

MEMORANDUM

July 12, 1995

TO: Brennan Dawson
Walter Woodson
Cathey Yoe

FROM: Rob Walker *Rob Walker*
Bill Orzechowski *W/O*

RE: Excise Tax and Fire Safety Education Program Budgets

Attached are explanations of budget items and cost estimates for both the Excise Tax and Economics Program and the Fire Safety Education Program. Tables comparing 1995 levels to 1996 estimates are included.

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Excise Taxes and Economics Programs

GOALS

- Defeat or Minimize cigarette excise tax increases at the federal, state, and local levels.
- Discourage reliance on such taxes by demonstrating that such taxes are regressive, unreliable, and inconsistent with the principles of fair taxation.
- Illustrate the cross border problems that excise tax increases can create, such as retailer losses, unemployment, and a lack of respect for the law.

BACKGROUND AND RECOMMENDATIONS

While 1995 has been a relatively successful year for the tobacco industry on the tax front, an increase of activity is expected in 1996. At the federal level, anti-tobacco advocates and their allies will continue to push for large cigarette tax increases. Although the changing of the guard in the U.S. House and Senate has created a general anti-tax mood on Capitol Hill, it is uncertain whether that mood extends to excise taxes, particularly when popular programs are being cut to balance the budget.

TI State Activities expects an increase in tax activity on the state level as well, as state governments attempt to balance budgets in the face of a declining economy.

The following are proposed tax programs and budget estimates:

I. General Economic Data and Support

- Economic Impact of U.S. Tobacco Industry While the American Economics Group will complete its tobacco and jobs impact study in 1995, maintenance may be needed in 1996. This could include sets of job loss sheets for all states for various federal tax increase proposals, state tobacco data cards, and copies of the American Economics Group study. (Decreased funding from 1995: \$3,000 - \$8,000)
- Economists Program There will be an increased need for on-the-scene testimony from consulting economists at the state level and possibly the federal level in 1996. We can expect 5-6 testimony requests at the state level and perhaps 1 or 2 requests at the federal level. In addition, op-ed articles by consulting economists will be valuable to amplify our tax arguments. (Expanded funding from 1995: \$35,000 - \$50,000)

- **Tax Burden on Tobacco** TI Public Affairs will need to print and distribute the annual compilation of tobacco statistics. (Same funding as 1995: \$25,000)
- **Support for Pro-Growth and Fiscally Conservative Think-Tanks** TI Public Affairs has frequently supported the efforts of anti-tax advocates and libertarian-leaning think-tanks such as the Alexis de Tocqueville Institution. The views expressed and promoted by these groups are often consistent with industry arguments on economics and other matters of concern. (Expanded funding from 1995: \$25,000)

II. Cross-Border Program

Over the past 5 years, large cigarette tax increases in key states have led to a pronounced shift in consumer purchasing patterns from high to low tax states. This phenomenon has led to retailer losses, unemployment, and a general lack of respect for the law. The following projects and activities are designed to gain a better understanding the cross-border situation and to educate legislators, media, and the general public about the problem.

- **Cross Border Studies Program** State Activities foresees an increased need for cross - border sales studies in 7-8 priority states. These studies involve an econometric analysis of state tax increases by a reputable economics/accounting firm such as Price Waterhouse or Peat Marwick. (Expanded funding from 1995: \$60,000 - \$90,000)
- **Cross Border Retailer Surveys** These surveys focus on retailer commercial losses in border counties and cities. They entail actual data collection from a representative sample of merchants on or close to state borders. They are used only in priority cases and in the past have occasionally been co-financed with member companies. (New funding: \$40,000 - \$60,000)
- **Cross Border Outreach Program** TI Public Affairs will continue to work with a reputable economics think-tank to study this cross-border phenomenon and educate the general public about the rising menace of cross-border sales, bootlegging, and cigarette tax enforcement problems. This program will require maintenance efforts in 1996 as priority areas emerge and op-eds and amplification are needed. (New funding: \$20,000)

III. Deflating "Social Costs" Arguments

Lawmakers and anti-tobacco advocates have increasingly justified state and federal excise taxes on the grounds that tobacco use results in alleged "social costs"

incurred by all taxpayers. As tax activity increases on the state and federal level in 1996, it will be critical for the industry to educate lawmakers and allies that this argument lacks basis.

