

Fire Groups

In 1987 the broad issue of fire safety (not directly related to "self-extinguishing" cigarette legislation) may become a major issue in the state capitol. As a result, it is likely that the subject of "self-extinguishing" cigarettes will be addressed, too. Although there is no indication now that the issue of "self-extinguishing" cigarettes is a major concern, it will be followed closely in the state capitol.

Institute Resources

Legislative counsel has been extremely helpful in influencing the legislature and securing more favorable outcomes through amendments to severely restrictive proposals.

Helpful resources include the "Learn Not to Burn" and the "Helping Youth Decide" programs. The Public Affairs Division has been working closely with the business community on compliance with the workplace smoking restriction law which became effective on March 1, 1986.

ANTI-TOBACCO FORCES

Traditional anti-tobacco forces are very active in New Jersey. Ms. Regina Carlson, Executive Director of New Jersey GASP, is a thorn in our side in the legislature, lobbying on behalf of anti-tobacco bills. She has also worked closely with the state Health Department to promulgate guidelines to restrict smoking in the workplace. She also serves on the Department's Commission on Smoking or Health.

The other traditional groups, including the lung association and the cancer society, have worked closely with members of the legislature to promote smoking restriction legislation. However, it is GASP which is the most visible and active anti-tobacco organization in the state. The Commission on Smoking or Health is also expected to urge the legislature to amend present laws to further restrict public smoking.

TOBACCO INDUSTRY

Brief History of Successes and Problems

In 1985, a package of six smoking restriction bills were enacted. These laws, which were first introduced eight years before, had been amended on numerous occasions and were in such a weakened state that most legislators felt compelled to enact the laws. Local communities have yet to initiate legislation which is more restrictive than the state laws.

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The state cigarette excise tax question has not been an issue of major concern as the state has an ad valorem surtax which has not been increased for some time. There have been no attempts to promote sampling or ingredients disclosure legislation, and "self-extinguishing cigarette" legislation has not been a serious problem in the past. It is not expected to be a problem in the near future.

Major Issues -- State and Local

The Republican Assembly takeover, the 1985 laws and the 1987 elections, make it unlikely that 1987 will be a major legislative year for the tobacco industry. The state enjoys a budget surplus, and as a result, taxes are not expected to be a major concern. Our old nemesis in the Assembly, Martin Herman, was appointed to the Federal bench and, therefore, a champion of the anti-tobacco movement does not presently exist in the Assembly.

Outlook

1987 is expected to be a quiet legislative year for tobacco, although legislative counsel forecasts that attempts to amend the six restriction laws to make them more restrictive are possible.

Cigarette tax increase legislation is not expected to be a major issue as the state enjoys a sound fiscal standard.

Local legislation will be promoted by GASP but as yet no issues have surfaced, and localities are expected to be reluctant to go beyond state requirements. Most local politicians feel they should avoid the issue and blame the state for problems which will undoubtedly arise.

December 1986

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NEW MEXICO

PREFACE

New Mexico is large geographically, but its comparatively small population of 1.4 million ranks 27th in the nation. Ethnic minorities figure strongly in the state's affairs: 33 percent of New Mexicans are of Spanish origin, 7 percent are American Indian, 2 percent are Black and 1 percent are of Asian origin. New Mexico's share of the national cigarette market is approximately 0.4 percent.

New Mexico's economy is largely based on its natural resources of uranium, potash, copper, oil and gas. The federal government is also important to the state, as some of the largest employers are the Sandia Labs, military bases and defense contractors.

STATE OVERVIEW

Economic Condition and Outlook

New Mexico has been a part of the "Sunbelt Boom" of the past fifteen years. Its population increased by 28 percent between 1970 and 1980, and another 9.3 percent since then. Nevertheless, some basic economic problems remain: 17.6 percent of New Mexicans remain below the income poverty level.

While the economy of New Mexico has recently suffered from a decline in interest in its natural resources, the state has been stimulated by an influx of new industry, particularly "high-tech" industry in the way of microchip manufacturing. In total, it can be said that the state's economic outlook for the future is good, especially in comparison to many neighboring states where agricultural industries are floundering.

Political Situation

Over 60 percent of registered voters in New Mexico are Democrats. However, two of the state's three members of Congress and one U.S. Senator are Republicans. Democrats control the State House of Representatives (47-23) and the State Senate (22-18).

The 1986 elections changed the composition of the New Mexico state legislature in such a way as to dismantle the conservative coalition which controlled both houses for the past two years. When the legislature convenes in 1987, there will almost certainly be changes in its leadership positions.

How this different leadership will cooperate with newly-elected Republican Governor Gary Carruthers (who has never before held elective office) remains to be seen.

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Significant State Problems

In the past fiscal year, New Mexico experienced a revenue shortfall of some \$50 million; and the state legislature addressed the problem by approving some relatively minor "revenue enhancement" measures. Inasmuch as demand for the state's mineral and petroleum resources remains low, tax collections on these items will probably continue to be less than state government needs to meet its budget. With this in mind, the 1987 legislature may again have to make adjustments in its tax structure.

There exists among many in New Mexico a perception that the quality of public education offered in the state is poor. In his successful gubernatorial campaign, Gary Carruthers took advantage of this perception and made public commitments to improve the quality and funding of education. Carruthers may recommend major public education reforms to the state legislature that will carry a rather large price tag. This eventuality could very well produce sizeable controversy in the Capitol.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

The only major tobacco-related organization in New Mexico is the New Mexico Association of Tobacco and Candy Distributors. While very small, the NMATCD has been an excellent ally of The Tobacco Institute in past years. Association members and their executive director, Milt Harshe, are consistently responsive to any TI request for assistance.

Personnel of The Institute's member companies include a good number of TAN Activists. These individuals are the major component of The Institute's awareness system in New Mexico.

Business

Some of The Institute's best friends in New Mexico are in the business of government, specifically city government. An excellent relationship began several years ago between TI and the New Mexico Municipal League. This relationship includes Institute participation in the NMML annual conference, involvement in other conferences and symposia, and sometimes even assistance by NMML members on legislative concerns. The NMML executive director, Bill Fulginiti, is a skillful and highly-respected lobbyist in the state capitol and is frequently cooperative with TI during legislative sessions.

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The New Mexico Restaurant Association has proven a valuable ally to The Institute. NMRA leadership and members were extremely active in the campaign against a smoking restriction proposal placed on the 1983 Los Alamos ballot. Their efforts included contacts with all area restaurants, distribution of "table tents" and flyers, and development of a newspaper ad urging voters to reject the anti-smoking proposal. The NMRA has been similarly cooperative in fighting state level legislation.

The New Mexico Hotel/Motel Association and the New Mexico Retail Merchants Association usually follow the lead of the Restaurant Association and can be counted on to be fully cooperative.

Labor

Organized labor groups are neither large nor well organized in New Mexico. While they will rarely be seen "out front" on a tobacco-related issue, they consistently oppose any tax deemed regressive and have provided "behind the scenes" help on occasion. Should legislation aimed at workplace smoking ever surface in New Mexico, labor would probably oppose it on the premise that such matters should be an item for collective bargaining.

Fire Groups

Firefighter organizations in New Mexico are not important lobbies in the state capitol. The Tobacco Institute has not had occasion to cooperate with such groups in New Mexico.

ANTI-TOBACCO FORCES

Affiliates of the American Lung Association have been the most conspicuous agitators for smoking restriction legislation in New Mexico. They were visible in the 1985 fight for a statewide smoking law and were joined in their efforts by the Director of the New Mexico Human Services Department.

Los Alamos anti-smokers are led by Leslie Ruth Olsher, a GASP member known to TI from previous battles in the Washington, D.C., area. Olsher and her followers are tenacious opponents of the tobacco industry. In 1982, when the Los Alamos County Council rejected a GASP ordinance, Olsher successfully spearheaded a drive to qualify the smoking restriction proposal for a special ballot election.

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TOBACCO INDUSTRY

Brief History of Successes and Problems

The tobacco industry has enjoyed excellent success through the years against proposals to increase New Mexico's cigarette tax. The tax had remained at 12-cents per pack for seventeen years. In 1986, New Mexico's 12 cents per pack tax was lower than any neighboring state, save Utah which also had a 12-cent rate. However, in 1986, the New Mexico legislature gave in to its more influential members and approved a 3-cent per pack cigarette tax increase to fund health research.

On January 11, 1983, voters in Los Alamos County rejected a smoking restriction ballot issue by a 55.5 percent to 44.5 percent margin. Opponents of the ballot issue were headed by TI field staff personnel, with a coalition called "Citizens for Courtesy and Freedom of Choice."

In 1985, House Bill 48 proposed stringent smoking restrictions affecting virtually all public places. Private workplaces, retail stores, restaurants and many other private businesses were amended out of the bill. As passed, the bill restricts smoking in government workplaces where more than 15 employees work, in other government-owned facilities, and in public meetings. House Bill 48 was dramatically weakened through the work of TI legislative counsel with assistance from the Restaurant Association, Hotel/Motel Association and the Retail Merchandising Association.

Major Issues -- State and Local

New Mexico antismoking groups have expressed much frustration with House Bill 48, feeling that the smoking restriction law is much too weak and is largely ignored. With this in mind, it is very likely that some legislators will be persuaded to introduce bills in 1987 designed to strengthen the existing law. Such proposals may present a major challenge.

Given the trend toward local smoking restriction laws in neighboring states, proposals of this sort should be anticipated in New Mexico. Prime candidates are Albuquerque, Santa Fe, and Las Cruces.

Outlook

Given the fact that the tobacco industry "took a hit" in the form of a 3-cent cigarette tax like last year, it is not probable that another tax increase will be approved in 1987. Nevertheless, it is virtually certain that some sort of tax increase bill will be introduced. With a favorable committee referral, though, such a bill should not progress far.

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An anticipated effort to strengthen New Mexico's "Clean Indoor Air Act" in 1987 must be taken very seriously. Intensive work with coalitions and allied individuals and groups may be required to prevent such a bill from moving through the legislature.

There is cause for optimism in the anticipated fight against smoking restriction laws in New Mexico cities. No such ordinance has yet received approval in the state, and through its involvement with the New Mexico Municipal League, TI enjoys good relations with a large number of local officials. Battles on this front will be very difficult for anti-smoking groups.

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NEW YORK

PREFACE

New York, second among the states in population, ranks high as an agricultural state, as well as first among the states in manufacturing in both number of establishments and number of employees. Indeed, it is the industrial center of the country, the commercial metropolis of the United States and a tourist capital of the world.

New York is essentially two states -- upstate and downstate. Upstate is rural with its fertile soil producing nearly every kind of fruit, vegetable, grain and forage crop grown in the temperate zone, excluding tobacco. Downstate is urban with a diverse populace. Generally, downstate is liberal while upstate tends to be Republican and conservative.

The second most populated city is Buffalo. It is Democratic and its political influence is considerable when combined with the New York City metropolitan area. A glaring example of this was the 1982 gubernatorial election where Governor Cuomo only carried the five boroughs of New York City, Albany County, and Erie County (Buffalo). Cuomo's challenger received a majority of votes in the remaining 55 counties. Obviously, New York City is the major political force in the state. In 1986, Governor Cuomo was reelected with 65% of the vote, the largest margin ever for a gubernatorial candidate.

STATE OVERVIEW

Economic Condition and Outlook

The economic outlook for 1987 is bright. The state enjoyed a revenue surplus in 1986 and indications are similar for 1987. Due to the federal tax reform, the state is expected to generate additional state tax increases of \$2.4 billion in 1987. The total amount of tax increase projected over the next three years is \$8.3 billion -- a figure which easily exceeds the total of all tax reductions enacted in New York State in the last decade.

