

1987

STATE OF THE
STATES

TOBACCO
INSTITUTE

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1987

THE STATE OF THE STATES

Assessing the economic and political climate of each of the 50 states as they affect the tobacco industry, and evaluating industry resources for action on legislation projected for 1987.

State Activities Division

THE TOBACCO INSTITUTE

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ALABAMA

PREFACE

The State of Alabama has many financial problems. The nature of the tax system is conducive to an unbalanced budget. Alabama has a compound taxing structure; that is, state level, county level and local level. There is a redundancy in taxing with no uniformity of rate. Urban areas benefit more than less populated areas. In addition, the state allows earmarking of taxes which means some programs suffer through lean economic times while other programs enjoy surpluses.

This atmosphere is not favorable to industrial or economic growth. The steel industry, which was once the pride of Alabama's industrial complex, is all but dead. This has created an unemployment situation which remains a constant burden.

The agricultural side of the economy is also hard-pressed for survival, creating problems for banking and real estate. Alabama needs an influx of semi-skilled manufacturing plants to remedy its immediate employment and economic woes.

The state's market share is 1.6 percent.

STATE OVERVIEW

Economic Condition and Outlook

Alabama's general fund and education fund are in crisis. It is anticipated that by March 1 all of the general fund will be in proration. This is the first time in the history of the state that both funds have been adversely affected. The revenue situation is so bad that the career ladder program for teachers has been postponed until 1988.

The outlook for the economy remains troubled at best. The tax code does not encourage industry to move into the state, and the agricultural segment of the economy is in as much jeopardy as last year.

Political Situation

Alabama has a very unsettled political situation; people went to the polls in record numbers in the general election and elected a Republican governor, Guy Hunt, the first Republican governor since the reconstruction era. There was also a net gain of four Republican seats in the legislature, the composition of the Senate now being five Republican and 30 Democrats; the House now consists of 89 Democrats and 16 Republicans.

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It is anticipated that Jimmy Clark will be elected Speaker of the House in January and that Jim Campbell will be elected Pro Tem of the House. None of the committee chairmen will be appointed in either the House or the Senate until the organizational session of the legislature, which commences in January. There are no hold over committee seats or committee chairmen.

Although Guy Hunt ran on a platform of no new taxes, he now says that if new taxes are necessary to fund the various operations of state government, he would certainly be in favor of whatever taxes are necessary.

The old political alliances are over in that the Democratic alliance consisting of trial lawyers, the teachers association, blacks and labor were, for the most part, defeated at the polls. There is now a coalition in the House and Senate composed of people who are business oriented and pledged to tort reform. It is expected tort reform will be a top priority of legislators in the coming session, and it is expected that they will be more pro-business than they have previously been.

Richard Shelby, a Democrat, was elected to the United States Senate, narrowly defeating the incumbent Jeremiah Denton. Claude Harris, a Democrat, was elected to fill Shelby's seat in the United States House of Representatives.

Significant State Problems

There are severe financial problems in Alabama. State employees have not had a raise for at least three years. Revenue sharing is cut off for all practical purposes and federal money is winding down. There is going to be an economic crisis in state government by the time the new governor takes office.

What taxes the governor will propose are unknown because there is no one tax that would solve what is believed to be a \$200 million deficit. Many believe that he will back a package of sin taxes, with a possible increase in property taxes.

Severe problems are expected from a new public health officer. The Department's Public Health Committee has adopted a resolution asking the legislature to impose a ten-cent cigarette tax hike for the education of young people on the "evils" of smoking. In addition, the committee has proposed smoking restrictions in all public clinics or public hospitals, all nursing homes and other areas which come under the jurisdiction of the Health Department. If extended to its logical conclusion, this could affect every place inspected from drug stores to restaurants and grocery stores.

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RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

There are a small number of tobacco farmers in lower Alabama. They are members of the Alabama Farm Bureau. We need to work directly through other tobacco state farm bureaus to garner support from the Alabama Farm Bureau. In the past we have received no real assistance from this organization.

The strength of the tobacco industry in Alabama can be rated as moderate. The tobacco wholesaler association is small and diverse in opinions. On a one-on-one basis we receive good support from its members.

Business

We have strengthened our coalition ties in the business community. Our lobbyist has joined the state chamber. TI has joined the Alabama Retail Association, and we hope to further develop other contacts in wholesale and retail groups in Alabama.

Labor

Labor groups in Alabama have not been pro- or anti-tobacco. They have maintained a laissez-faire attitude. We could use some support in that area, but it will have to come from the national level.

Fire Groups

These groups have not been of assistance to us on fire safety issues, as we have not needed to call on them. We have, however, done some work with Alabama's Project Burn Prevention program. We furnished video equipment for this program.

Firemen in southern counties have discovered a new revenue raising mechanism: local tobacco taxes. Several wholesalers have joined together to take the action to court. If it is not stopped, there will be a rash of more than 30 counties looking at cigarette taxes for volunteer fire department support.

