget. This brought our 1992 budget to \$38.138 million, 14.3 percent below our 1991 expenditures. We were able to accomplish these additional savings because:

- . In the scientific affairs budget, we turned back \$1.019 million in funds. Monies were available because expected OSHA activity has not occurred. Of the \$850,000 budgeted for OSHA submissions, only \$305,000 was spent, and that went for final payment of projects authorized and begun in 1991 but not completed until 1992.

Also in the scientific affairs budget, the Lieberman project to assess possible bias in ETS research, researchers and promotion of same did not move as quickly as we had anticipated. \$250,000 was budgeted for this project. All of those funds were turned back. However, as we indicated in July, we expected the work to be ready in time for 1993.

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In fact, Lieberman has completed his research and is prepared to begin immediately work on drafting a journal article and identify speaking opportunities. We have delayed authorizing him to proceed pending approval of our 1993 budget.

We were not able to schedule scientific briefings of federal and state legislative and regulatory officials and representatives of the media on general risk assessment issues because the scientists who would have been involved were tied up first with OSHA and later with EPA matters. \$175,000 was budgeted for this project.

These delayed/deferred activities also have resulted in savings of approximately \$50,000 in legal fees budgeted for scientific affairs.

- . Activity on tax and advertising matters at the federal level has been minimal to nonexistent throughout the year. This has allowed us to return \$20,000 in monies budgeted toward advertising witness fees, and to shift program funds in the \$2 million tax budget from federal tax/deficit reduction activity to meet immediate priorities in the states.
- . Demand for "Tobacco Helping Youth Say No" and "It's the Law" materials has been lower than anticipated. Growing reliance on bulk orders has reduced mailing costs. When our 1992 budgets were established in late 1991, we had no basis from which to measure demand that might result from the PSAs. We have turned back \$490,000 in unneeded printing and postage monies designated for the youth programs. Now that we know what to anticipate, we have turned back the excess funds and will make adjustments in our 1993 budget request accordingly.

Impact of 1992 Mid-Year Adjustments on 1993 Budget

As we have noted above, The Institute voluntarily made a \$1.262 million mid-year reduction in its 1992 approved budget. Most of these reductions came from non-recurring savings. Because of the factors noted below, we do not recommend that our reduced 1992 budget be used as the baseline for our 1993 budget:

- . Inflation (3.5 percent x \$39.4 million) will require that we identify \$1.4 million in cost savings and program cuts simply to maintain our 1993 budget at its original 1992 level.

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In the scientific affairs area, we have planned for a phasing out of EPA-related activity in 1993, and in fact recommend budgeting only \$80,000 for any additional meetings or presentations that might be needed prior to the release of the risk assessment. However, we know that we will need to fund additional scientific submissions and projects to respond to the ongoing OSHA indoor air quality rulemaking, and estimate that \$750,000 be budgeted for that.

Ongoing efforts by academic scientists to appear before other legislative and regulatory bodies at the federal and state levels, and before scientific forums should continue, along with efforts to publish in the scientific literature. We recommend a budget of approximately \$370,000 for academic scientist activity in this area; and another \$745,000 for activities related to consulting scientists and ventilation experts (chiefly Gray Robertson and his colleagues at HBI) testimony in the states, development of articles and response to articles in the scientific literature, and participation in conferences and meetings of scientific organizations.

In addition, we should begin to recruit new scientific witnesses to replace those who have dropped out of the program over the last two years because of pressure from their peers, at a cost of approximately \$200,000. And we believe we should proceed with the Lieberman project, in which we have already invested \$150,000. Projected costs for this effort are \$50,000.

Our estimated budget projections for scientific affairs for 1993, then, totals \$2.4 million.

We anticipate a great deal of activity on tax issues at the federal level, as Congress and the Administration begin to focus on deficit reduction and health care reform.

The \$2 million 1992 tax budget has allowed us to keep our federal programs in a "maintenance" mode while servicing State Activities' needs. For 1993, we must be prepared to continue to service state priorities, while stepping up our federal program to create the climate that makes excise taxes an unacceptable alternative to deficit reduction or health care reform needs. These activities will include, among others, excise-tax specific reports from Citizens for Tax Justice and other labor/liberal allies; campaigns by the Consumer Tax Alliance and other allies in Washington and in targeted home districts of Members; a tax policy conference sponsored by CTJ for Members, their staffs, the new Administration and the media.

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Our 1993 estimated budget projections for taxes for 1993 is \$2.5 million, including these recommended new programs.

The fall 1993 release of the Surgeon General's report on smoking and young people, anticipated efforts in Congress to restrict tobacco advertising, and criticism of industry advertising efforts and programs in the literature are likely to result in hearings on industry advertising issues in either or both houses of Congress.

We are recommending that \$335,000 be budgeted for this activity, with \$150,000 of that to be put into a contingency fund in anticipation of development of print advertising to respond to the Surgeon General's report.