Department of Tax and Finance chairman Roderick Chu is responsible for the administration of state tax laws and his agency collects the bulk of all state revenues. Chu's department prepares the Governor's recommendations for delivery during his State-of-the-State Address in which the Governor proposes his general outline of activity for the year. Governor Cuomo is expected to paint a rosy picture during his January 6th State-of-the-State Address.

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The key question in the Governor's Address will be how to return the revenue windfall from the federal reforms to New Yorkers. Under consideration will be a reduction of the personal income tax to a rate of 8 percent; increasing the \$900 personal exemption; corporate tax reform; and other issues of concern to the Legislature.

The state presently collects a 21-cent per pack excise tax on cigarettes, yielding in excess of \$440 million annually. In 1985 a state sunset tax was made permanent. In 1986, the Governor did not propose a tax increase, and no state tobacco tax increases are expected in 1987.

The fiscal year begins April 1st and expires March 31st. The budget cycle in the New York State Legislature traditionally begins in mid-January and concludes with the adoption of a budget by the end of March. Unless unforeseen obstacles arise, it is expected that the state budget will be resolved prior to April 1, 1987.

Political Situation

Legislative power in New York State is vested by its Constitution in a Senate of 61 members and an Assembly of 150 members. They are elected for two-year terms.

The Legislature convenes annually in January and remains in session until it has concluded its business.

Currently the Democrats enjoy a 96 - 54 majority in the Assembly while the Republicans hold a 36 - 25 majority in the Senate. All assemblymen and senators are up for re-election in 1988. Governor Cuomo was reelected in 1986 for a four-year term but speculation exists that he will step down to run for President. If this occurs, Lt. Gov. Stanley Lundine would become Governor.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

The Tobacco Action Network (TAN) in New York State presently has 1,267 activists, of which most are member company employees. These activists have been particularly responsive to local legislative activities in their legislative and legislative support efforts. This past year our TAN activists were mobilized on numerous occasions to assist with local and statewide issues. TAN continues to be a cornerstone for our grassroots efforts and will remain so into 1987.

While 1986 saw only moderate response from our wholesaler, retailer and vendor segments, an improved working relationship during the last half of the year should create a more fruitful and aggressive program of assistance in 1987.

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Business

The business community continues to be extremely responsive on the issue of public smoking restriction legislation. It has not been willing to involve itself in any other issues of interest to the industry. A glaring weakness relates to non-activity by the business community regarding opposition to workplace restriction legislation. Outright workplace restrictions are not, in New York, a motivating influence within the state's business community.

Labor

Labor coalitions have been helpful in opposing public smoking restriction legislation. This is true both for state and local legislative matters. Next year promises greater levels of activity by labor groups in the state. Through working relationships with the Labor Management Committee and the New York State AFL-CIO, it is expected solid cooperation will be achieved from labor to more favorably affect adverse legislation.

Institute Resources

Legal analyses were provided by Covington & Burling, economic impact studies by Savarese Associates, ventilation studies by Gray Robertson's firm, public relations assistance by Howard Rubenstein Associates, as well as scientific and medical witnesses provided by TI Headquarters.

This office looks forward to even greater utilization of TI and member company resources in 1987.

ANTI-TOBACCO FORCES

In 1986, at the state level, Assemblyman Grannis, the primary sponsor of anti-tobacco legislation, initiated a major effort to solicit support from various health organizations throughout the state. He was in communication with county health departments, boards of health and other health related associations. Because of our success in the state legislature in defeating anti-tobacco legislation over the past nine years, Assemblyman Grannis is attempting to motivate localities to introduce and adopt local legislation.

In 1987 it is expected that anti-tobacco forces will push local legislation and support Public Health Council regulations. GASP, the lung association and the cancer society are teaming their forces to conduct an all-out push on local legislative and regulatory efforts. Additionally, in 1986, they collectively retained a state lobbyist to promote smoking restriction legislation and other health-related issues.

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There is little doubt that anti-tobacco forces are more sophisticated in their approach to promoting anti-tobacco legislation. 1987 promises to be a much more difficult legislative year locally as a result of the anti's determination to promote anti-tobacco legislation and regulations.

TOBACCO INDUSTRY

Brief History of Successes and Problems

New York State is fortunate to enjoy the presence of three major tobacco companies and several subsidiaries of these companies. The support provided by these companies has been most valuable in assisting at the state and local levels. They have been cooperative and diligent in committing resources.

Local legislation continues to be one of the major problems facing the industry. It is expected numerous localities will begin consideration of such legislation. In the state capitol, it is expected that no major legislative proposals will be adopted. We have had success in opposing excise tax legislation and that area will not be troublesome in the near future.

The Public Health Council will be our most serious problem in early 1987. By working with the Legislature we hope to remove the Council's supposed authority to enact a statewide regulation.

Major Issues -- State and Local

In 1985, the 6-cent per pack increase in the cigarette excise tax passed in 1983 was made permanent. No other statewide legislation has been approved by the legislature.

For the first time in nine years, an onerous public smoking restriction bill failed to be approved by the Assembly. Problems exist in two areas, however. The Public Health Council's proposed regulations could be implemented as early as mid-April. Therefore, a major effort will be made to prompt legislative action to preempt this Public Health Council activity.

Our second major problem area will occur in New York City where Mayor Koch is actively supporting a citywide restriction regulation. Hearings are expected early in the year and every effort will be made to have the City Council defeat any restriction regulations. A move to increase the city's local cigarette tax is also anticipated.

Assemblyman Grannis' "policy bill" is also expected to be reintroduced and receive legislative consideration should the Public Health Council issue be deflected by the Legislature. Grannis is also expected to press on other fronts -- the "I smell blood" theory. Sampling, advertising, "self-extinguishing" and ingredients disclosure legislation are all expected.

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Outlook

In the final analysis, 1986 has been a most difficult year. Next year will be as difficult. Statewide and local legislation and regulations will be promoted early and often.

Other major issues in 1987: ingredients disclosure, advertising prohibitions, sampling prohibition, "self-extinguishing" cigarettes and product liability legislation. The New York State Department of Health will continue to promote a major campaign for smoking restrictions in public places and workplaces.

Local legislative battles will arise in such locales as Buffalo, Rochester, Syracuse, Albany, Westchester, Saratoga and New York City. It is expected that at least a handful of other localities will initiate legislation.

December 1986

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NORTH CAROLINA

PREFACE

North Carolina has a population of 5.9 million. Because of ramifications in neighboring states, cigarette tax proposals in North Carolina are dealt with swiftly and comprehensively.

There are members of the North Carolina General Assembly who would increase the cigarette tax. There are also a few who would place restrictions on the use of our product in North Carolina.

North Carolina's market share is 3.4 percent.

STATE OVERVIEW

Economic Condition and Outlook

The budget for fiscal 1986-87 is based on a 6.5-6.8 percent growth in North Carolina's economy over fiscal year 1985-86. This growth should bring in \$3-4 hundred million in new revenue. Most of the money is scheduled for education programs. The revenue projections have been adjusted downward to a 6 percent growth rate. That means a \$40-50 million dollar shortfall for budgeted programs. The overall effect is all departments are being asked to prepare two budgets. One is to be at 97 percent of the base, the other at 100 percent. The outlook is not bright. If the revenue drops further, the legislature may have to look at some taxes.

Political Situation

At the federal level, Terry Sanford (D) upset Broyhill (R) for the U.S. Senate race. This brings a Democrat who will be pro tobacco. In the House, Lancaster (D), Price (D), Ballenger (R), and Clarke (D) were elected.

At the state level the Senate leadership is undecided. There are two strong candidates vying for majority leader. We may see some strange alliances next session. There should not be any problems for tobacco. In the House there has been an effort by a small group of representatives to change the rules and perhaps elect a new speaker. The outcome will probably be some bruised egos. While leadership changes very little this session we have friends on both sides of the fence in the House, therefore, we remain neutral. Tobacco should not be greatly affected.

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Significant State Problems

There are several issues of interest to business that may be considered during the upcoming 1987 legislative session.

- o Workers Compensation - The state Trial Lawyers Association is interested in changing the present law which the business community feels is sufficient.
- o Tort Law - The Trial Lawyers Association is also interested in establishing a "comparative fault" doctrine in place of the present contributory negligence, which would adversely affect business.
- o Environmental Issues - The present state law provides that no state standards will exceed Federal standards. Attempts are being made to change the present law to increase certain state environmental standards.
- o The lottery, which failed on a close vote last session, will be brought back up this session. It could be a vehicle which provides the revenue to overcome the projected shortfalls.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

All segments of the tobacco industry are present in North Carolina. Each is represented by an organization or association. The Tobacco Institute staff has been fortunate to maintain good relationships with all groups.

Growers organizations include:

N. C. Farm Bureau
N. C. Grange
Tobacco Growers Information Committee
The Tobacco Growers Association of N. C.
Flue-Cured Tobacco Cooperative Stabilization Corp.
Leaf Tobacco Exporters Association, Inc.
Tobacco Associates
Tobacco Association of the U. S.

The N. C. Department of Agriculture has always been a staunch advocate for tobacco. The commissioner has dedicated time and staff to the protection of tobacco.

N. C. enjoys the residence of six cigarette or tobacco manufacturing plants. In the past each manufacturer has played a role in the preservation of our industry. From the seedbed to the supermarket our industry is well represented.

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Business

There has been little need in recent times to utilize business allies in state legislative battles. Since the influence of the tobacco industry blankets a wide variety of business interests such as banking, the retail trade, chemical companies, paper manufacturers, etc., this resource can be effective.

North Carolina Citizens for Business and Industry represents business in state legislative matters and should be considered a strong ally on issues of concern to The Institute.

Labor

Labor is not considered a strong resource at the state level and has not been utilized.

Institute Resources

Our lobbyists have been very effective in the state legislature. The "Friends of Tobacco," which TI finances, was created for a legislative support program. It used members and officers of the various farm organizations to contact state legislators on a regular basis as well as during a crisis.

ANTI-TOBACCO FORCES

Anti-tobacco forces have been active in Raleigh, Greensboro and Charlotte. We can expect to hear from them in future sessions.

TOBACCO INDUSTRY

Brief History of Successes and Problems

Throughout the years, all segments of the tobacco industry have stood strongly in opposition to cigarette taxes and restrictions at the state and local levels. Last year there was some division in the ranks because of the anticipated need for revision of the tobacco allotment program. Most of those problems have been worked out at the congressional level. Some strong feelings still remain in certain areas of North Carolina; however, we feel they can be resolved through good efforts and show of faith on the part of manufacturers and the farm community.

Major Issues - State and Local

There is a remote possibility we might see the manufacturers tax introduced again in North Carolina. However, indications from leadership are that if such a tax is introduced it will not fair well.

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There is a small possibility we will see a smoking restriction bill at the state level. If so this will be brought about by efforts of the American Lung Association. We expect them to push their efforts at the local levels.

Asheville is the only locality to consider a smoking restriction ordinance in the 1980's. In 1984, the Asheville City Council passed an ordinance to restrict smoking in elevators and certain areas of hospitals. The original proposal called for restrictions in retail stores and other public places, but our efforts helped weaken the ordinance.

The mayor of Asheville stated publicly that the ordinance was a fire prevention measure considered at the request of the fire chief and not an anti-tobacco efforts.

Outlook

Leadership has indicated that they will work with us to prevent adverse legislation. We are beginning to rebuild our coalitions this year. If we are as successful as we should be, the tobacco industry will remain strong in North Carolina.

December 1986

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NORTH DAKOTA

PREFACE

North Dakota is one of the world's largest wheat producers. Only the state of Kansas produces more wheat than North Dakota. North Dakota's population over the past 70 years has not changed drastically. During the early part of the 1900's, North Dakota had 632,000 people; by 1970 its population actually dropped to 617,000. Today, North Dakota has a population of 670,000 and a market share of less than three-tenths of one per cent.