ANTI-TOBACCO FORCES

The anti-tobacco forces have become better organized under the auspices of the Health Council. We have been able to control the efforts to regulate smoking statewide. However, the local situation is a serious threat.

Due to lack of organization, there have been no frontal attacks on the industry. In some localities there have been smoking cessation programs. The local media is constantly battering the tobacco industry.

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TOBACCO INDUSTRY**Brief History of Successes and Problems**

Over the years we have seen a number of restrictive smoking measures in the legislature. We have been able to defeat these efforts.

During the Fob James administration we managed to reduce a six-cent tax increase to four cents. The endeavor was to rewrite the Alabama tax law, bringing it up-to-date. Formerly, cigarettes were taxed by the pack and the stick, plus there was an involved system of weights and measures per cigarette to establish a tax base. The rewrite of the law and elimination of this weights and measures segment saved the industry many millions of dollars in back taxes on various sized packages and samples. The revenue department agreed not to pursue collection of back taxes if the new law was enacted.

Over the past thirteen years we have seen several more counties go to the legislature for authorization to tax cigarettes. Each session we see bills for this privilege. It is very difficult to stop this type of legislation as it is usually passed on the consent calendar. The committees which review such matters are made up of the legislative delegations from the counties concerned.

During the 1985 session a home rule bill for Madison County was introduced to tax cigarettes for a cancer research and treatment center. We were able to defeat this; however, we foresee more of this type of legislation.

During 1985, the Alabama legislature passed a law permitting Geneva County to levy a cigarette tax which contributed to the volunteer fire departments of that county. During the 1986 session the legislature passed similar laws for Coffee and Dale Counties. These laws specified that referenda be held for endorsement prior to implementation of the cigarette tax. The referenda passed in both counties.

Several wholesalers have filed suit against Geneva County. This has caused any further action in either Dale or Coffee County to be delayed.

Outlook

We can anticipate problems in the form of restrictions and taxation. The industry will remain under siege from anti-tobacco forces.

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Next year we expect to see another bill to preempt the cities' and counties' right to tax cigarettes. In addition, we may see up to 30 counties seeking the right to tax cigarettes for volunteer fire programs. All cities and counties in Alabama will be in severe fiscal shape for 1987.

There will be several bills introduced to raise the cigarette tax to offset state revenues. We should also expect public smoking bills to be introduced during the 1987 session.

December, 1986

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ALASKA

PREFACE

Alaska depends largely on Washington state for supplies, transportation and communication with the "lower forty-eight." The forty-ninth state looks to Washington, Oregon and California for its political ideas as well.

Alaska's share of market is just over two-tenths of one per cent.

STATE OVERVIEW

Economic Condition and Outlook

Alaska's economy is based largely on revenues from its North Slope oil. The state's traditional economic dependence on mining, timber and the military, is still significant but pales in comparison to the value of oil and newly-discovered mineral resources. Until recently, Alaska's economy and oil revenue receipts knew no bounds. The state was able to repeal the personal income tax, handle higher education expenses for state residents attending out-of-state schools and provide revenue sharing checks every year for each resident. Funds to improve state facilities, add new state buildings and assist local governments were readily available.

Then in late 1984-early 1985, oil prices began to fall worldwide. As a consequence, Alaska's oil revenues began to shrink and mild panic set in for those legislators who relied too heavily on oil revenues for their pet projects. Until oil prices increase and state oil revenues, in turn, increase, Alaska's economy will be in disarray, due to the inability to properly budget. The legislature must reassess priorities, finding either new sources of revenue or reducing state expenditures on extraneous programs.

Political Overview

The Alaska legislature will convene January 19 for an approximately 120-day session.

In the 1986 elections, Alaska elected Democrat Steve Cowper as the new governor.

The Alaska House of Representatives will be controlled by the Democrats by a margin of 24-16. The Democrats picked up 3 seats. In the Senate, the Republicans will maintain an 11-9 majority with one seat still being contested.

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Regarding U. S. Senate and House races, incumbent Republican Senator Frank Murkowski and incumbent Republican member of Congress Donald Young, were reelected.

Significant State Problems

As mentioned above, Alaska's major state problems are a declining revenue base and ever-expanding infrastructure needs. As large as the state is, transportation from one end of the state to the other (both surface and air) is extremely critical. Need for improved communication systems as well as improved delivery of state services is important. Therefore, it appears most efforts during the 1987-88 legislative session will be aimed at providing a solid source of funds to continue the state's growing program needs.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

There are few traditional members of the "tobacco family" in Alaska. Because of its size and shipping problems there are only two major tobacco wholesalers and one major vendor in the state. All three however, have been extremely helpful to us with legislative issues. Member company employees are few in number and spread extremely thin in their sales territory responsibilities.

Business

The prime coalition that the tobacco industry has used in past legislative efforts has been the Cabaret, Hotel and Restaurant Association (CHRA). This group represents most of the hospitality industry within the state and is well aware of problems that restrictive smoking legislation would impose upon its members.

The state's vast geography is the largest stumbling block to the development of cohesive coalition support. Even businesses with common interests have no real alliance from one community to the next.