- **Social Costs Program** Efforts begun in 1995 on this issue will need to be maintained in 1996. This will include op-eds and other means of getting the message out. **(Decreased funding from 1995: \$10,000 - \$20,000)**

IV. Work with Allied Organizations

- **Labor Allies - federal** Continue to work through the LMC to oppose tobacco excise taxes and to develop and distribute information on the regressivity of those taxes. Encourage the activity of associated groups, such as the Coalition of Labor Union Women, A. Philip Randolph Institute, and the Labor Council for Latin American Advancement. **(Through LMC)**
- **Labor Allies - state** Labor allies in the states have been a significant factor in several excise tax victories, notably WI and MN, in 1995. TI State Activities expects to need that assistance again in 1996 in at least 5 states (WA, MN, WI, IL, OH, and perhaps the New England region). Efforts would include providing support through the LMC to tax fairness organizations (e.g. WI Citizen Action, MN CTJ) in priority states. Again working through the LMC, we would encourage state tax fairness organizations to study the negative impact that regressive tobacco excise taxes have on low- and middle-income families in priority states. **(Through LMC: Estimated cost \$100,000)**
- **Agriculture Allies** Continue to illustrate the negative impact that excise taxes have on rural communities and farmers by supporting the efforts of the Tobacco Growers' Information Committee, and groups such as the American Agriculture Movement and Federation of State Cooperatives. **(TGIC: Same funding as 1995: \$38,000; AAM and other AG groups: Same funding as 1995: \$20,000; FSC: Same funding as 1995: \$15,000)**

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Fire Safety Education Program

GOALS

- Work positively with Congress to resolve questions relating to "fire-safe" cigarettes and broader fire prevention issues.
- Complement and assist the efforts of organizations dedicated to fire safety education and prevention.

BACKGROUND & RECOMMENDATIONS

Although federal legislation mandating a "fire-safe" cigarette has not been introduced in the 104th Congress at this point, the issue is likely to resurface within the next year. In addition, at least one state can be expected to introduce similar legislation.

The following is a review of Public Affairs' 1995 activities and projects that should be continued, as well as a proposal for two new items that should be considered for next year's budget.

- Maintain support for TriData's technical analysis and liaison work with the fire community and to state and federal fire agencies. (Same funding level as 1995: \$150,000).
- TriData analysis of 1994 National Fire Incident Reporting System (NFIRS) data. NFIRS data is information on all types of fires collected voluntarily by fire departments in 40 states. TriData's analysis of this data provides TI with the most current information on national careless smoking fire trends. (Same funding level as 1995: \$8,000).
- Assistance to organizations within the fire community for support of fire prevention and fire safety education activities. (Same funding level as 1995: \$17,000)
- Re-print 5,000 copies of *Reaching the Hard to Reach*. *Reaching* is the most recent and currently the most requested monograph in the Fire Safety Education Program. It is a research report about public fire education techniques and programs that fire departments around the country are using to target hardest-to-reach and highest-fire-risk neighborhoods and population groups. (New funding: \$30,000)

- Fund a new TriData two-year research project. The TriData materials that The Tobacco Institute's Fire Safety Education Program has sponsored are very well regarded within the fire community. In fact, many of the terms and concepts developed through TriData's work have become part of the fire community's vernacular; some of the ideas presented in those publications are now incorporated in national fire prevention programs. The quality of the materials has helped the Fire Safety Education Program become a credible contributor to the discussion of broad-based fire prevention and fire safety issues.

Much of the focus of the Fire Safety Education Program is centered around the TriData publications. For the program's success to continue, it is important that TI sponsor new materials on a fairly consistent basis. The most recent and most requested publication, *Reaching the Hard to Reach*, will be a year old in October 1995. Although interest in *Reaching* should remain strong at least through 1996, at some point, enthusiasm for the publication among the fire prevention community will diminish. Because the TriData publications typically take two years to produce (if costs are split over two budget cycles, as was the case with *Reaching*), it is necessary to plan now if we want to have something new to distribute in 1997.

Reaching the Hard to Reach and TriData's series, *International Concepts in Fire Protection*, are the most popular reports that TI has sponsored, and have helped provide entree for TI to the fire prevention and fire safety community. An interesting idea for a new research report would be to examine the fire prevention practices in selected nations and contrast the fire experience there with the experience of the immigrants/descendants from those countries living in the U.S. In essence, the new project would place the "hard-to-reach" concept into an international context. The report would focus on a group of four or five countries representing a range of societal and fire problem conditions. The candidates for study include Germany, Ireland, Russia, South Korea, Mexico, the city of Hong Kong and the Commonwealth of Puerto Rico. The criteria used to select the countries would include: the presence of a corresponding population of immigrants/descendants living in the U.S.; interest within the fire service in the area to be studied; and the availability of good data. (New funding: \$40,000-\$50,000 for first year.)

TOTAL ESTIMATED COSTS: \$245,000 - \$255,000