North Dakota's political history is unique. Norwegians settled the eastern part of the state while Germans settled the west. This mix of ethnic backgrounds produced the famous Nonpartisan League (NPL), a political movement overtly socialistic. This political group proposed governmental ownership of grain elevators and railroads. To this day, North Dakota maintains a state-owned grain elevator service and a state-owned bank.

North Dakota, until the mid-1970's, was considered an agricultural, livestock, and surprisingly, a noted center of sophisticated defense systems (the bulk of the United States Titan Missile strength is located in silos near Minot).

STATE OVERVIEW

Economic Condition and Outlook

North Dakota's economic condition is generally good with notable exceptions due to interdependent economic conditions outside of North Dakota. North Dakotans, as a people, are extremely conservative and tend not to overextend themselves. This conservatism carries through to their view of government intervention in their daily lives.

A case in point is the North Dakota oil industry, an industry of major proportions several years ago. During the "Arab oil crisis," known reserves of oil were explored and exploited, producing major revenues for North Dakota's economy. However, due to the world-wide oil glut of the 1980's, demand for North Dakota's oil fell. As a consequence, prices for oil decreased, making oil production in North Dakota unprofitable. Other states would have overly projected the potential revenues of this new found resource, but not the people of North Dakota. Although anticipating major revenues, the legislature was relatively prudent in its income projections, facing only moderate budget shortfalls in the wake of a potentially disastrous budget dilemma.

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The outlook for the North Dakota economy can be termed "tentative." There is very little doubt that a major Mid-East oil crisis could reactivate the North Dakota oil industry. Unfortunately, with oil selling for barrel prices in the low 20s, there is very little impetus for North Dakota oil production.

Political Situation: Current and Outlook

If "no man and his property are safe when the legislature is in session," the people of North Dakota are relatively safe due to North Dakota's unusual 80-day biennial legislative session.

The North Dakota legislature did not meet in 1986; it will meet in 1987. However, Democratic Governor George Sinner called the North Dakota legislature into special session during the first part of December 1986 to address budget shortfalls.

Incumbent Democrat Governor George Sinner did not face election during 1986. He upset the Republican incumbent in 1984.

The State Senate, previously controlled by the Republicans, may now be controlled by a single seat by the Democrats, due to a one-vote victory by Larry Schoenwald. A recount is underway; however, Schoenwald appears to be gaining votes, albeit, slowly.

The North Dakota House of Representatives will still be controlled by the Republicans, although they lost 5 seats in the general election, lowering their majority to 60-46.

In elections for U. S. Senate and the at-large Congressional seat, incumbent GOP U. S. Senator Mark Andrews was defeated by relative unknown Kent Conrad. Conrad, originally a distinct underdog, took 51% of the vote.

Significant State Problems

North Dakota faces the following problem areas during the next biennium:

Funding of a coal gasification plant. This plant is being temporarily funded and could cease operation, causing major unemployment and revenue reductions.

The farm economy, although more stable than surrounding states, faces the withdrawal of banking services in rural areas due to the increasing debt crisis in Iowa and Minnesota. Interstate banks such as First Bank and Norwest, are closing many rural branches.

Petroleum production. With extremely low oil prices, the oil industry of North Dakota is literally at a stand still.

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Nuclear waste dumps. An ongoing argument regarding the placement of high-level nuclear waste dumps in North Dakota.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

There is no tobacco production in the state of North Dakota. The industry's presence is noted via the tobacco wholesalers and retailers.

The North Dakota wholesalers, although a small organization, have been extremely helpful in providing a grassroots political base for the industry. The association's conventions are well attended and enthusiasm is considerable.

Business

The North Dakota business community worked very closely with the tobacco industry during the past legislative session on the issue of the federal excise tax contingency legislation. The defeat of this particular bill, and the participation of the North Dakota Wholesaler Grocers Association and the Bismarck Chamber of Commerce and Industry, demonstrated support for our industry beyond the tobacco family.

Labor

Labor's presence in North Dakota is minimal.

Institute Resources

The Tobacco Institute's retention of lobbyists as well as its honoraria program and membership in statewide business groups plays a vital role in our legislative profile in North Dakota. Additionally, the increase in the Institute's contribution to the North Dakota wholesalers association, will pay dividends.

ANTI-TOBACCO FORCES

The most surprising aspect of the anti-tobacco forces in North Dakota is their mere existence. In a state which prides itself on non-interventionist governmental policy, the North Dakota Lung Association can be termed unrelenting. This particular group meets monthly with the GASP chapter at Lung Association headquarters in Bismarck. Its membership frequently visits the State Capitol during hearings and legislative briefings.

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The Lung Association of North Dakota boasts 500 activists and is apparently well-funded with a comparatively sophisticated membership program.

Additionally, Lt. Governor Ruth Meyers, a cancer victim, has spurred the legislature into a position of recommending anti-tobacco legislation. This situation, more than any other, has the potential of affecting our legislative presence as well as prejudicing the attitude of the state legislature against our industry.

The Lung Association consists of extremely zealous citizens. They are somewhat outrageous, boisterous, cooperative and indefatigable. Last year, it was this group, at a hearing last winter in Bismarck, that pointed to tobacco industry lobbyists and shouted, "How can you sleep, you merchants of death?"

TOBACCO INDUSTRY

Successes and Problems - History

Our efforts in North Dakota were successful during the past session in 1985: defeat of the Clean Indoor Air bill and the proposed 8-cent federal excise tax contingency.

Events of the 1987 legislative session may be related to the outcome of the December special session. North Dakota faces severe problems due to the fact that much of its budgeting and revenue projections depend on the oil severance tax. Oil revenues are in a depressed state; therefore, the North Dakota legislature will be searching everywhere for extra revenue. The legislature did not address the cigarette excise tax during the special session, thus is very likely to consider an increase in January.

Major Issues - State and Local

The following issues will be at the forefront of our legislative program in 1987:

Clean Indoor Air Act. The Lung Association has already drawn the battle lines so our task is clear.

Tax Increase. Due to projected state budget shortfalls, a tax increase looms on the horizon.

Outlook

The outlook for North Dakota during 1987 is guarded. Our concerns rest with the onset of a special session to rectify any budget shortfalls. With this in mind, it is our opinion that careful analysis be given to budget projections in North Dakota and an immediate response to those projections.

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OHIO

1987-1988

PREFACE

Ohio's industrial, economic and political base is similar to that of other large industrial states in the northeast. Politically the parties and general public are considered moderate to conservative.

The state's population numbers 10.7 million; it has a market share of 4.9 percent.

STATE OVERVIEW

Economic Condition and Outlook

Upturns in the national economy have been reflected in the state. Agriculture remains the state's leading industry. Cities dependent on heavy manufacturing still suffer the greatest unemployment; however, the state as a whole has a good economic outlook.

Political Situation

Traditionally, the political spectrum of the state is mixed. Of twenty-one U.S. Representatives, eleven are Democrats and ten are Republicans. Both U.S. Senators are liberal Democrats. The State Senate remains Republican (18-15) and the House of Representatives Democratic (60-39). No major changes are expected regarding leadership posts or committee chairmanships, with the exception of the appointment of a new House Health and Retirement Committee Chairman. All statewide offices remain in control of Democrat incumbents.

Significant State Problems

At the end of 1986 the General Assembly passed major changes in tort reform; however, Governor Celeste opposed the product liability provisions in the measure (SB-330) and vetoed it. Additional activity on the issue may occur in early 1987. The state may also choose to reduce income taxes to reflect changes in federal tax reporting. The Speaker of the House has promised no new taxes for 1987.

RESOURCES - STRENGTHS AND WEAKNESSES

Tobacco Segments

The tobacco family remains extremely supportive and has taken on additional responsibilities, including local and federal mobilization activities.

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Business

Many new business allies have emerged, especially in light of increased activities at the local level. These include manufacturers, financial institutions, local restaurant and tavern associations. Statewide trade associations have remained supportive; however, due to our final stance against passage of SB-330 (tort reform/product liability) ally rebuilding activities will be an absolute necessity during early 1987.

Labor

Last year we intensified efforts to improve relations with AFSCME and to create contacts with the Fraternal Order of Police. During 1987 we will target Teamsters and heavy labor for increased contacts.

Fire Groups

We have enjoyed excellent relations with the International Brotherhood of Professional Firefighters. We will attempt to further improve relations in 1987.

ANTI-TOBACCO FORCES

GASP has emerged as the leading proponent of anti-tobacco legislation. In 1986 GASP leaders authored and/or advocated legislation in at least eight localities. Contention for the statewide president's office has created a great deal of competition among local chapters.

Ahron Leichtman, president of C.A.T.S. (Citizens Against Tobacco Smoke), a local organization, is spearheading an effort to make this a national organization under his direction. He is attempting to recruit the lung association, cancer association and various medical associations as acting members into this new organization, which has the same goals as GASP. To our knowledge he has been unsuccessful; however, he is very influential with the Cincinnati Health Board and can take credit for the Health Board regulation passed in 1985.

TOBACCO INDUSTRY

Brief History of Successes and Problems

At the state level, the only major issue adopted in 1986 allows voters in Cuyahoga County (Cleveland) to vote to impose a local excise tax on cigarettes to support the building of a domed stadium.

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Local restriction legislation increased dramatically during the year, with the greatest new threat being posed by the activities of non-elected health boards. Should Ahron Leichtman be successful with the anti-smoking video program that we understand he has presented to the Cincinnati Health Board for their endorsement and financial assistance, we can expect more health board action throughout the state.

Major Issues - State and Local

At the state level in 1987, we anticipate the introduction of legislation regarding cigarette excise taxes, O.T.P. taxes, smoking restrictions, sampling and advertising bans, as well as a possible clove cigarette prohibition.

Due to our previous success at defeating statewide smoking restrictions, GASP and others will attempt to introduce local legislation before city councils and health boards at an unprecedented rate.

Outlook

If during early 1987 we are successful at rebuilding legislative and coalition relations damaged during tort reform activities, we should be successful at defeating or tabling most of our statewide legislative threats. At the local level, health boards and the simple volume of localities undertaking smoking restrictions will be detrimental. Cuyahoga County may also consider a local excise tax on the public ballot. Though the volume of legislation has increased dramatically, we anticipate a continuation of our successful record of defeating anti-tobacco measures in Ohio.

December 1986

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OKLAHOMA

PREFACE

Oklahoma, with a 1984 population of 3 million, accounts for about 1.5 percent of the nation's cigarette market. It is a conservative state in many respects, giving Ronald Reagan huge majorities in 1980 and 1984, despite the fact that 68 percent of Oklahoma voters are registered Democrats.

Despite its American Indian heritage, only 5 percent of Oklahoma's citizens are Indian. They are concentrated in the 2nd Congressional district (Northwest quadrant of the state), giving that district the largest number of American Indians of any Congressional district in the nation.

Any question of which industry is most important to Oklahoma is answered as soon as one views the state capitol. Active oil wells are pumping on the capitol plaza itself. Oil, gas and agriculture are without question the most important elements of Oklahoma and its character.

STATE OVERVIEW

Economic Condition and Outlook

Like other states that depend on petroleum and agriculture, Oklahoma is in serious trouble. The state has experienced a disastrous drop in income tax collections, gasoline tax revenues, and sales taxes collected.

The reasons for this desperate situation are simple: a farm economy in dire straits and a stagnant oil industry. Each time the price of crude oil falls \$1.00, the Oklahoma treasury loses \$11 million. Simply put, Oklahoma's financial future can only be expected to get worse unless the price of oil rises dramatically and the agricultural industry receives some very good news.