Labor

Traditional organized labor is not a significant political force in Alaska. However, state employees' unions are influential in Juneau when considering the heavy concentration of state employees in the capitol city. In past sessions, major smoking restriction legislation has come from a state employee member of the legislature.

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ANTI-TOBACCO FORCES

As mentioned, the major anti-tobacco effort in past sessions has come from a state legislator who, coincidentally, is a state employee representative. When his legislation has been introduced, the Alaska Lung Association, in cooperation with its Washington State affiliate, has testified in favor of restriction legislation.

TOBACCO INDUSTRY

Brief History

The first public smoking restriction legislation passed in 1975. In 1984 that legislation was expanded to include public transportation facilities, state office buildings and grocery/retail stores.

While Alaska was still a territory, a tax of 5 cents per pack was imposed. In 1961, the tax was increased to 8 cents. The cigarette excise tax was not increased again until the 1985 legislative session, at which time it was increased to 16 cents per pack.

Outlook: Major Issues - State and Local

Alaska faces a serious re-evaluation of priorities: funding of human services and continued state economic development.

Most importantly, our industry will face an unprecedented number of local smoking measures during 1987. Specifically, and most immediate, is the issue of workplace smoking in the City of Anchorage.

The 1987 legislature will consider several measures facing our industry, including workplace smoking prohibitions and tax increase legislation.

Undoubtedly, with the urging of Health Department recommendations concerning tobacco related health issues, we may see statewide legislation with regard to workplace smoking during 1987.

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ARIZONA

PREFACE

Arizona, like several other "Sun belt" states, is in the midst of a terrific population boom which should continue through the year 2000. In analyzing present and future political trends, it is important to understand the political traditions these new residents bring to Arizona.

Past immigrants tended to be older, retirement-oriented couples who settled in places like Sun City. Such people were generally conservative, matching prevailing political attitudes.

Starting in the late 1970's, Arizona witnessed a sharp increase in younger immigrants moving "out West" where the sunshine was nice and the employment opportunities were even better.

Population forecast show Arizona, which is now ranked 28th, will become the 22nd most populous state by the year 2000. Employment is expected to jump by 32 percent, more than any other state. No one will be surprised if Arizona doubles its population by 2000.

This great influx of residents definitely affects state politics. Younger residents tend to work in the manufacturing and construction fields, are generally high school graduates with some college and tend to be more liberal than the past political base.

At the federal level, these population shifts will significantly affect the make-up of Congress when seats are reapportioned after the 1990 census.

Arizona's share of market is 1.1 percent.

STATE OVERVIEW

Economic Condition and Outlook

Large population gains in Arizona mean booming economic growth generally related to construction and manufacturing operations. This growth is largely confined to the southern part of the state, Phoenix, and Maricopa County, down to Tucson and Pima County.

Because land prices remain reasonable, a construction industry is in place. The state's two major universities have achieved high scholastic ratings. Many major corporations have either opened facilities in the state or transferred their existing operations to Arizona.

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Tourism is one major state industry that continues to grow, cultivating a high percentage of "snowbird" wintertime residents in the state.

Agriculture, farming and ranching play a declining but still important part in the state's economy. From the beginning of Arizona's territory status to the 1960's, the three C's dominated the Arizona economy and consequently the political picture. Cattle, copper and cotton were the state's economy at one time. Copper has taken a nosedive with companies like Phelps Dodge closing shop. Cattle ranching has continued to dwindle in the state, although it seems to be holding its own in the north. Agriculture continues to grow. Arizona is one of the country's leading cotton-producing states and a new federal allocation of water from the Colorado River should expand agriculture, while assuring steady industrial and residential growth.

Power, water, a strong industrial base, excellent higher educational facilities, agriculture and plenty of open spaces completes a list of ingredients which should make Arizona the leading growth state by the year 2000.

Political Situation

Republicans captured the previously Democratic governorship in 1986 with the election of ultra-conservative Erv Mecham. Mecham unexpectedly defeated legislative strongman Burton Barr in the Republican primary election. This upset caused wealthy moderate Republican Schultz to enter the campaign as a last minute independent candidate. Mecham was elected with a 40 percent plurality against Democrat Carolyn Warner's 36 percent and Schultz took the rest.

In the Senate, Republicans maintained and added slightly to their strong majority, 19 Republicans and 10 Democrats.

In the House of Representatives, Democrats made a small gain, but the House remains comfortably Republican with a 36 to 24 majority. Major leadership changes in the Legislature took place. In the Senate, moderate Republican Carl Kunasek replaces retiring Senator Stan Turley as President. Senator Robert Usdane remains as Majority Leader and Senator Hal Runyan will be Majority Whip.

In the House of Representatives, the departure of long-time Majority Leader Burton Barr and the shift of several leading Republicans from House to Senate opened the way for totally new leadership. Rep. Joe Lane was elected Speaker; Rep. Jim Ratliff, Majority Leader; and Rep. Jane Hull will be Majority Whip.

