

cc: File: Prop 99
Dann Smit

California Short and Long-Range Plans

There are two areas of major concern to our industry in California. They involve the short term strategy regarding the distribution of excise tax revenues and the long term strategy regarding the opportunity to capitalize on a possible effort to restructure California's state finances.

The participants in the California initiative met on Tuesday, January 17, to review these strategies and to make some immediate decisions. At that meeting we agreed to proceed with the short term strategy and to develop a budget and a proposal for the long term strategy. Attached is a memorandum detailing the decisions made by the California working group.

SHORT TERM STRATEGY

We asked our political consultant to analyze the Governor's 1989-90 Proposition 99 budget and the budget process that will occur over the next five or six months, and recommend a proactive strategy regarding distribution of excise tax revenues. The strategy included the following elements:

1. Continue using our consultant to analyze the budget on an ongoing basis, to help us with language changes and to help implement this program.
2. Kathleen Snodgrass was chosen as our lead lobbyist on the offensive side.
3. A-K Associates was chosen as the lead lobbyist on the defensive side.
4. Coordination of this project rests with the TI Regional Vice President working with the other company representatives.

The Governor's budget is the principal document that is used for legislative negotiations. Basically, the administration estimated the Proposition 99 revenue for the period January 1, 1989 to June 30, 1990 to be \$924,446 million. The allocations were as follows:

Expenditures:

1. Department of Health Services	
Indigent Health Care (CHIP).....	\$ 530,809
Anti-smoking Health Education.....	175,583
Other Programs.....	7,704
2. Departments of Corrections and Youth Authority..	14,114
3. Department of Mental Health.....	57,130
4. University of California Research and Grants....	43,896
5. Public Resources Agency (22 separate expenditures)	44,359
6. Department of Drug and Alcohol Programs.....	5,000
7. Accounts Reserve.....	45,851
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	\$ 924,446

An analysis of the budget discloses two major trouble spots. They are the Anti-Smoking Health Education program of \$175.5 million and the University of California Research and Grants of \$43.9 million.

We believe that appropriate language confining the \$43.9 million to hard research would make this item acceptable.

However, the first item of concern, the Smoking Prevention Education Program budget, has just become a major trouble area. The Department of Health has recently amended this budget item to present a potentially significant problem. An analysis of the amendment is attached (Attachment A). Our efforts will have to be very concentrated in this area.

The defensive lobbying program will concentrate on the defeat of the dozens of bills that have been or will be introduced to reallocate the Proposition 99 monies to areas unacceptable to our interests.

The lobbying effort is already underway. Today, January 27, our Regional Vice President is explaining the game plan and necessary specifics to all member company and association lobbyists in California. We urge your cooperation by having your representatives in the subject area work very closely with our lobbyists under the project direction of the Regional Vice President.

LONG TERM STRATEGY

The long term strategy was developed by our political consultants for two purposes. One purpose was to make the industry "players" in a coalition created to restructure the method of state government finances through an initiative. The discussion motivating such a coalition involves possible repeal or modification of the Gann spending limit, the constraints on the budget process imposed by Proposition 98, and other constraints such as entitlement programs and automatic cost of living adjustments.

The second purpose was to develop possible goals to mitigate the impact of Proposition 99 on the industry and to strengthen the industry against future excise tax increases.

Our consultant believes it is possible to fashion a strategy and an implementation plan designed to abolish Proposition 99 earmarking by placing the monies in the general fund instead of the six special funds. This partially relieves the pressure from the general fund and, therefore, relieves the pressure to raise taxes. It also eliminates a fight over the Proposition 99 budget each and every year.

Our consultants also believe it is possible to create a strategy and implementation plan designed to limit or make more difficult future excise tax increases by way of the initiative process.

It is becoming very clear that Proposition 98 and the Gann limit have created an almost impossible restraint on the ability of California to finance itself. Because of this problem, a unique coalition is in the process of emerging in California aimed at radically restructuring the current system of government finance.

In order for the tobacco industry to be part of this process, which is essential if we are to capitalize on this opportunity, we must be able to offer to the other leaders of the coalition our resources, namely leadership, strategy and money.

In turn we would want from the coalition a change in the law to abolish earmarking of excise taxes and to direct all revenues into the general fund.

We would also strive to change the law making it more difficult to raise excise taxes by the initiative process and/or a commitment from our coalition partners (doctors and hospitals) not to sponsor or support any further increase in excise taxes.

Major players in the coalition are the health care industry, the California Chamber of Commerce, the California Taxpayers Association, public employee groups, and Paul Gann.

We do need to strengthen the tobacco industry's visible presence within groups such as the California Chamber of Commerce and the California Taxpayers Association.

At the same time, our consultants recommend that we take steps to create, on a permanent basis, a new formally-organized, visible and broad-based coalition of interest groups prepared to fight the next excise tax battle. Clearly, the liquor industry is now in the forefront of this fight, and other industries such as jewelers and car dealers are becoming greatly concerned about possible tax increases. The coalition would be most effective when spokespersons from the various interests are recruited to represent the coalition in their opposition to excise taxes.

The coalition will help strengthen our ties with many groups including the health care industry, and it will also remove tobacco from the major target role.

The new coalition may need staff and public relations counsel which we are well-equipped to direct. Many programs of The Institute and the member companies could be integrated into this larger coalition program.

This second strategy of developing a permanent coalition will be much more visible than the first strategy which is aimed at abolishing Proposition 99 earmarking and sending the tobacco tax revenue from Proposition 99 to the general fund. The first strategy clearly has to remain an invisible one.

CONCLUSION

Both of these strategies will create our ongoing program for at least the next two years. It goes without saying that, in order for these programs to succeed, we will need to do the following:

1. Clearly articulate our goals.
2. Clearly define our general plan of implementation.
3. Pick a team and team leader with the authority to implement the two strategies with both the excise tax coalition and with the California tax reform ballot measure campaign.
4. Maintain strict oversight and control through a very small group.
5. Provide a sufficient budget to achieve the desired goals.
6. Hold fast to the goals and implementation plan once developed, and not react to the anti-tobacco forces and the negative environment for the industry in California.
7. Finally, this program should be implemented in addition to our regular day-by-day efforts in defending the industry in California.

We are now compiling a proposed budget on both plans. Our consultants are also drafting a more comprehensive proposal for the long term plan.

Given the hostile climate in California, along with a major state budget crises, these two strategies appear to offer the most positive direction for our industry over the next two years.