Political Situation

After the recent elections, Democrats remain in firm control of the Oklahoma legislature; but the Republican party did make some impressive inroads. The Democratic majority in the State Senate has been reduced to 31-17 with the election of 15 new senators this year. Thus, vetoes by Republican Governor Henry Bellmon could be sustained. The House of Representatives holds a firm 70-31 Democratic edge.

Governor Bellmon is hardly an unknown quantity. He is a former U.S. Senator and was a two-term governor in the 1960's. His conservative bent is expected to chafe the legislative leadership and result in some interesting battles.

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Significant State Problems

Desperate for funds to keep the state operating and to achieve a constitutionally-mandated balanced budget, Oklahoma legislators must totally restructure methods of raising revenue. In 1987, legislators will also be required to deal with "right to work" and workers' compensation issues that have the state's unions and industries in conflict. Finally, there will be many insistent farmers asking for help with their problems, not the least of which is a serious water shortage in western counties.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

The Oklahoma Association of Tobacco Distributors, until three years ago, suffered from inertia and sometimes even seemed to be working in opposition to The Tobacco Institute on key issues. However, changes in OATD leadership and improved relationships with TI representatives have resulted in a strong and effective alliance. In recent months, the OATD has upgraded its staff by hiring as its legislative counsel, former chief House clerk Richard Huddleston. Mary Thurber, who has done such a fine job as executive director for the Colorado Association of Tobacco and Candy Distributors, has also been retained by the OATD to handle its administrative concerns. These moves will unquestionably enhance OATD's presence in the Capitol and make it an even closer friend of The Institute.

Oklahoma's vendors have no state association. Nevertheless, until about three years ago, TI enjoyed excellent cooperation with several major vendors in the state. Unfortunately, this relationship has seriously deteriorated, primarily because of what the vendors view as untimely and unnecessary price increases by the tobacco companies. A great deal of time and attention will be needed to repair this relationship.

A few years ago, an effort was made to organize tobacco retailers in Oklahoma. The Oklahoma Retail Tobacco Dealers Association was founded by a group of tobacconists in Oklahoma City and showed a great deal of promise in its first year. Unfortunately the ORTDA lost its aggressive leaders, suffered from a lack of funds and is now more or less defunct. Time and funds permitting, it could be worthwhile for TI to help re-activate this association.

TI member company TAN Activists have been a major asset in Oklahoma through the years. They form the bulk of The Institute's "awareness system" in the state and can be counted on for grassroots political action on very short notice.

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Business

The Tobacco Institute has received little or no assistance in the past from business-related organizations in Oklahoma. This is an area deserving of considerable attention in the future. The use of contacts within the TI member company subsidiaries in the state would be productive in improving this situation.

Labor

Organized labor is not among the more effective lobbies in the state. Nevertheless, labor can and should be encouraged to cooperate with TI, particularly on excise tax issues. This, however, may be difficult in 1987 because "right to work" and workers compensation legislation will be occupying virtually all of labor's time and attention.

Fire Groups

Firefighter groups are not well-organized or very visible lobbyists in Oklahoma. The Tobacco Institute has not had occasion to become involved with them in the past several years.

ANTI-TOBACCO FORCES

Groups interested in pursuing passage of smoking restrictions are either assuming a low profile or are virtually nonexistent. Affiliates of the American Cancer Society and the American Lung Association have proposed legislation at the state level, but not much activity has been seen at the local level. However, such efforts are just now beginning in Edmond and Tulsa, where some members of the medical community have begun to agitate for ordinances.

TOBACCO INDUSTRY

Brief History of Successes and Problems

No piece of smoking restriction legislation has ever been voted on by either house of the Oklahoma State Legislature, although a few attempts have been made. Likewise, no local smoking restriction has yet passed in the state.

Oklahoma increased its cigarette tax from 13 to 18-cents per pack in 1979, the first increase in eleven years. When the state legislature passed an omnibus tax package in 1985 (the largest tax increase in the state's history) the bill called for a cigarette tax increase only if the federal government decreased its tax. On the downside of the taxing issue, legislation was passed in 1984 making cigarettes subject to the state sales tax. In 1986, a bill proposing a cigarette tax increase to fund health research was defeated.

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Major Issues -- State and Local

Oklahoma's massive budget shortfalls constitute the major concern that will face state government in 1987. Other key legislation facing legislators next year deals with "right to work" and proposals to increase workers' compensation.

Recent activity by local anti-smoking groups and attendant publicity serve as indicators that efforts at passing local smoking restriction ordinances will probably begin in earnest during 1987. Probable targets are Tulsa, Edmond, Oklahoma City, and Bartlesville.

Outlook

Given the seriousness of Oklahoma's fiscal crisis, it is virtually certain that tax increase legislation will be introduced, and it stands a good chance of passage.

Smoking restriction legislation of some sort is also expected in Oklahoma but should be contained in committee. Local smoking ordinances are expected to be proposed in several Oklahoma municipalities during 1987 and may produce significant challenges.

December 1986

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OREGON

PREFACE

With a population estimated at 2.7 million, Oregon delights at its image as the most environmentally concerned and politically progressive state in the Northwest. Oregon's share of market is 1.09 per cent.

STATE OVERVIEW

Economic Condition and Outlook

Oregon's economy is, as in its neighbor Washington, in a state of transition. It is suffering from a serious downturn in timber economy and is becoming a high tech and computer technology state. Beyond that comparison the similarities end. Oregon does not have the stable agricultural economic base of Washington, nor does it have anything resembling Washington's aerospace or military economy. Oregon does not have a sales tax; therefore the state depends largely on an extremely high property tax and a high personal income tax to fund state programs.

An effort was made this year to add a sales tax to the state's sources of revenue. However, this effort was soundly defeated by the electorate at the polls in November. Oregon will, therefore, have to continue to fund its relatively liberal state programs with narrow individual taxes, user fees and excise taxes.

Political Overview

In the race for Governor, Democrat Neil Goldschmidt was elected by a margin of 53-47 per cent over Republican Norma Paulus. Goldschmidt's election can be termed "no worse" for the tobacco industry. It should be noted that Goldschmidt, as was the case with Governor Andrus of Idaho, also served in the Carter Administration. Mr. Goldschmidt served as Secretary of Transportation.

With regard to legislative races, 3 Democratic House incumbents were defeated. However, the Democrats will maintain control of the lower house by a margin of 31-29.

In the Oregon state Senate, the Democrats will maintain their majority with a margin of 17-13.

United States Senator Bob Packwood (R-OR) was easily reelected.

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Significant State Problems

Oregon's most significant problem at this stage is its revenue base. Granted, the timber industry's problems and a relatively slow-growth economy are important. However, with a narrow economic base the state needs to address its priorities in terms of government spending vs. its lack of a broad-based sales tax. Since the voters overwhelmingly rejected a sales tax, it appears the legislature will have to continue to take a "band-aid" approach to funding. Realization of this problem has not slowed the proponents of increased state spending for education, state employees salaries, additional local services and improved state human services programs.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

What Oregon lacks in an organized wholesaler group it makes up for in active, cooperative and effective tobacco family support in the vending industry. The distributors association is basically non-existent, having been deactivated about ten years ago. On the other hand, there are several vendors in the state who can always be counted on to support us in our legislative efforts. In addition, there are some very active and able member company employees, who in the past, have been quite willing to lend considerable effort to our legislative problems.

Business

The Association of Oregon Industries (AOI) is the state's most significant business organization. It has, in the past, been ambivalent to our problems. One of the reasons for this is the large membership of big retailers who would prefer to see state regulation of smoking in their retail establishments, and large timber interests who would prefer to see taxes raised from any source other than their industry. Because of some economic changes in the state, as well as a change of leadership at AOI, this organization now appears to be in a position to assist us more strongly in our efforts in the future.

We enjoy a close working relationship with the two major hospitality groups, Restaurants of Oregon Association (ROA) and Oregon Restaurant and Beverage Association (ORBA). These two groups have been helpful to us politically, have had tobacco industry spokespeople at their conventions and continue to be concerned about how tobacco legislation will affect their members.

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Labor

Organized labor is an exceedingly important legislative power in Oregon. We have in the past enjoyed a good working rapport with labor's capitol lobbyists, particularly on issues such as workplace restrictions. However, our industry's relationship with labor still leaves a lot to be desired. We have good contacts with a strong teamster local in Portland that has been considered close to the state employees' legislative representative during past sessions. Additionally, there is a small Bakery, Confectionary and Tobacco Workers local in Portland; however, we have not yet been able to build a relationship with that organization.

ANTI-TOBACCO FORCES

The major anti-tobacco organization in Oregon is the Oregon Lung Association. It has had intense support from one particular state legislator. It is primarily this legislator's efforts, coupled with Oregon's commonly-accepted environmentalist attitude, that poses the greatest threat to the tobacco industry. This is the state that prides itself on leading the Nation in populist legislative causes such as bottle restrictions, anti-fluorocarbon legislation, wood stove restrictions and any other "socially progressive" legislation that will make Oregon stand out from its large neighbor to the south.

TOBACCO INDUSTRY

Brief History

The Oregon Indoor Clean Air Act was passed in 1981, building on laws passed since 1973. There had been virulent anti-tobacco efforts at the state legislature as well as at local levels for a number of years. Since the Act was passed, there have been no local efforts at restricting the use of tobacco products in public places, and the state legislature appears willing to wait to see how effective the 1981 act will be.

Excise taxes in Oregon have always been popular, partly because of the state's limited tax base. However, the Oregon legislature also enjoyed the revenues that the state received from sales of tobacco products in border communities such as Portland. With a relatively low tax (9 cents) from 1972 through 1981, sales to Washington residents generated considerable revenue for the state.

In 1981, however, the legislature raised the excise tax by ten cents and no longer appeared to appreciate the benefits of having a lower tax than its neighbor states. During those ten years, excise taxes on alcoholic beverages and beer and wine sales also were raised to levels above the national average.

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In the 1985 session the Oregon legislature passed legislation to increase the state's cigarette excise tax by eight cents, no matter what Congress might do with the sunset. The public statements made by the legislature during that session were, "...Congress has promised to sunset the federal excise tax, therefore, if they don't lower the federal tax it's Congress' fault for raising people's cigarette taxes." Accordingly, Oregon now has a tax that is among the nation's highest.

Outlook: Major Issues - State and Local

Largely due to the defeat of the state sales tax efforts in 1985 and 1986, the legislature had to re-evaluate its priorities as well as make an effort to re-balance the budget for the biennium. This will be a continuing bone of contention during the 1987-88 biennium. There were new pressures put upon the legislature during the 1985 legislative session which were "held off" until the referendum on the sales tax. State employee salary hikes, infra-structure funding problems and increased costs of social service programs, will all require funding attention by the legislature.

December 1986

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PENNSYLVANIA

PREFACE

Pennsylvania is, in virtually every sense, a keystone state. From the standpoint of culture, politics, climate, economy, and geography, Pennsylvania presents within its boundaries a transition and contrast with respect to the nation's concern with the smokestack industries and the high tech revolution. Also, the rise and fall of political party fortunes and labor's wane provide a dramatic impact on the population of 11.5 million.

There are several opposing economic and political forces in Pennsylvania that combine to make the state as unique socially as it is geographically. These opposing forces make it difficult to pigeon-hole the state as liberal or conservative, industrial or agrarian. Thus, Pennsylvania is a key state in gauging political and social trends. Its geographic position (it shares borders with six other states) demands that Pennsylvania be given attention by any group interested in a national political strategy and very close scrutiny by those interested in Mid-Atlantic or regional strategy.

STATE OVERVIEW

Economic Condition and Outlook

Economic conditions vary considerably from area to area. Pennsylvania presents the contrasts of heavily industrialized urban communities of waning economic clout, revitalized service industry-oriented suburbs and rural farming communities.