The mantle of power will not rest comfortably in the short term on these new and relatively untried legislative leaders. A shakedown period can be expected in both houses as leaders and members alike jockey for position.

Significant State Problems

One legislative leader describes the state's three most significant problems as money, money and money.

At this writing the state is projecting a shortfall of \$140 million in its current budget of \$2.5 billion. Retiring Governor Babbitt has ordered a 6 percent budget cut from selected departments, but Republican legislators foresee the need for an across-the-board cut of 8 percent to bring the budget into balance, as required by the state Constitution. At this point legislative leaders are determined to accomplish budget balancing without new taxes.

Other major issues that need to be addressed are:

- o Infrastructure development.
- o Health care cost containment.
- o Air and water pollution.
- o Additional "home rule" authority for Arizona's relatively powerless county and city governments.
- o Taxation and tax reform occasioned by Federal tax reform.

RESOURCES: STRENGTHS/WEAKNESSES

Tobacco Segments

Arizona's small but active "tobacco family" has supported industry causes at both local and state levels. TAN members include T.I. member company personnel, wholesale distributors, vendors, and a growing number of concerned smokers who have become active in their support of their right to smoke.

While our company personnel do a good job, most company reps in Arizona are sales representatives who are somewhat limited in their ability to take time off to attend hearings, etc. Our past strengths have come from the distributors, wholesalers and vendors who, through their respective associations, maintain PACs and take an active political role.

On the downside, the small number of company and industry personnel limits our grass-roots response. With no farm element, and occasional factional bickering within the tobacco family, it is a constant communications effort to keep the group responsive.

Business

Business support, particularly in the area of smoking restrictions, waned considerably during 1986 as the so-called nonsmokers' rights groups began exerting direct pressure on major businesses and business groups. This pressure has succeeded in neutralizing some opposition to restriction ordinances at the local and state levels.

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Many other business organizations are receptive to our positions, and our allies list in Arizona is a long one. Groups like the Arizona Restaurant Association, Southern Arizona Restaurant Association, Arizona Licensed Beverage Association, Arizona Hotel/Motel Association, Arizona Innkeepers Association, Arizona Retailer Association, and others have taken active roles in our support. Also, we have had support from major corporations such as Southland Corporation, U-Haul, Coca-Cola Bottling and others.

Taxpayers' associations, namely the Arizona Federation of Taxpayers and The Sun City Taxpayers Association, have assisted in the past.

Labor

Labor groups do not form a significant force in Arizona. As a right-to-work state, organized labor is restricted in scope and ability to organize. This status is not likely to change in this status in the near future.

Fire Groups

Several city fire departments, including those in Flagstaff, Phoenix and Lake Havasu City, have had positive contact with T.I. through various Public Affairs' programs we have made available to them.

Their lobbying presence, however, is not great, and we have not asked for direct assistance. The smoking/fire causation issue has not been a major topic at any legislative level.

ANTI-TOBACCO FORCES

A new generation of anti-smoking activists, Arizonan's for Non-smokers Rights, surfaced in 1986, largely supplanting long time activist Betty Carnes. This group has succeeded in bulldozing strong restriction measures through many of the city councils in the Phoenix/Maricopa County region. They are gaining in confidence as business opposition to their initiatives wears down. They will focus on the Arizona legislature when the new session begins. Fortunately for us, they have tended to be extremely arrogant and strident in their techniques.

In the Tucson area, a local anti-smoking group -- Nonsmokers Incorporated -- has been active since 1982. For two years they tried to pass local legislation and, failing that, chose the initiative process. They have been successful and should continue to be active.

The forecast is for increased activity from these groups, especially in the Phoenix area. They continue to grow, and workplace regulation is their number one priority in the state.

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TOBACCO INDUSTRY

Brief History of Successes and Problems

At the state level, a combination of effective lobbying, solid friends in the Legislature and strong allies has kept cigarette excise tax increases to a minimum. Other regressive tax measures, along with state smoking restrictions have been held at bay. While this excellent record is expected to continue, the pressure for a statewide "Clean Indoor Air Act" continues to build.

Major losses occurred at the local level on restriction ordinances as Phoenix, Mesa, Tempe and Scottsdale succumbed to the pressures applied by local anti-smoking activists.

New proposals are pending in Tucson and Pima County and can be expected to receive serious review early in 1987.

Major Issues - State and Local

Financial concerns have dominated the Legislature's agenda for the past several years and should continue to do so in 1987. Cigarette taxes have never figured previously in the various debates.

However, as fiscal concerns continue to increase at the local level, a "home rule" bill could prove costly for our industry and will be watched carefully. As in other states, some legislators continue to ask for "earmarked" cigarette taxes to support health care facilities, education programs, etc. This also must be watched carefully.

The initiative process is working well for the anti-smokers, and it's likely that more of these battles will be fought in Arizona.

Outlook

Arizona will be an "iffy" state for us in 1987. Substantial pressure will be applied for statewide smoking restriction measures. Local activists can be expected to push many, if not all, of the AMA guidelines; e.g., advertising and promotion bans, nonsmoker insurance rate differentials, etc.