The August 1993 release of the second federal report on "fire safe cigarette" research can be expected to trigger public debate on that issue as well.

A \$47,000 increase in that budget is being recommended to support additional travel costs for witnesses and consultants who must intensify their outreach to fire service groups. That increase also will fund creation and support (at \$25,000/year) of a panel of fire service experts to advise TI on its programs, to promote those programs within the fire community, and to appear as witnesses at hearings at the federal level and in the states.

Possible Reductions in the 1993 Budget

As discussed above, The Institute has agreed to freeze its 1993 budget at the 1992 level of \$39.4 million which, as we have already noted, amounts to a \$1.4 million reduction after inflation. The preliminary breakdown of this budget between Divisions is shown on the attached Schedule A.

If we are required to reduce our 1993 budget to \$38.138 million (a \$1.262 million reduction), we anticipate that we will have to reduce or eliminate the programs that are listed on the attached Schedule B. We believe that these programs are important to the industry, and recommend that they not be cut. Schedule C gives a preliminary breakdown of how a \$38.138 million budget would be allocated among Divisions.

All of the 1993 program budgets included here are general projections only. Detailed plans and budgets are being prepared so that they can be presented at the October 21 joint meeting of the Management and Finance Committees.

Attachment

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THE TOBACCO INSTITUTE
1993 Budget Target
(\$000)

Schedule A

09/18/92

	June 30, 1992 Approved Budget	July, 1992 Changes	July 30, 1992 Revised Budget	1992 Estimated Expenditures	1993 Operating Budget/ Recommended Incr./ (Decr.)	1993 Data Processing Allocation/ Recommended (Decreases)	1993 Budget Targets
Federal Relations Division	\$5,160		\$5,160	\$5,160		(\$117)	\$5,043
State Activities Division	12,323	425	12,748	12,748		(117)	12,631
Public Affairs Division	13,283	(1,084)	12,199	12,199	1,296	(117)	13,378
Special Authorizations Division							
Youth Initiatives	3,632	(285)	3,347	3,347	(34)		3,313
Institute Contingency Funds	318	(318)	-0-	-0-	-0-		-0-
Administration Division	4,684		4,684	4,684	400	(49)	5,035
TOTAL	\$39,400	(\$1,262)	\$38,138	\$38,138	\$1,662	(\$400)	\$39,400

The Tobacco Institute
1993 Budget
Summary of Possible Reductions

Schedule B

Proposed 1993 Budget \$39,400

Possible Budget Reductions
(cost centers affected are noted in parentheses)

Eliminate promotion of Lieberman
program to identify bias in ETS
research and researchers, and in
the press (1302) (100)

Eliminate remaining funds for local
PR counsel per SAD request (none
used in 1992) (1303) (30)

Eliminate funds to revise, produce,
implement (with "800" number) and
promote Consumer Tax Alliance television,
radio and print campaign in targeted
media markets during federal excise tax
effort (1305) (250)

Reduce fire safety grant funding (1306) (15)

Eliminate funds for counsel to establish
and maintain support among national
veterans' organizations on excise tax
matters (1307) (25)

Terminate Hispanic coalition
consultant in Texas (1307) (35)

Terminate contract of LMC
California lobbyist retained to
assist on legislative matters
in Sacramento (1307) (62)

Eliminate funds for ads to
be developed for response to 1993
Surgeon General's report (1308) (150)

Eliminate John Fox workplace
and privacy law journal articles,
seminars for employers (1309) (155)

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Eliminate proposed new
privacy PR program developed
to promote privacy issues in
SAD-targeted states (1309) (115)

Eliminate production of PSAs
for 1994 distribution (1501) (225)

Reduce by an additional \$100,000
print advertising budget for
youth programs (1501) (100)

Total Possible Budget Reductions \$ 1,262

Reduced 1993 Budget \$38,138

THE TOBACCO INSTITUTE
1993 Budget Target
(\$000)

Schedule C

09/18/92

	June 30, 1992 Approved Budget	July, 1992 Changes	July 30, 1992 Revised Budget	1992 Estimated Expenditures	1993 Operating Budget/ Recommended Incr./ (Decr.)	1993 Data Processing Allocation/ Recommended (Decreases)	1993 Budget Targets
Federal Relations Division	\$5,160		\$5,160	\$5,160		(\$117)	\$5,043
State Activities Division	12,323	425	12,748	12,748		(117)	12,631
Public Affairs Division	13,283	(1,084)	12,199	12,199	259	(117)	12,341
Special Authorizations Division							
Youth Initiatives	3,632	(285)	3,347	3,347	(259)		3,088
Institute Contingency Funds	318	(318)	-0-	-0-			-0-
Administration Division	4,684		4,684	4,684	400	(49)	5,035
TOTAL	\$39,400	(\$1,262)	\$38,138	\$38,138	\$400	(\$400)	\$38,138