Pennsylvania is currently experiencing transition pains as it attempts to weather the crisis of a failing industrial base and "retools" for a high tech future. The displacement of labor is particularly acute in the western Pennsylvania areas of Pittsburgh, the Mon Valley, Johnstown and Clarion. The Philadelphia/Delaware Valley area has, however, met this challenge well and is in the forefront of commerce and high tech industries.

Pennsylvania's agricultural population has decreased over the last several years, but the state is still a leading producer of milk, potatoes, poultry and various fruits. The agriculture industry in Pennsylvania is comprised of 62,000 farm families selling more than \$2.6 billion in crops and livestock. It also has the largest rural population of any state in the country.

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The outlook shows Pennsylvania moving from coal, steel, and apparel production to electronics-based service orientation. Any corresponding tax base deterioration will be reflected in further attempts to increase the excise tax on cigarettes.

The state budget process officially begins in February with the Governor's State-of-the-State Report. It ends June 30, 1987, when a 1987-1988 budget must be adopted. On several occasions the state's budget has been embroiled in politics and has not been adopted until after June 30.

Political Situation

Legislative power in Pennsylvania is vested by its Constitution in a Senate of 50 members (currently 26 Republicans, 24 Democrats) and an Assembly of 203 members (103 Democrats, 100 Republicans). Senators serve four-year terms, with one-half the membership up every two years. House members serve two-year terms.

The lieutenant governor is the president and presiding officer of the Senate. The Senate elects a president pro tem, and each caucus elects from among its members various leadership personnel. The House is presided over by the Speaker, who is elected from and by the membership of that body for a two-year term.

The Legislature will convene January 6, 1987, and will thereafter meet sporadically to allow committee work on the budget process and to allow for the House and Senate to prepare their respective legislative agenda.

In 1987 Pennsylvania will have a new governor, Democrat Robert E. Casey, and a new lieutenant governor, former state senator Mark Singel.

While Democrats outnumber Republicans in the state by more than 700,000, the House majority has bounced back and forth between the two parties, and the Senate has been in Republican hands for nine years. Prior to 1987, the governorship had been in Republican hands for eight years, and the two United States Senators are Republicans, as is the state treasurer. The Office of Auditor General, is currently held by Democrat Don Bailey.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

The Tobacco Action Network (TAN) in Pennsylvania presently contains 824 activists. These activists have been particularly responsive to our 1986 needs and concerns with respect to H.B. 259 (smoking restrictions) and S.B. 948 (tax increase) through letter-writing, phone bank operations and other lobbying efforts. TAN will be a cornerstone for our 1987 grassroots efforts.

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While 1986 saw only moderate response from our wholesaler, retailer and vendor segments, a more intensified working relationship engendered over the last year should create a much more useful and aggressive response from these groups in 1987.

Pennsylvania is fortunate to enjoy the presence of the cigar manufacturing industry in the facilities of General Cigar, Consolidated Cigar, American Cigar and Middleton Tobacco. Additionally, U.S. Tobacco maintains a cigar manufacturing plant in Red Lion. These resources have been of valuable assistance in defeating legislation at the state and local levels in the area of public smoking.

Business

The business community continues to be responsive on the issue of public smoking restriction legislation. It has not expressed a willingness to involve itself in other issues of interest to the industry. However, it is pleasing to note that the Tavern Association and the Restaurant Association officially came out against the excise tax increase on cigarettes (S.B. 948) during the 1986 session. One weakness that has been evident in Pennsylvania relates to the non-activity by the business community on workplace restriction legislation. In fact, the business community in several areas of the state, Lehigh/Northampton/Easton Counties in particular, is in the forefront of adopting, voluntarily, severe workplace smoking restrictions.

Labor

Labor coalitions have been visible in opposing Pennsylvania's smoking restriction legislation at the state and local levels. Through a long standing working relationship developed by regional TI personnel, through the Institute's Labor/Management Committee and various forms of networking, we expect to maintain this level of cooperation and build further on this groundwork.

Fire Groups

Excellent relationships have been established with the fire community. Through individual field contacts and in conjunction with solid input from our Public Affairs Division, we now have strong professional and personal credibility with the 1987 leadership of the Volunteer Firefighting Association (membership over 300,000) and the Pennsylvania Fire Chiefs Association. Our grassroots efforts have resulted in a favorable turnaround by these two groups from initial support of "self-extinguishing" legislation to official neutrality regarding such legislation. 1987 will result in a continued high level of activity with key fire officials.

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Institute Resources

Legal analyses, economic impact studies, and state and local legislation services have been of great benefit.

We have successfully and effectively used the "Helping Youth Decide" program and the "Voluntary Program for Smokers and Nonsmokers" in Pennsylvania. The latter program has served to engender a very close and legislatively profitable working relationship with the restaurant community.

ANTI-TOBACCO FORCES

In 1986, state Rep. Michael Dawida's public smoking restriction legislation (H.B. 259) was released from the House Health and Welfare Committee to die in the Appropriations Committee. This marks the eighth year that he has introduced this measure. Through Pennsylvania's Interagency Council on Health, he has been in communication with local hospitals, physicians groups and county health departments. Another group, the Pennsylvania Consensus Conference on Tobacco and Health Priorities, has set up a state and local Action Plan which began in mid-1986 and will be in full swing in 1987.

While we have been fairly successful at the state level, this success has resulted in increased anti-tobacco efforts at the local level. 1986 saw local initiatives center on the issue of tobacco and youth vis-a-vis vending machines. Local organizations have gone to officials to request passage of ordinances which would remove vending machines from areas where minors might gain access to them.

Should these groups attain success in passing such ordinances, they will then move in 1987-1988 to ban advertising of cigarettes on billboards, ban vending machines and implement or pass ordinances restricting or prohibiting smoking in the workplace.

There is little doubt that anti-tobacco forces will continue to become more sophisticated in their approach to promoting anti-tobacco legislation in Pennsylvania. 1987 will prove to be a much more difficult legislative year as a result of the anti's determination to promote anti-tobacco legislation and regulations.

TOBACCO INDUSTRY

Brief History of Successes and Problems

In 1987, local legislation will continue to be a major problem. It is expected that numerous localities will consider onerous legislation. At the state capitol, however, it is expected that no major legislative proposals will be adopted. We had remarkable success in opposing excise tax legislation in 1985 and 1986, and we expect to continue this success through 1987.

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Major Issues -- State and Local

In 1986, public smoking and excise taxes were the two major state level issues. It is expected that 1987 will show increased efforts by anti-tobacco forces on these issues.

Outlook

In the final analysis, 1986 has proven to be a successful year. However, 1987 promises to be a most difficult year.

In the process of continuing our major effort to address and defeat tax and restriction legislation, we will also address and respond to such issues as ingredients disclosure, sampling prohibition, "self-extinguishing" cigarettes, product liability and vending machine prohibition.

We expect our hardest-fought battles in 1987 to be at the local level, and accordingly, we are gearing our efforts to that end.

December 1986

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RHODE ISLAND

PREFACE

Under overwhelming influence from Massachusetts and Connecticut, Rhode Island is a state struggling to maintain its own social, economic, and political independence and identity.

For many years, organized crime activities within Rhode Island have provided a source for many ethnic jokes and court trials in the Commonwealth of Massachusetts. In recent years those activities have resulted in a variety of scandals that have had an impact on business and government in the state.

Like the rest of New England, Rhode Island is enjoying a high degree of economic prosperity, resulting in considerable tax surpluses and low unemployment. One problem is how to maintain this prosperity.

There are approximately one million people in Rhode Island. It has a 0.5 percent market share and a 25-cent per pack excise tax on cigarettes. Those taxes are collected on approximately 128 million packs of cigarettes, producing state revenues of approximately \$30 million in fiscal year 1985. This represents a decline of two million packs while the state's revenues remained stable since 1984.

STATE OVERVIEW

Economic Condition

As indicated, the state is enjoying a high level of economic prosperity like that in the other New England States. Unemployment is at an all-time low. The state tax surplus allowed the legislature to enact another substantial tax rebate in 1986. However, the double impact of federal tax reform and budget reconciliation may result in a 1987 budget deficit.

The major concern on the economic front continues to be how to attract new business to Rhode Island. The current business community is made up largely of long-term, stable employers. There has been little industrial development in the last ten years. Part of this has to do with the past importance of the labor community in the state and the lack of a serious countervailing effort from the business community.

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The election of Republican Governor DiPrete in 1984 seemed to signal a shift in that pro-labor stance. The 1985 legislative session witnessed the repeal of the "Striker Benefits Law," one of only two such laws remaining in the country. That, combined with the state's 1985 appropriation of \$75,000 for state-promotional ads in publications like the Wall Street Journal, seems to indicate that the Governor is serious in his attempt to show the business community that Rhode Island is becoming pro-business. The 1986 elections may result in a diminishing of that shift.

Political Situation

At present the political and legislative situation appears fairly stable. The Democratic majority in the House and Senate was continued by the voters. Governor DiPrete suffered no personal setbacks at the polls; however, the voters rejected every other statewide Republican candidate. DiPrete's standing alone at the top is likely to result in some isolation and some serious "muscle flexing" by the Democrats who would like to regain control of the governor's chair. This could result in some extremes that could harm tobacco interests.

A certain instability was observed last year when a large surplus, a Democratic legislature, and a Republican chief executive converged in a state with an overwhelmingly Democratic voter registration. The result was a scramble for the Republicans and their chief executive to appear more liberal than they would normally. The Republicans had a tendency to actually take up and champion those issues that were traditionally Democratic.

For their part, the Democrats attempted to shift more to the middle of the road for the benefit of their coalition with moderate Democrats, liberal Republicans, and the small business community at large. In the middle of this, both parties attempted to prove their fiscal responsibility and desire to give back excess revenues to the people. In many ways those shifting priorities provided the same type of legislative gridlock that would have occurred if both of the parties had simply continued to follow their traditional legislative objectives. While this can prove helpful to tobacco interests, the 1986 reality was that everyone sought a moderate stance on which to agree and for which to take credit. Tobacco issues provided that no-lose compromise for many legislators. The same or possibly more strident legislative mix, when combined with the potential for budget deficit in 1987, might prove more difficult for the tobacco industry.

The most important political situation in 1986 was the Constitutional Convention. This convention was the result of a bipartisan commission chaired by TI's counsel, former Governor Dennis Roberts.

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It is interesting to note that the leadership of both parties called upon Governor Roberts to orchestrate this most important commission. This was done in an attempt to avoid the appearance of any crass political agendas. Respect for Governor Roberts is universal in the state.

Those issues addressed by the Constitutional Convention were: (1) four-year term for governor; (2) linkage of the governor's and lieutenant governor's positions; (3) line-item veto; (4) appointment versus election of the secretary of state and state auditor; (5) legislative pay; (6) the size of the Rhode Island Assembly; and (7) the method of electing Supreme Court Justices. For the most part, the voters rejected all of the substantive, controversial recommendations and supported the technical corrections.

Other key political issues involved clearing out political corruption in the government's housing and transportation agencies. These will continue in 1987, and an investigation of the office of defeated attorney general Arlene Violet will be conducted by her successor at the request of the courts.

Significant State Problems

The major non-controversial problems for Rhode Island will be those activities designed to stimulate economic growth. One of the more controversial issues still of concern to Rhode Islanders and all people in the Northeast in 1987 will be the solid waste disposal problem. The state has effectively used up all of its solid waste dump sites and must find alternative sites or construct an ecologically sound incinerator.

Unlike 1986 and the situation in some of the other New England states in 1987, the problem of a budget deficit is a concern in Rhode Island. For many politicians the problem of what to do with last year's \$50 - \$100 million surplus will be replaced by the opposite problem. Do you tinker with the tax structures? Raise excise taxes? Overhaul the whole system? Cut programs? Cut employees? How do you address the problem; and having addressed it, who gets to take credit or blame for it?