All in all, we can expect a busy and difficult year at both state and local levels in 1987.

December 1986

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ARKANSAS

PREFACE

In the past, Arkansas had a rural, conservative thinking legislature. In the last few sessions things have changed, bringing about efforts to increase the cigarette tax. The tobacco industry will be subjected to attempts at increased taxation as well as smoking restrictions in 1987.

The Arkansas legislature, as well as the executive branch, will remain consistent throughout the next two years. Governor Clinton won reelection by a wide margin and his chief interest will be coping with unemployment and repairing a state budget depleted by a loss of federal revenue sharing monies.

The state's market share is approximately 1 percent.

STATE OVERVIEW

Economic Condition and Outlook

The economy remains unchanged from 1985. The outlook is poor. Plant closings and unemployment continue to rise. Some major plants, which were closed in 1985, are now being dismantled.

The 1986 revenue take was below expected levels. Because deficit spending is prohibited in Arkansas, and it was necessary for the governor to restrict spending on five separate occasions. The loss of revenue sharing will continue to strain government at all levels and create a search for additional funds.

The prison system continues to be a problem. Over 400 prisoners are housed in county jails awaiting openings in the state prison. The legislature will be required to address this problem.

Political Situation

There was no change in the Congressional delegation as a result of recent elections. The state legislature changed very little; the Democrats are still in firm control. Two new senators were elected and are not viewed as active opponents to the tobacco industry. There are seven new members in the House. Only time will tell whether they will have significant impact on the legislature.

The legislature convenes for its biennial session on January 12, 1987. The session is supposed to last only 60 days, however, current projections indicate it could last until May.

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Significant State Problems

The significant problems Arkansas faces in 1987 will echo those confronted in 1986. One aluminum plant closed, the textile industry remains depressed and tourism is down. Revenues for the state remain well below early projections.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

Tobacco industry resources continue to be fragmented. The retailers are not properly organized and seem to have little interest in problems of the industry. However, tobacco wholesalers are well-organized. They have a significant impact at the state level and have been helpful at the local level. They understand the importance of political participation.

Business

The Arkansas Hospitality Association, while helpful in the past, has recently made inquiries about possible "compromise" legislation relative to smoking restrictions. Efforts continue to educate this group.

The Arkansas Wholesale Grocers Association has indicated an interest in joining the tobacco wholesalers. This could create a problem if that group places tobacco in a compromising position. It must be remembered that the last large tobacco tax increase was the direct result of activity by the Arkansas Wholesale Grocers Association.

We are members of the Arkansas Municipal League, Arkansas Chamber of Commerce and Associated Industries of Arkansas. Since Arkansas has great interest in the tourist industry, the various chambers of commerce are a possible source of assistance.

Labor

Labor groups have not been of assistance. The principal lobbyist for labor is J. Bill Becker. Mr. Becker gets a lot of media coverage, but is not considered a strong lobbyist. The last time our industry was involved with Mr. Becker, he supported an increase in tobacco taxes. We could use some help from the national level for union support.

Fire Groups

Groups such as fire and police seem to have little interest in the problems related to our industry. These groups might be of some assistance if properly organized and oriented to our problems.

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ANTI-TOBACCO FORCES

Health groups in Arkansas generally join together and are extremely vocal. They include the lung association, heart association, and others. They are often supported by local doctors. Their strength comes from the fact they are local residents and have an impact on local legislators.

In addition to the sources previously reported, "silver-haired" legislators have become opponents. Their first priority for the coming session will be a cigarette tax to support "alternatives to nursing home placement." This group also supported the last tax increase in Arkansas. It should be noted that the Arkansas legislature does not usually earmark funds.

Another special interest group concerned with taxation of tobacco products is the GASP organization. They seek to defeat the industry by any means available.

TOBACCO INDUSTRY

Brief History of Successes and Problems

The greatest success story in Arkansas was getting the wholesalers back on our side. The last tobacco tax to 21 cents in 1983 passed with the assistance of some of the wholesalers. Since that date, all wholesalers have been of significant help in defeating measures detrimental to the industry.

During the 1985 legislative session, with the cooperation of the wholesalers, The Tobacco Institute put on a legislative dinner which was well-received. Together, we have been recognized as an effective group.

Major Issues

For some time the legislature has been studying the removal of some sales tax exemptions which benefit various products, including tobacco. There is a real possibility we may get attention in this area in 1987.

Outlook

How can we strengthen the industry in Arkansas? Above all else, the entire industry must act like a FAMILY in danger. We need the support of ALL manufacturers in order to defeat restrictive legislation. We should be prepared to help our allies whenever possible, especially candidates for office who are knowledgeable in the areas of concern to us. We must continue our efforts in the area of expert testimony.

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Our success in Little Rock was partially due to expert testimony and the Miller Research Study. These kinds of tools are needed if we are to remain successful.

The governor has indicated no interest in a general tax increase or a tobacco tax, but legislative pressures could cause a change in his position. He does favor some adjustments in sales tax exemptions, which could affect our industry's tax burden in the state.

