

PROJECT CALIFORNIA

PROPOSAL

State Activities Division
The Tobacco Institute

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50763 7073

PROJECT CALIFORNIA

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- C. STATE FINANCE REFORM PLAN
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A

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A. EXECUTIVE SUMMARY

In the aftermath of Proposition 99 (Attachment A), the tobacco industry must now focus on three significant programs in California:

1. challenge the distribution of revenues from Prop 99
2. eliminate earmarking or dedication of Prop 99 revenues
3. develop a broad-based, anti-excise tax coalition to fight future excise tax increase proposals

The following proposal outlines the objectives of each of these programs and presents recommendations for the industry.

A proposed budget for "Project California" is included for approval. Funding for this project is not available in the 1989 Institute budget. ✓

We believe that "Project California" offers the most positive and realistic direction for the industry in the state over the next two years and recommend your approval of the plan.

B. PROPOSITION 99 REVENUE PLAN

Background

According to estimates by Governor Deukmejian's Administration, approximately \$925 million will be raised by Prop 99 in the 18-month period from January 1, 1989 through June 30, 1990 (Attachment B). Revenues from Prop 99 are to be used for a variety of state programs; however, revenues are not to be used "to supplant existing levels of service." The Governor's budget recommends allocation of the \$925 million for the following programs:

(millions)

. Department of Health Services	
Indigent Health Care (CHIP).....	\$ 531
Anti-smoking Health Education.....	176 ✓
Other Programs.....	8
. Department of Corrections and Youth Authority.....	14
. Department of Mental Health.....	57
. University of California Research and Grants.....	44 ✓
. Public Resources Agency (22 separate expenditures).	44
. Department of Drug and Alcohol Programs.....	5
. Accounts Reserve.....	<u>46</u>
	\$925

Objectives

1. Analyze the Administration's proposals and the state budget process

The Governor's package will soon appear as legislation. The legislature will consider these proposals and numerous others certain to be introduced to appropriate Prop 99 revenues. Decisions will be made in the legislature by May on the funding level of various programs for the January - June, 1989 period and on programs to be established for the July, 1989 - June, 1990 period.

Industry consultants have completed an initial assessment of the proposals offered by the Governor and have identified "acceptable" and "unacceptable" programs listed for funding. Through the efforts of our consultants, a significant amount of Prop 99 revenues have been assigned in the Governor's budget, as noted above, to "acceptable" programs. There are two exceptions -- University of California Research and Grants and Department of Health Services anti-smoking programs. A sound legislative tactical plan is presently underway to address these concerns. ✓

The Anti-Smoking Health Education program (\$176 million) is an "unacceptable" program to receive funds. As currently structured, these funds could be distributed to state anti-tobacco groups for their use in anti-smoking advertising and other campaigns. This budget item was recently amended by the Department of Health to award contracts to private firms to conduct smoking prevention education programs (Attachment C). We must do everything possible to prevent these revenues from being used in a vigorous anti-smoking public relations or media program. // / ✗

Unfortunately, if we do not succeed with the State Finance Reform Plan (Part C), we will face this same budget problem on an annual basis. ✓

2. Channel Prop 99 revenues into "acceptable" programs and away from "unacceptable" programs

OFFENSIVE STRATEGY

- . this strategy will focus on ensuring that Prop 99 revenues are distributed to programs "acceptable" to the industry, and on tightening restrictions on those "unacceptable" programs which do receive funding. ① ②
- . the industry working group selected Kathleen Snodgrass as the lead lobbyist for offensive efforts
- . the industry working group also selected the Nielsen, Merksamer firm to serve as political consultants and budget analysts on the offensive efforts

DEFENSIVE STRATEGY

- . this strategy will focus on the defeat of legislation and budget line items that would reallocate Prop 99 revenues to "unacceptable" programs
- . the industry working group selected A-K Associates as the lead lobbyist firm for defensive efforts. ✓

GENERAL PROJECT COORDINATION

- . the industry working group agreed that The Institute's Regional Vice President in Sacramento, Jack Kelly, was responsible for overall project coordination of the Revenue Plan and would work closely with other industry representatives in this activity

Recommendation

It is essential that Prop 99 revenues be distributed, insofar as possible, to "acceptable" programs. To that end, both objectives listed above were approved by the industry working group on January 17, 1989, and activities in conjunction with the objectives will continue. ✓

PROPOSITION 99 REVENUE PLAN

PROPOSED BUDGET

	<u>1989</u> <u>(000)</u>	<u>1990</u> <u>(000)</u>	<u>TOTAL</u> <u>(000)</u>
Analyze budget/legislative drafting (Merksamer firm) (Footnote 1)	\$ 215	\$ ---	\$ 215
Offensive strategy (K. Snodgrass) (Footnote 1) (Footnote 2)		---	---
:			
Defensive strategy (A-K Associates) (Footnote 1) (Footnote 3)		---	---
 TOTAL	 \$ 215 — —	 \$ --- — —	 \$ 215 — —

Footnote 1. Industry working group approved these activities on January 17, 1989.