While some of the 1985 legislative scandals were brought to a close, new ones emerged -- specifically, the conclusion of action at the Department of Transportation and the Rhode Island Housing Mortgage and Finance Corporation indictments. A legislative review of the legal activities in 1985 may produce a certain amount of reform and restructuring in this quasi-public financing organization.

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RESOURCES

Tobacco Segments

The Rhode Island tobacco family is weak. There are few manufacturer sales representatives. The wholesaler community is dominated by one major wholesaler, as is the vending industry. Surprisingly, one of the most recently-organized groups, the New England Convenience Store Association, is among the more organized in the state and one of our best sources of legislative support.

Like the rest of New England, the wholesalers who should provide us with the backbone of our legislative support program spend more time in internal conflict, posturing for the manufacturers, and taking "pot shots" at the Tobacco Institute than in legislative support. The 1985 split between the four top owners and managers of CGI Corporation resulted in the creation of a new and formidable wholesaling entity in the state. The bones of CGI have since joined with Garber Brothers in Massachusetts. The aborted creation of the New England Tobacco and Candy Wholesalers Association in November in 1985 resulted in even greater conflict and animosity toward the Tobacco Institute in 1986.

On numerous occasions, we have been able to organize the Rhode Island tobacco community for very brief periods of legislative activity. To date, a cohesive, coordinated, long-term effort has not been possible. We can, if necessary, draw the family together to oppose specific legislation, but we cannot keep them together following the success or failure of our efforts.

Business

Traditionally, the business community in labor-dominated Rhode Island has enjoyed second-class status. This is partially a result of the overwhelming dominance of the labor movement in the state and of disinterest on the part of the business community. The individual members of that community are prosperous, and prosperity tends to breed apathy. The realization that a Republican governor could be elected has resulted in a resurgence of conservative business activity in the state. Part of that has come from a new-found strength and the positioning of an advocate in the chief executive's office. Part of the growth is also a result of the declining fortunes of the traditional labor organizations in all of New England.

A specific example of the growing strength of business and the waning fortunes of the labor movement came in 1985 with the repeal of the "Strikers Benefit Law." Business had attempted repeal on numerous occasions without a hint of success. In 1985, not only did labor/Democrats not oppose the repeal, but they actually involved themselves in the process.

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As indicated above, the election and 1986 re-election of Governor DiPrete, his efforts to attract new business to the state, and the reduced influence of organized labor may indicate that business' star is rising in Rhode Island. The voters' rejection of Republican candidates at the polls, however, may result in a decline in power for business.

Business support for tobacco is minimal. They view us as a problem they don't need. In fact, the only way we could get the business lobbyists to support us at the legislature was to keep the issue off their board of directors' formal agendas. They would have supported a stronger law.

Labor

An analysis of labor is essentially a flip side of the analysis of business. Organized labor suffers from the general prosperity of the region and the decline in traditional blue-collar employment. Labor also suffers from its members' primary concerns away from labor's rights and prerogatives and increased benefits to issues of on-the-job quality of the environment and other traditional white-collar concerns. The net effect has been a decline in their influence, as evidenced in the repeal of the "Striker Benefits Law" over the substantial opposition of the labor community. That opposition was so strong that it resulted in the resignation of AFL-CIO President Ed McElroy from the Democratic State Committee executive board. Unfortunately, it appears that there was no discernible consternation among the Democrats as a result of his leaving. The feeling of the party is that labor will be back. It has nowhere else to go. The only consistency between labor and business is on tobacco issues. Again, we had to keep the executive committee of the state AFL-CIO from voting on the workplace issue in order to gain their lobbyist's support.

Fire Groups

We have developed a good, ongoing relationship with Providence fire chief Michael Moise. That contact has been maintained, and it is likely that the chief will give us good support on legislative matters of mutual interest. On at least one occasion, we have approached him with information on smoking in the workplace, and he has been receptive.

ANTI-TOBACCO FORCES

The media may be our primary nemesis. The key anti-tobacco advocate may be a local newspaper, the Providence Journal. The almost-daily barrage of anti-tobacco news stories and editorials that appears in the Journal influences the perception of the public and the members of the legislature on the environmental tobacco smoke issue. The Journal is the property of U.S. Senator John Chafee's family. The senator's anti-tobacco sentiments are shared by his family and are reflected in the newspaper.

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In a more traditional manner, the industry faces the Rhode Island Coalition on Smoking OR Health, composed of a variety of individual medical practitioners and associations, including the heart association, lung association, cancer society, and the State Department of Public Health. Interestingly enough, all of these groups, including the Department, have full-time legislative counsels who work with the legislature on a daily basis. These individuals and the Department continue to be our primary source of difficulty at the legislative level. They are not as well-organized as anti-tobacco groups in Connecticut, Massachusetts, and Maine. However, the addition of a number of lobbyists, one of whom is also a state employee and ostensibly working for the Administration, helps make up for their lack of organization.

TOBACCO INDUSTRY

Brief History

Our legislative history in Rhode Island is somewhat checkered. In 1986, six of thirty anti-tobacco measures passed. One (H 7017) was a resolution commending the work of the Department of Health for its anti-smoking efforts. The second (H 7479) was a resolution extending a study commission, a request routinely granted by the legislature. The third (H 8497) required tobacco education in the schools and was not opposed by the industry. S 2271, restricting smoking in the Senate chambers, was part of the year's rules package. H 7542 imposed a 1.6-cent tax increase but repealed the earmarking passed during the 1985 session. Finally, S 2643 required employers to have policies regarding smoking in the workplace. Included among the defeated bills was a tobacco product liability measure. The state currently has a restaurant restriction law and a law requiring the posting of signs at the front door of restaurants. Clearly, while enjoying a great deal of success at the legislative level, we are very vulnerable. Increasing anti-tobacco activities, combined with the inability of the tobacco family to work as a cohesive unit, suggests that more difficult times may be ahead in Rhode Island.

Major Issues -- State and Local

At the state level, our primary challenge will be to defeat all legislation resulting from the still-operating study commission. In all likelihood, some expansion of the workplace restriction will be considered. As a result of tax reform, we may see a move to increase the cigarette excise tax. In the early part of the session and again in the later stages, this is likely to become one of our toughest issues.

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Outlook

In Rhode Island we are likely to suffer from the state's proximity to larger and more liberal neighbors to the north and west. The social pressures from Massachusetts and Connecticut -- combined with the anti-tobacco media, the high level of prosperity, the interest in a number of environmental concerns, the desire of the Democrats to regain the governor's seat with some old-time liberal posturing, and the activities of the State Department of Public Health -- are likely to create a volatile year for the tobacco industry. We are, therefore, vulnerable on some sort of expansion of the workplace legislation, youth-related issues like sampling and advertising, and increases in the cigarette excise tax.

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SOUTH CAROLINA

PREFACE

South Carolina has a population of 3.1 million. The state relies heavily on the manufacturing industry and, to a lesser degree, agriculture and aquaculture. The state's employment in manufacturing is close to 30 percent, second highest in the United States. For this reason, the General Assembly is business oriented with a conservative bent.

South Carolina's market share is 1.5 percent.

STATE OVERVIEW

Economic Condition and Outlook

If the unemployment rate is an indicator of a state's economic health, then South Carolina is in fair shape with a 5.4 percent rate -- a rate lower than 29 of the 50 states.

However, unemployment rates do not necessarily indicate fiscal problems. Spending has risen faster than revenue increases causing a \$60 million shortfall for fiscal 1986-87. When other economic indicators for South Carolina are taken into consideration, it appears that the state legislature should not be under pressure to raise taxes in the near future. A new Republican governor has pledged and repledged not to increase taxes.

On November 5, the State Budget and Control Board proposed and sent to the General Assembly a \$3 billion budget for fiscal year 1986-87. This represents a \$181 million increase over the current budget. Part of this increase - \$27 million - will go toward pay increases for state employees. In addition, the budget board endorsed an Education Improvement Act Budget of \$243 million, up \$17 million over 1985. This is to be funded by a one-cent increase in the sales tax passed in 1986.

There should be little need to consider raising other taxes during the 1987 legislative session.

Political Situation

South Carolina voters elected their second Republican Governor since Reconstruction, meanwhile, changes in top leadership in the state House of Representatives for the next session are expected.

The South Carolina legislature is overwhelmingly Democratic with only 22 Republicans out of 124 members in the House and 6 out of 46 members in the Senate.

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Traditionally, Republicans come from the more populous areas of the state such as Charleston, Columbia, Greenville and Spartanburg. As a whole, the legislature could be considered conservative to moderate in political philosophy.

Significant State Problems

A major problem was addressed with the passage of the Education Improvement Act of 1984 as South Carolina took a step forward in improving its low-ranking public education program as well as its future economic growth. A study by the Rand Corporation of the educational plans of all states ranked South Carolina as the most comprehensive.

South Carolina is a much poorer state than is commonly recognized. Residents are taxed at a high level compared to their ability to pay. In terms of per capita personal income, South Carolina is one of the poorest states in the country.

Most of the recent economic and industrial growth in the state has been concentrated in 20 counties, leaving the remaining, mostly rural, 26 counties in bad economic health.

Other issues to be addressed will be disposal of hazardous waste, more effective law enforcement, the cost of state government, repeal of the so-called "Blue Laws" which prohibit Sunday operation of retail stores, and enabling legislation for the consolidation of political subdivisions.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

A major tobacco-producing state, South Carolina has a strong coalition of agriculture-related organizations which have maintained an active role in opposing smoking restriction and tax increase legislation.

The South Carolina Agricultural Commodity Commission for Tobacco, headed by State Senator Tom Smith, and the South Carolina Farm Bureau Federation have been our strongest allies in legislative battles at the state, local and federal levels. They are a source for strong grass roots involvement, with members in every county in the state.

Another important source of legislative support comes from Commissioner of Agriculture Les Tindal who has opposed cigarette tax increase efforts and public smoking restriction legislation.

Other agricultural-related organizations which have played a role in defending the industry are the South Carolina Tobacco Warehouse Association, Pee Dee Tobacco Warehouse Association and Women Involved in Farm Economics, (WIFE).

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Member company sales representatives have assisted in legislative contacts mainly in the more populous areas such as Columbia, Charleston, Greenville and Spartanburg.

There is no wholesale distributor association in the state.

While the tobacco-producing area is geographically large, the population, and as a result, the number of legislators representing the area, is small compared to the remainder of the state. In any event, the legislature can be looked upon as a resource for strong tobacco allies. In the House, there are 25 members representing tobacco producing areas and in the Senate, 10 members.

Business

The South Carolina Restaurant Association has been the most outspoken ally in opposing smoking restriction legislation affecting restaurants. However, as soon as restaurants are dropped from such legislation, the group disappears.

Other business-related associations which sometimes can be relied on for assistance are the South Carolina Bankers Association and the Chamber of Commerce.

In the past, the business community has taken a backseat to farm groups in opposing anti-tobacco legislation. Farmers tend to get the "sympathy vote" because of the hard times they have experienced in recent years.

Labor

Labor has very limited impact in South Carolina.

Fire Groups

These groups have very limited impact in South Carolina.

Institute Resources

T. I. economic impact studies on tobacco have been the major issue-related resource requested and used by tobacco area legislators in their efforts to debate anti-tobacco legislation. The Farm Bureau and the Department of Agriculture rely heavily on T. I. for this type of support material as well.

Also playing an important part in our efforts are T. I. campaign contributions and financial support for agriculture-related functions, such as the annual Salute to Agriculture and Aquaculture attended by most legislators.

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ANTI-TOBACCO FORCES

Voluntary health groups including the South Carolina Lung Association, South Carolina Heart Association and the American Cancer Society are starting to take a more active role in efforts to restrict smoking in public places.

As a result of their combined efforts, legislation was introduced in both the House and Senate to restrict public smoking. In addition, an ordinance patterned after the state bills has been passed by the Richland County Council.