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CALIFORNIA

PREFACE

California continues to grow in population and economic clout. California is the USA's major trading partner on the so-called Pacific Rim and, as such is expected to grow to become the world's fifth largest economy by the year 2000. California's share of the market is 9.33%.

STATE OVERVIEW

Economic Condition and Outlook

The California economy while no longer growing at the explosive 8 percent-plus rate of recent years, is expected to at least keep pace and probably exceed national averages.

Political Situation

Republican Governor George Deukmejian won easy re-election over L.A. Mayor Tom Bradley and can be expected to continue his cautious and conservative approach to government.

In the Legislature, small changes were made in the Senate where one new Republican and one Independent were elected. Makeup of this house will be 24 (D); 15 (R); 1 (I). This signals no significant change in overall legislative philosophy in the more conservative of the two legislative bodies. A vacancy will occur in January as Senator Paul Carpenter (D) resigns to begin a new career as a member of the State Board of Equalization. A special election will take place and a Republican candidate would have a slight edge. A Republican win could cause a change in Democratic leadership. Current Democratic Leader President Pro-Tem, David Roberti is already thought to be shaky in his position.

The Assembly also changed slightly from a 47-33 Democratic majority to a 44-36 Democratic edge. This is not expected to cause any significant changes in leadership (Willie Brown will remain as Speaker and Pat Nolan as Republican Minority leader). The overall legislative philosophy of the Assembly will not be altered significantly.

Perhaps the most significant political happening will be the appointment by Governor Deukmejian of three new State Supreme Court Justices in 1987, giving the high court a much more conservative cast. Voters rejected three Jerry Brown appointed Supreme Court Justices in the November election. When Deukmejian completes his appointments, four of the total of seven justices will be Deukmejian appointees.

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Significant State Problems

In 1987 California will face the prospect of running up against a spending limitation imposed by a 1979 initiative measure. Tax revenues from existing sources are expected to exceed the amount the state is permitted to spend during 1987. The Legislature will be grappling with creative ways to avoid having to refund excess revenues to the public.

Other major issues will be:

1. Legislation to clarify and implement Prop. 65, the Toxics Initiative.
2. Location of a new prison in Los Angeles County.
3. Insurance regulation and tort reform.
4. Water -- how to provide means to ship additional water to Central and Southern California.
5. Tax reform to bring state's income tax system into closer conformity with federal reforms.

RESOURCES: STRENGTHS/WEAKNESSESTobacco Segments

Industry segments in California consist of member company personnel, wholesalers and vendors. Member company personnel are the most responsive to requests for assistance, but the real potential of this group has not yet been realized. Wholesalers, represented by their association, CATCD, are consistently and importantly helpful in direct lobbying activities.

The vending segment of the industry is developing strength. The "street vendors" have a greater stake in cigarette vending and have formed their own organization separate from N.A.M.A. They will become more useful as their own organizational efforts begin to bear fruit.

Convenience stores, thousands of them, which could be a major political factor in California, continue to suffer from lack of organization and central direction. We continue attempts to help them organizationally, mean while, we receive assistance from many such outlets on an ad hoc basis.

Business

- California Chamber of Commerce. Probably the leading business organization, in terms of membership. It tends to take public positions on numerous issues but is a "consensus" organization and is, so far, steering clear of smoking-related issues. We can expect to find support on other issues, e.g., tort reform, and probably neutrality on excise tax issues.

- California Manufacturers Association. New staff, seeking a new niche. Exploring best way in which to work with this group.

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- California Retailers Association. Always tended to be supportive on excise tax issues where its members can perceive a dollar impact. Did not oppose smoking regulation in grocery stores and has not opposed any such local regulation. Strong, intelligent operation.
- California Restaurant Association. Staff has always been a willing ally on smoking restriction measures where they are specifically involved, but is beginning to wear out because of the volume at local levels. Some sentiment for statewide "compromise" legislation within this group to preempt local enactments.
- California Hotel/Motel Association. Very well represented in the Capitol, but keeps its powder dry on most issues that concern us.
- Outdoor Advertising. A willing ally on nearly any issue, state or local. Excellent contacts in most communities and strong representation in the statehouse.

In general, we have seen an overall erosion of other industry and business willingness to support us or even assist in tobacco-related legislation, particularly smoking restrictions. Many groups are either tiring out or yielding to relentless pressure from anti-smoking coalitions.

Labor

California is not a strong labor state. Nonetheless, its numbers are impressive. The industry can count on labor support only when labor deems such assistance as beneficial to its cause.

ANTI-TOBACCO FORCES

- Californians for Non-Smokers Rights has gone national under the banner Americans for Non-Smokers Rights. Principals in this organization have remained the same, with the addition of Mark Pertchuk, son of a former FTC Commissioner, as Legislative Director. This group seems to have found a new source of funding and has demonstrated the ability to have influence in many varied locations.
- ALA, ACS, and AHA have consolidated their efforts in all areas of the state. They are able to generate an endless supply of local MD's and are successfully recruiting county public health officers as their principal local lobbyists.