How to be paid?

Footnote 2. Fees paid by industry clients.

Footnote 3. Included as part of 1989 contract with The Institute.

C

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C. STATE FINANCE REFORM PLAN

Background

There is an embryonic movement and coalition ("Gann coalition") beginning to take shape in California which aims to restructure significantly the current way state government is financed. Among possible goals of this movement are:

- . modify the Gann spending limit adopted in 1979
- . modify the constraints placed on the budget process by the adoption of Proposition 98 in 1988 which requires 42% of the state budget to be dedicated to education
- . possibly modify other constraints such as entitlement programs and automatic cost-of-living adjustments

The tobacco industry supports the above goals; however, the industry's key goals are to eliminate earmarking or dedication of Prop 99 revenues and, if possible, also to prevent future excise tax increases through the initiative process. ① ②

Industry consultants have already been meeting with the Gann coalition, albeit without formally representing the tobacco industry. The coalition is currently developing an initiative strategy to modify the Gann spending limits. It is imperative that the tobacco industry participate as an active member of this coalition in order to include the elimination of Prop 99 revenue earmarking as a goal of the Gann coalition. 1111

Long term growth cost?

At this time it appears unlikely the Gann coalition could qualify an initiative through the signature-gathering process. However, it may be a more feasible tactic for the state legislature to enact legislation to accomplish the goals of the Gann coalition -- and the goal of the tobacco industry to eliminate earmarking -- and then to submit that measure to the voters for approval. ★

This effort with the legislature will not be simple or easy to accomplish and could well take the entire two-year session.

will TI lead?

Objectives

1. Develop, and participate in, the broad-based coalition to reform state government financing and achieve tobacco industry goals
 - the industry must be a primary "player" and offer leadership and financing to the coalition in order to be in position to add industry goals to the coalition agenda

- strengthen the tobacco industry's visible presence within certain member organizations of the coalition, including:

- CA Chamber of Commerce
- CA Taxpayers Association
- CA Correctional Officers Association
- Other business organizations

- strengthen ties with certain coalition members, including:

- CA Hospital Association
- CA Medical Association
- Other health care industries

2. Develop a strategy through the coalition to abolish Prop 99 earmarking so that all Prop 99 revenues are directed into the state's general fund.

- with all revenues going to the general fund, pressure on the state to raise additional taxes is decreased
- with no earmarking provision, the industry will avoid a yearly legislative battle over distribution of funds to "unacceptable" programs // ✓

Recommendations

1. Participate extensively in the state finance reform coalition (Nielsen, Merksamer firm).
2. Continue legislative and initiative efforts to abolish // earmarking of revenues.
3. Support efforts to limit or eliminate excise tax increases through the initiative process. ✓

ADDENDUM

C. STATE FINANCE REFORM PLAN

when?

The reality of the Gann coalition activity is that one or more initiatives will be presented to California voters at some point in the future to modify the Gann spending limits and to eliminate earmarking of Prop 99 revenues.

It will be important during this phase of the plan to maximize the use of all industry resources. Retained industry legislative counsel will continue to be important, as they are now in the initial phase of mapping plans to control revenue distribution.

Additionally, the full range of industry programs will be essential to generate response at the local level from the rank-and-file citizens. In addition, member company subsidiaries, suppliers and other natural allies must be tapped in California to broaden our natural constituency. Direct mail programs from consumer lists, and possibly telephone bank operations, will be needed. Financial participation by the industry will be necessary if we are to be successful.