Another factor in the upsurge of this activity is the new South Carolina Lung Association executive director, who came from the West Virginia Lung Association and was actively involved there in attempting to pass the West Virginia Clean Indoor Air Act.

Also supporting passage of anti-smoking bills: Blue-Cross and Blue Shield, as well as two state agencies, the South Carolina Commission on Alcohol and Drug Abuse and the Department of Health and Environmental Control. The latter agency has banned smoking in all its offices across the state.

Representatives from each of the above-mentioned groups testified in support of public smoking legislation at hearings held by a Senate subcommittee and by the Richland County Council.

The danger from these groups is not their legislative influence, which is lacking, but the publicity they have generated on the public smoking issue.

TOBACCO INDUSTRY

Brief History of Successes and Problems

The last successful attempt to raise the cigarette tax was in 1977 when the legislature passed a one-cent increase to seven-cents per pack. The extra penny was to fund agriculture research in the state and was supported by former Commissioner of Agriculture Bryan Patrick.

In recent years there have been several attempts in the House, through amendments to appropriations bills, to raise the tax, but none has passed.

A public smoking bill was reported by Senate Committee in 1986, but died on the Senate contested calendar. This was one of several restriction defeats since 1977.

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Major Issues - State and Local

In 1987, cigarette tax increases will not be a major concern in the legislature, but public smoking restriction bills will be.

With the passage of the Richland County public smoking ordinance, we can expect similar activity in Charleston, Greenville, Spartanburg and Columbia.

Outlook

With respect to state bills to restrict smoking or increase the cigarette tax, the prognosis is excellent for the industry. Local issues, however, could become a growing concern.

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SOUTH DAKOTA

PREFACE

Quite possibly the most solvent state government in mid-America, South Dakota, has emerged relatively unscathed during the past recession.

South Dakota, the home of the Sioux Indian nation, is more western than mid-western. With legends such as "Wild Bill Hickock" and the exploits of General George Armstrong Custer, South Dakota's origins harken back to the days of the "Wild West." Many of the original settlers came from the westward treks of Minnesota, Wisconsin and Illinois settlers. South Dakota's population is relatively unchanged since the turn of the century.

South Dakota has become extraordinarily Republican and interestingly atypical to its neighbors to the north and east. South Dakota never had much use for the Farm and Labor Party of Minnesota nor did it ever accept the socialism exhibited in North Dakota. Although strongly Republican, South Dakota has elected some of the most liberal officials in the country, not the least of whom was Senator George McGovern.

South Dakota has a population of 680,000 people and a market share of less than three-tenths of one percent. Its Governor, George Mickelson, is Republican and both legislative houses are overwhelmingly Republican. For the past several years, outgoing Governor Janklow emphasized a program of attracting business to the state of South Dakota by means of public sector "incentives." Incentives such as no state income tax, property tax amnesties and statutory changes giving business enterprises added incentive to come to South Dakota are all hallmarks of his administration. Janklow could not run again for reelection in 1986 due to constitutional prohibition.

South Dakota is a state of many inconsistencies. It has a legislature controlled by Republicans, a Republican governor and extremely conservative fiscal policies, but it is the same state that continually reelects liberal Tom Daschle, former Congressman, now newly elected U. S. Senator.

STATE OVERVIEW

Economic Conditions and Outlook

South Dakota's economy is not typical of its neighbor states. South Dakota realized its dilemma several years ago: an image of a "do nothing" state that was "50th in everything."

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With the emergence of Governor Bill Janklow, many of these problems were brought to the forefront. A relatively famous flap ensued between Janklow and the equally excitable Minnesota Governor Rudy Perpich when Janklow, attempting to lure business to South Dakota, began a concerted effort to romance Minnesota businesses to his state. Governor Perpich, although initially amused, became irritated to the point of calling South Dakota "our nation's 50th state...50th in education, 50th in industry, 50th in farming, etc." Janklow, spotting an opening for publicity, went out to prove that South Dakota was not only a good place to live, but a good place for business to flourish.

Janklow immediately embarked on a program of economic development using public sector "pump priming" as the catalyst for change. Tax considerations were dangled before multinational corporations, South Dakota's lack of a state income tax was highlighted and Janklow's effusive demeanor and behavior pleased big business executives who were flattered that a state governor would show up at their doorsteps asking for business. Janklow's gamble paid off and big business did come to South Dakota. CitiCorp, the major new industry, was successful in leading the way for dozens of other smaller industries to South Dakota. South Dakota's unemployment rate ranks among the lowest in the country with major city Sioux Falls boasting of "full employment."

The outlook at this time continues to be rosy and the businesses just keep on coming. South Dakota's absence of a state income tax is enough to attract those executives in the \$100,000 to \$200,000 a year salary range. Its "liberal" interpretations of state banking statutes make it a haven for interstate banking and venture capital groups. Its overall focus can be termed "information age" rather than "industrial age."

Political Situation: Current and Outlook

The race for Governor, although considered initially to be a Republican runaway, was relatively close. Republican candidate George Mickelson garnered 52 per cent of the vote to Democratic challenger House Minority Leader Lars Herseth. It is important to note that both Mickelson's and Herseth's fathers were South Dakota governors in years past.

With regard to the House of Representatives, the Republicans enjoy a 48-21 vote margin.

In the Senate, the Republicans enjoy a lop-sided 24-11 majority.

It is interesting to note some of the changes in the 1987 South Dakota legislature: anti-tobacco activists Senators Gary Hanson and Randy Austad, son of the state's most vocal anti-tobacco spokesman, were both victorious.

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To make matters worse, several "friends of the tobacco industry" were defeated in their bids for reelection. Senator Don Peterson, Chairman of the Taxation Committee, Senator Tom Krueger, Representative George Dunn, and Representative Dean E. Wieczorek were all defeated.

As the legislature is overwhelmingly Republican, the new Governor George Mickelson will enjoy an essentially veto-proof legislature.

In the U. S. Senate and House races, Congressman Tom Daschle (D-SD) upset incumbent Senator James Abdnor (R-SD) by a margin of 52-48 per cent. The race for the U. S. House seat was won by Democrat Tim Johnson by a margin of 62-38 per cent.

Significant State Problems

The most glaring problem facing the state of South Dakota is the quality of its public education system. That system, considered by most to be one of the worst in the country, has come under fire from education leaders and legislators.

The second most significant problem facing South Dakota is the constant wrangling over nuclear waste dumps in that state. This has been a major issue during the past two legislative sessions and will continue to be an issue during 1987.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

There is no tobacco farming in the state, therefore, the tobacco industry is represented through the wholesaler and retailer segments.

Wholesaler support during the past several years has been erratic. As in other states, when threatened with a lowering of the discount rate or a total abolition of the minimum mark-up law, the South Dakota wholesalers became parochial in their view of the tobacco industry. Their inability to work closely with tobacco industry operatives forced the industry to temporarily withdraw financial contributions to that state's association. There have been new and recent overtures for a rectification of this situation.

Business

The South Dakota business community is unique. The low population in that state means that chambers of commerce and business associations tend to be loose confederations emanating primarily from Sioux Falls, Pierre and Rapid City.

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The industry's business contacts have been good and it is hoped that they will continue during the 1987 legislative session.

Labor

Labor is a minimal force in South Dakota politics.

Institute Resources

The Tobacco Institute will continue its legislative efforts in South Dakota by securing the best possible lobbyists to represent our interests.

ANTI-TOBACCO FORCES

Although defeated for the past four legislative sessions, a Clean Indoor Air Act will again be introduced during the 1987 legislative session.

The anti-tobacco movement in South Dakota is considerably more subdued than in surrounding states. It is no secret that Governor Janklow was no friend of tobacco. It is unclear as to the disposition of newly-elected Governor Mickelson.

TOBACCO INDUSTRY

Success and Problems - History

With the passage of an 8-cent cigarette tax increase during the 1985 session, the tobacco industry took some lumps. However, in consideration of the better-than-average economic situation in that state, a tax increase proposal would be less difficult to deal with in 1987.

On the other hand, a problem does exist with the tobacco segments of our industry in South Dakota. Efforts will be undertaken to reopen lines of communication with the South Dakota wholesalers in our grassroots program for 1987.

Major Issues - State and Local

The following issues will confront the industry in South Dakota during 1987:

Smoking Restrictions. Efforts to pass a restriction bill will be intensified during 1987.

Tax Increase. Unlikely, although always a possibility.

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Outlook

It is our expectation that the major issue on the horizon will be a statewide workplace smoking bill. During the 1985 legislative session, the industry barely survived a Senate vote on this issue. It is quite possible that there could be serious problems regarding workplace smoking during 1987.

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TENNESSEE

PREFACE

Tennessee, is essentially three geographical and political states: East Tennessee, Middle Tennessee and West Tennessee. The East is feisty and Republican, Middle Tennessee is Democratic to the extreme. West Tennessee has a mixture of Democratic and Republican politics. These factors are most important when viewing a statewide race.

The state's market share is 2.2 percent.

STATE OVERVIEW

Economic Condition and Outlook

Tennessee will finish the fiscal year with approximately a \$22 million shortfall. This will be taken from the rainy day fund. Currently revenues are up 25 percent, but that is not expected to hold. To meet fiscal needs, Tennessee must maintain a six-percent growth. The highway fund is in need of attention, and the legislature is expected to tap the gasoline and diesel fuel tax.

Presently, Tennessee has no personal income tax. This issue will come up again either in 1987 or 1988.

Political Situation

The 1986 legislative elections had less impact on the General Assembly than did the gubernatorial election. The 1986 legislative session began with 23 Democrats and 10 Republicans in the Senate and 61 Democrats and 38 Republicans in the House. The numbers will remain the same in 1987. Four incumbents were defeated in the August primary and two incumbents were defeated in November.

The 95th General Assembly will have 18 freshman legislators, 14 in the House, four in the Senate. One of the freshman senators, Senator Randy McNally (R-Oak Ridge), served in the House during the 94th General Assembly.

The gubernatorial election was important to the House for one major reason: the loss of Ned McWherter as House Speaker and the corresponding gain of McWherter as governor.

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In some cases, this may change the dynamics of lobbying on business legislation. Governor Alexander, by endorsing or opposing a bill, directly affected the vote of a vast majority of the 38 Republican legislators. Those 38 votes are now much more difficult to orchestrate. Possibly of more importance to business is the ability of the new Democratic governor to help or hurt business legislation. Although Alexander could command 38 Republican votes, McWherter can command 61 Democratic votes.

House Democrats have elected new House leadership. Representative Ed Murray (D-Winchester) was elected Speaker. Murray is an attorney and the former chairman of the House Commerce Committee. He is a close ally of McWherter's and is expected to maintain a close relationship with the new administration. He is a moderately pro-business legislator.

Representative Lois DeBerry (D-Memphis) was elected Speaker Pro-Tem. Ms. DeBerry defeated former Speaker Pro-Tem Steve Bivens (D-Cleveland).

Speaker-elect Murray will announce his selections for committee officers and membership after the House meets to organize on January 13, 1987. He has been quoted in the media as saying "I don't anticipate any dramatic changes" in committee composition or leadership.

There is considerable speculation, however, that Murray may not reappoint House General Welfare Chairman Paul Starnes (D-Chattanooga) or House Finance Chairman John Bragg (D-Murfreesboro). Starnes and Bragg both announced early for Speaker but withdrew from the race before the caucus meeting.

The state Senate is currently the scene of the most bitter leadership race in anyone's memory. Lt. Governor John Wilder (D-Somerville) is being challenged for re-election by Senator Riley Darnell (D-Clarksville). Wilder, who has served as Lt. Governor since 1970, longer than anyone in Tennessee history, has lost the support of a majority of the Democratic caucus. Regardless of the final outcome in this battle, the state Senate will be badly divided and bitter feelings will remain.