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TOBACCO INDUSTRY PROBLEMS

Local smoking restriction ordinances continue to be the most pervasive problem. The same will be true in 1987. At least 30 additional local jurisdictions have adopted such laws in 1986.

Local health groups have apparently adopted the so-called AMA anti-smoking guidelines which presages the local introduction of advertising and sampling restriction measures. We also expect to see some of these guideline proposals surface in the State Legislature in 1987.

Cigarette and OTP taxes will almost certainly be introduced in the 1987 Legislature. These bills will likely come as companions to fund anti-tobacco education measures. Passage of such tax laws is considered unlikely for 1987.

Smokeless tobacco will be attacked in several ways during the 1987 session. Care will be taken to ensure that smokeless proposals do not automatically become blanket tobacco proposals. Major areas of concern are sampling, general advertising and special taxes for special projects.

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COLORADO

PREFACE

"Colorful Colorado," as it is advertised to tourists, certainly fits this description. The state's beautiful Rocky Mountains provide a tourism industry greater than most other states in the union. The sightseeing, camping and winter sports that bring so many vacationers to the state have also increased the state's population. Vacationers stay! Colorado's 1984 population of 3.2 million is more than 40 percent larger than it was in 1970, and only one in three Coloradans is native to the state. Colorado's share of the national cigarette market is 1.3 percent.

The mix of natives and out-staters in Colorado makes the state interesting for political study. (In 1984, 32 percent registered as Democrats, 32 percent as Republicans and 36 percent gave no party affiliation.) Colorado, particularly Denver, is a bellwether for the rest of the nation. This makes close analysis of the state a must for groups interested in social and political trends.

STATE OVERVIEW

Economic Condition and Outlook

The economic forecast for Colorado is not particularly bright. OPEC's inability to limit petroleum production and the resulting downward spiral in crude oil prices have taken their toll on the state. Nearly 30 percent of office space in Denver is vacant (the worst in the nation), and Colorado's unemployment rate surpassed the national average in 1986. These indicators, when viewed along with the obvious problems in the agricultural community, show a state in the midst of some serious difficulties.

The one bright spot in Colorado's economic picture is tourism. Visitors to the state are buying some 10 million ski lift tickets annually and spend hundreds of millions of dollars enjoying the Rocky Mountains' many attractions. Nevertheless, while it provides some stability, tourism will not be Colorado's economic salvation. A true return to prosperity will come only with an increase in petroleum prices and an improved farm economy.

Political Situation

Colorado is generally considered a Republican state, but Democrats fared very well in the 1986 elections. Democratic Congressman Tim Wirth was elected to the U.S. Senate seat vacated by Gary Hart; all state officers are Democrats; and Colorado's six congressional seats are now split evenly between the two parties.

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Democrats gained sufficient ground in the state House of Representatives (now 25 of 65 seats) to deny Republicans the "veto proof" majority they have enjoyed since 1980. The state Senate is still in firm (25-10) Republican control.

Significant State Problems

In the coming legislative year, Colorado legislators will have to deal with serious revenue shortfall problems and a rising unemployment rate. In doing this, much controversy will doubtlessly be generated between those who propose tax increases and those who favor a program of severe fiscal austerity.

A third major problem facing the state is the quality of the environment. The Denver metroplex has serious air pollution problems, and several areas of the state have water supplies of questionable quality due to industrial pollution. These situations will produce predictable confrontations between environmentalists and those who promote rapid industrial expansion.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

The Colorado Association of Tobacco and Candy Distributors is an extremely strong, dependable ally of The Tobacco Institute. The good relationship that exists between TI and CATCD has existed for many years and has resulted in consistently close cooperation on virtually all tobacco-related legislation. Mary Thurber, the CATCD Executive Director, has succeeded in making her members politically savvy, active and effective grassroots lobbyists. The CATCD interviews political candidates, monitors local and state levels of government, and provides witnesses at key legislative hearings. CATCD could serve as a model for its counterparts in other states.

The Colorado Automatic Merchandising Association, while certainly an ally of the Institute, is not nearly so effective as the CATCD. The CAMA has been helpful to TI in such efforts as the drive against federal cigarette tax increases, but is not as dependable as it might be. CAMA has a rather small, loose-knit membership that has become concerned with a number of issues which are not tobacco-related. This, combined with a lack of truly effective leadership, makes CAMA more of a friend of the Institute, rather than a committed ally.

Employees of the Institute's member companies in Colorado are among the finest TAN Activists in the nation. Almost without exception, they respond to any request for action, inform our office of emerging issues in their areas, and participate fully on the TAN Advisory Committee.

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Business

For many years, the Colorado/Wyoming Restaurant Association has been one of the Institute's staunchest allies. CWRA Executive Director Don Quinn serves on Colorado's TAN Advisory Committee and, in 1984, was chosen as Colorado TAN Activist of the Year. CWRA has consistently been "up front" as an opponent of smoking restriction legislation at all levels of government. Unfortunately, many CWRA members in Colorado have recently become discouraged at the number of local smoking restriction laws that have been passed during the past several months and are not now the committed TAN activists they once were. Nevertheless, the TI/CWRA relationship remains strong and will produce productive joint efforts in the future.