STATE FINANCE REFORM PLAN

PROPOSED BUDGET

	<u>1989</u>	<u>1990</u>	<u>TOTAL</u>
	<u>(000)</u>	<u>(000)</u>	<u>(000)</u>
Gann coalition participation \$ 150 \$ 180 \$ 330 (Merksamer firm @ \$15,000/mo)			

D

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D. COALITION PLAN

*Have alcohol
groups approached us?
Tobacco Funding
anti-alcohol
initiative?*

Background

There have already been meetings in California with Assemblyman Lloyd Connolly and major organizations interested in qualifying an initiative for the 1990 ballot which would increase excise taxes on alcohol (Attachment E). Many of these groups were also active proponents of the Prop 99 campaign.

This is an excellent time to develop a permanent, broad-based coalition prepared to challenge this next excise tax initiative, and subsequent excise tax initiatives which surely will come.

To develop a successful coalition, the industry must be prepared to work closely with those who support a modification of the Gann spending limit (Part C). If Gann is not rolled back, potential allies like organized labor will not support anti-excise tax coalition efforts. While liberal/labor groups view excises as regressive, they realize that -- in light of current Gann limitations -- excises represent one of the few ways that revenues can be raised for projects of special appeal.

Objective

Create and manage a visible and strong anti-excise tax coalition to fight further excise tax increases.

1. Continue to increase active involvement with certain members of the state finance reform coalition (see C above).
2. Recruit coalition members from industries affected by excise tax increases, including:
 - . tobacco industry distribution channels -- wholesalers, retailers, vendors
 - . alcoholic beverage industry -- beer, wine and liquor -- and distribution channels
 - . petroleum industry
 - . trucking industry
 - . jewelers, automobile dealers and furriers

3. Recruit coalition membership from organizations and individuals opposed philosophically to regressive taxation (Attachment D).

- . organized labor
- . minority and women's organizations
- . business organizations
- . consumer advocacy groups
- . government and public officials

4. As in the Prop 99 Revenue Plan and the State Finance Reform Plan, it will be vital that all industry resources be available and be utilized for the Coalition Plan. All segments of the tobacco industry will need to participate fully in the anti-excise tax coalition, including financial assistance, direct mail expertise and consumer lists, key contacts and support from subsidiaries.

Recommendation

Develop a broad-based coalition to challenge future excise tax increase proposals in the legislature and through the initiative process. Manage the coalition through The Institute's regional office in Sacramento and utilize the full range of available industry resources. Retain political public relations firm to assist with public communications programs. //

- *Get 50 people ... focus to*
- *get it word to others*
- *see*
- *Re 1*

COALITION PLAN

PROPOSED BUDGET

	<u>1989</u> <u>(000)</u>	<u>1990</u> <u>(000)</u>	<u>TOTAL</u> <u>(000)</u>
Develop and manage tax coalition, including costs of meetings, mailings and other related activities (does not include estimated costs of staff or office operations)	\$ 50	\$ 60	\$ 110*
Public relations firm to interface with capitol press corps and other media	\$ 50	\$ 60	\$ 110*
TOTAL	\$ 100	\$ 120	\$ 220
	---	---	---

* These expenditures will be incurred only when the coalition plan has advanced to a more formative stage.

E

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E. PROPOSED BUDGET

** Gov. Budget*

	1989 (000)	1990 (000)	TOTAL (000)
<u>PROPOSITION 99 REVENUE PLAN</u>			
analyze budget/legislative drafting (Merksamer firm) (Footnote 1)	\$ 215	\$ ---	\$ 215
offensive strategy (Footnote 2) (K. Snodgrass) (Footnote 1)	---	---	---
defensive strategy (Footnote 3) (A-K Associates) (Footnote 1)	---	---	---

all in

STATE FINANCE REFORM PLAN

Gann coalition participation (Merksamer firm @ \$15,000/mo)	150	180	330
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what else is he rep. doing?

** Reasonable fee for participation*

If not a part of Gov. will not be spent

COALITION PLAN

develop and manage tax coalition, including costs of meetings, mailings and other related activities (does not include estimated costs of staff or office operations) (expended only as needed) (Footnote 4)	50	60	110
public relations firm to interface with capitol press corps and other media (expended only as needed)	50	60	110

** how much money how managed.*

Startup cost of \$10,000 (see Jan. 1990) 1899 1990 13,000 — 15,000

TI Core Budget

What's important?

Don't spend money on... make 50,000

Tobacco Prof. Shares

(Project TI would be successful) because

TOTAL	\$ 465	\$ 300	\$ 765
	↑	↑	↑

Footnotes

1. Industry working group approved these activities on January 17, 1989.
2. Fees paid by industry clients.
3. Included as part of 1989 contract with The Institute.
4. Estimated costs do not include staff/office expenses.