Significant State Problems

During the 1986 session, the legislature continued to work on problems of prison reform. Another area of concern for state officials in 1987 will be the funding the career ladder for teachers.

Another major problem will be health care cost containment. Medicare/Medicaid are facing financial problems. The state may have to address cutbacks in federal funding of various programs, as well as revenue sharing for cities.

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RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

Tobacco remains a very important cash crop for Tennessee. Over the years we have had the support of various wholesalers and the farm bureau.

Business

We are fortunate to have a strong relationship with:

Tennessee Restaurant Association
Tennessee Wholesale Grocers' Association
Tennessee Retail Grocers' Association
Tennessee Press Association
Texas Gas and Pipeline

These organizations have either directly or indirectly assisted with our efforts to control taxes and restrictions in Tennessee.

Labor

We received no apparent support from labor organizations in recent tax battles. We have not developed a rapport with unions in Tennessee, as we have always been closely aligned with agriculture.

Fire Groups

Although we have assisted several fire groups in Tennessee, we have not asked them to come to our aid on local issues except in Memphis, where they gave token assistance.

ANTI-TOBACCO FORCES

We may see another attempt to introduce anti-tobacco legislation. There is growing anti-tobacco sentiment in the media and at the university locations such as Knoxville, Chattanooga, and at Vanderbilt in Nashville.

TOBACCO INDUSTRY

Brief History of Successes and Problems

During a special session in December 1985, the tobacco industry came together and defeated a cigarette tax proposed by Governor Alexander. During the regular session in 1986, we defeated in committee a bill to ban smoking in hospitals.

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In January 1986, smoking restrictions were imposed in restaurants in Memphis. The restaurant association did not hold up their end of the argument against restrictions.

The Davidson County Commissioners passed a resolution requesting action by their delegation and the state legislature for a cigarette tax. This tax would finance fire and police pay increases. It is not likely to get much attention during the 1987 legislative session.

Outlook

We do not anticipate a serious threat to cigarette taxes during the 1987 session. We do, however, expect another effort to be made by anti-tobacco forces to ban or restrict the use of cigarettes and other tobacco products. The strength and unity of our allies in Tennessee suggests we will not have much trouble defeating such legislation.

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TEXAS

PREFACE

Texas is the third most populous state in the nation. Population projections through 1990 predict that, at that time, Texas will follow only California in population. One result of this growth is the expected addition of up to four new Congressional seats in Texas, bringing the total to 31. These additional seats would give Texas the second largest delegation in Congress.

This tremendous population growth is reflected in the growth of major cities. Houston is presently the 4th largest city in the nation, Dallas is 6th and San Antonio is 10th. Texas has a market share of 6.6 percent.

A large number of these new citizens arrived in Texas from the Northeast and Midwest. Many new arrivals come from states which provide a wide range of services for their citizens. Historically, Texas has provided few such state services. The result: the state is now spending in new areas for its citizenry.

The expectations of these new arrivals, along with their great numbers, have caused the state to appropriate funds at an ever-increasing rate.

STATE OVERVIEW

Economic Condition And Outlook

The economy of Texas continues to stagger. Historically, Texas depended solely on the revenues from the oil and gas industry and related fields to finance state government. Since 1980, however, the oil and gas industry has been stagnant.

The state comptroller estimates that 40 percent of the state sales tax receipts are directly related to the oil and gas business. The recent slump in this industry has been financially devastating to the State of Texas.

As a result of the two special legislative sessions in 1986, the deficit for the 1986-87 biennium was cut from approximately \$3.5 billion to approximately \$1 billion. The state comptroller projects that a 1988-89 budget funded at the 1986-87 level would produce a \$5-7 billion deficit unless there is a dramatic upswing in the price of oil, which is unlikely.

Unemployment figures for the state continue to hover around nine percent with certain areas such as Houston and the Rio Grande Valley in double figures.

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Political Situation

The November 4th elections brought ex-Governor Bill Clements (a Republican) back into the Governor's mansion. The incumbent, Governor White (a Democrat), was blamed for the continuing poor economic climate as well as the enactment of tax increases in 1984 and 1986.

The recent elections showed no other changes in statewide offices or the Legislature. The Speaker, Lt. Governor and all major Legislature leaders were re-elected. The Democrats continue to dominate both the House and Senate. The Republicans picked up one seat in the House to increase their total to 56 of 150. The Senate split continues at 6 Republicans and 25 Democrats.

It must be remembered that neither the House nor Senate operates on a majority/minority party basis. Republicans hold committee chairs in both the House and Senate even though both the Speaker and Lt. Governor are Democrats.

Governor-elect Clements has appointed as his chief of staff Hilary Doran, an R.J.R. lobbyist.

Significant State Problems

Money will be the primary concern of the Legislature when it convenes in January of 1987.

Governor-elect Clements ran on a platform of no new taxes. However, on the day after the election, he stated that the Legislature may have to look at new sources of revenue.

The 1986 special session raised the sales tax by 1-1/8 percent. The tax increase is to sunset on August 31, 1987. There has been speculation, however, that the sales tax will be made permanent. Talk has also centered on broadening the sales tax to include presently exempted items, such as attorney and doctor fees, architect fees, advertising, etc. Every presently exempt item will be considered except food and medicine.

In addition, we can expect the Legislature to consider increasing cigarette and OTP taxes.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

Statewide smoking restriction legislation introduced in 1985 necessitated a broadening of our traditional ally network.

The Texas Association of Tobacco & Candy Distributors (TATCD) continues to provide great support on both the local and state levels. TATCD will remain a strong ally.

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Member company employees will remain very active. Certain member company PACs in Texas should also help our cause.

The Texas Merchandise Vendors Association is a small, mostly full-line vendor group has never been very helpful on the state level. We do receive help from several cigarette vendors, many of whom are not TMVA members.

There is no statewide retailers organization in the state, and as a result, their help is often hard to mobilize. Retailers have proven to be of more help on local issues.

Business

The following groups have proven reliable allies when facing local or statewide smoking restrictions:

- A. Texas Restaurant Association
- B. Texas Association of Business
- C. Texas Bowling Proprietors Association
- D. Texas Retail Grocers Association
- E. Southwest Bell
- F. Texas Hotel/Motel Association

During the past year the Texas Cancer Council, a legislatively funded coalition of our traditional opponents, has met with all of our allies in an attempt to address their concerns with regard to smoking restriction legislation.

It is extremely doubtful that we will be able to count on any help from the above mentioned groups with excise taxes. All of these groups will face tax increases in their business.

Labor

Personal relationships with organized labor are very solid, but we have not had an occasion to call upon them for legislative assistance.

While labor should be opposed to excise taxes, they and their supporters in the legislature have been among the biggest proponents of projects which tobacco taxes were earmarked to fund, i.e., additional funding for education during the 1984 special session and indigent health care in the 1985 regular session.

Fire Groups

TI has not given support to any fire departments in Texas. Also, we have never faced any serious problems with "self-extinguishing" legislation.

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ANTI-TOBACCO FORCES

The 1985 Legislature created and funded the Texas Cancer Council. As previously mentioned, the Council has been working diligently to co-opt our traditional allies.

The Council's legislative program calls for the passage of a Clean Indoor Air Act (including the workplace) and a doubling of the cigarette tax to 41 cents per pack.

In 1986, every major city in Texas enacted some form of smoking restriction ordinance. Unless a statewide smoking restriction bill is enacted by the next Legislature, we will, in all probability, continue to see many of the mid-sized cities (i.e., Lubbock, Amarillo, Texarkana, etc.), as well as suburban cities, propose ordinances.

TOBACCO INDUSTRY

History of Successes and Problems

In 1975, the Texas Legislature passed legislation restricting smoking in elevators, buses, theaters, museums, etc. We defeated attempts to broaden that legislation in 1981 and 1985.

We expect another effort to regulate smoking in public places in 1987. Members of the Legislature have not viewed smoking as a major problem. Those states which have passed restrictive legislation are perceived here as liberal/progressive states. That perception has helped kill such legislation.

However, that view may be changing. With "middle America" and additional conservative states beginning to enact such legislation, it is becoming more acceptable. Also, as more local areas of Texas enact ordinances, the legislators from those cities will be less prone to view such ideas as "wide-eyed."

Prior to 1984, Texas had not had an increase in its cigarette excise tax since 1971. Because of fiscal problems, we can expect excise tax problems in the next legislative session.

We do not look for any "self-extinguishing" or sampling issues in 1987. We do look for continued local activity in the major cities of Texas, especially the Dallas/Fort Worth area.

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December, 1986

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UTAH

PREFACE

Utah is one of the bastions of western conservatism. The Mormon Church continues to dominate economically, socially, and politically. The Mormon tenets of clean living, hard work and big families are visible throughout state society. Curiously, only about half the population of this state is thought to be of Mormon religious persuasion. The Utah Mormon influence is evident in surrounding states of Nevada and Arizona and perhaps most strongly in Idaho.

Utah, with the nation's lowest per capita cigarette consumption, has a four-tenths of one percent share of market.

Agriculture and mining are no longer the predominant industries in Utah. Transportation, a rapidly growing industrial base and wholesale and retail trade now rank above agriculture and mining in employment and contribution to economy. Over 20 percent of Utah's working population is employed by government.

STATE OVERVIEW

Economic Condition and Outlook

Employment continues strong in Utah as it has for the past few years. Unemployment in late 1984 stood at 5.6 percent compared to the 7.1 percent national average. It is projected that Utah's population will grow from today's 1.7 million to 2.7 million by 2010. Most of this growth will come from natural population growth for the next ten years. This signals an expectation of continued prosperity for the citizens of Utah.

The Utah economy in 1986, however, failed in many respects to live up to projections, leaving the state budget substantially short in the current fiscal year. This seems only to reflect overly optimistic views held by the state's fiscal officers.

Political Situation

While Utah remains a predominantly Republican state, Democrats made significant inroads during the 1986 elections. A new Democratic Congressman joins the previously all Republican Congressional delegation.

In the state Senate, still safely Republican, two new Democratic senators were elected making the ratio 8 Democrats to 21 Republican.

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Similarly, the House of Representatives remains in the Republican column, but 13 new Democratic representatives were elected bringing the count to 27 Democrats versus 48 Republicans.

It is difficult to project what this will mean in terms of 1987 legislation, since party designation in this state really does not mean much in terms of philosophical orientation to issues.

Significant State Problems

Money, how to raise it and how to spend it, will be the major issue in 1987. Governor Bangerter's election promise of "no new taxes for two years" expires in 1987. Facing certain revenue shortfalls, he can be expected to make up for lost time. Cigarette, other tobacco products and other sumptuary taxes will be very vulnerable.

Education and how to finance it will continue to be a major problem in this state. In 1995 there are projected to be 57 percent more school-age children in the state than in 1980.

Environmental concerns, including the proposed location of toxic waste dump sites in central and southern Utah, will be an issue in the coming Legislature.

Action on the AMA anti-smoking guideline proposals must be considered likely.

RESOURCES: STRENGTHS/WEAKNESSES

Tobacco Segments

The tobacco family is very limited in Utah. Tobacco wholesalers are few in number but have been very supportive, even though no formal organization of wholesalers exists. Member company personnel have consistently shown interest and a willingness to do what they can.

Business

As would be expected in a Mormon state, general business organizations, chambers of commerce, etc., are not inclined to take positions in defense of tobacco. We are developing direct relationships with the Utah Taxpayers Association, Restaurant Association and Retailers Association. Such groups can be useful when they can find a general business position to take to help defend us.

Labor

Utah is one of 19 "Right to Work" states where no employee can be forced to join a union in order to be employed. As a result, labor is not very organized nor considered a significant factor in the state.

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