The Colorado/Wyoming Hotel/Motel Association has been approached on several occasions to help fight smoking restriction legislation. For whatever reason, the CWHMA has been unwilling to take a position on this issue. Despite this, a few of CWHMA's members have helped in fights against smoking control laws in their communities.

Colorado's Bowling Proprietors Association has members who have shown concern over the passage of local smoking laws and, on some occasions, have become involved with TI in fighting local ordinances. The CBPA should become an increasingly dependable ally in the future.

Gannett Outdoor Advertising in Colorado has an excellent relationship with the tobacco industry and with the Institute. Through the years, Gannett has been especially helpful by using its contacts in Washington, D.C., to move votes in Congress toward the tobacco industry's position on key issues.

The Rocky Mountain Food Dealers Association, headed by former Colorado senator Don McManus, has been helpful to us on several occasions. McManus is a member of the TAN Advisory Committee.

Labor

Organized labor in Colorado is not considered a strong, viable lobby in the state capitol. The Institute has not worked closely with labor groups in the past.

Fire Groups

Firefighter organizations and fire departments in Colorado have never indicated an interest in any tobacco-related issue in this state. However, a good relationship exists between TI and the Denver Fire Department. This relationship was enhanced when the Denver Fire Department was the recipient of a sizeable grant from the Institute in 1984.

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ANTI-TOBACCO FORCES

Over the past several years, Colorado GASP has become one of the best financed and organized groups of its kind in the country. Colorado GASP boasts a membership of over 1,000, has an annual operating budget of nearly \$25,000, publishes a quarterly newsletter entitled "The Nonsmokers Voice," and has Colorado Governor Dick Lamm on its Board of Directors. GASP also has hired a lobbyist to represent it in the legislature. There are also large numbers of anti-smoking activists in Colorado's Cancer Society and Lung Association affiliates, but GASP is by far the most visible, vocal and dangerous group of its type in the state.

TOBACCO INDUSTRY

Brief History of Successes and Problems

During the past ten years, the Colorado tax rate has been up and down, literally. In 1975, the state taxed cigarettes at a rate of 10-cents per pack. In 1977, that rate increased to 15-cents, but decreased the following year to 10-cents because of a "sunset" provision. Legislation (again with a "sunset" clause) in 1983 placed the tax back at 15-cents per pack. In 1985, the state legislature repealed the "sunset" provision and the 15-cents per pack rate was made permanent. Also, in the 1985 legislative session, a bill was introduced that would have increased Colorado's cigarette tax if the federal government's tax was decreased. Revenues from any such increase would have been earmarked for health care for the medically indigent. This bill died with the legislature's adjournment. The state cigarette tax was increased by 5 cents per pack in 1986 when the legislature approved a revenue "package" to fund the state's budget.

Bills to provide statewide smoking restriction laws were introduced in 1985 and 1986; but neither passed.

The history of local smoking restriction proposals in Colorado is a long one. In 1986, restriction ordinances were approved in Arvada, Aurora, Canon City, Conejos County, Denver, Englewood, Golden, Lafayette, Lakewood, Louisville, Silverthorne, Thornton, Trinidad, Westminster and Wheat Ridge.

Anti-smoking groups, frustrated with their failure in the state capitol, have found much greater success at the local government level.

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Outlook

Inasmuch as Colorado legislators increased the state's cigarette tax in 1986, it is unlikely that another tax increase will be approved in 1987. Nevertheless, introduction of a tax hike bill, probably to fund indigent health care, should be anticipated.

Colorado GASP and other antismoking groups have become a more efficient lobby in the state capitol within the past year. They are certain to try for enactment of a "Clean Indoor Air Act" again in 1987. Though the task of containing such legislation has become more difficult in each succeeding year, it should still be possible in 1987.

Antismoking groups have enjoyed great success in pushing through local smoking ordinances in Colorado and will continue with this tactic until they gain a statewide law. GASP leaders have said publicly that they will pursue enactment of local laws while striving for a state statute instead of organizing for a statewide initiative petition.

During 1987 these groups will be seeking to strengthen local ordinances already on the books that do not have stringent restrictions.

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CONNECTICUT

PREFACE

In many ways, Connecticut is a state divided. This is true politically, socially, geographically, and economically. The state has some of the wealthiest communities in the country next door to some of the poorest ghettos. It is historically a rural, Republican, Protestant state, with a recent tradition of control by urban Irish and Italian, Catholic and Jewish, Democratic coalitions.

It is in Fairfield County that the greatest growth is continuing to occur. This growth is fueled by the relocation of a number of large corporations' headquarters, research and development, manufacturing, and other facilities throughout the county. Some of the more notable moves to this area include the Singer Corporation, General Electric, General Telephone and Electric (GTE), U.S. Tobacco, American Tobacco, and American Brands.

Competing with these newcomers to the state for political, social, and economic clout is the state's traditional big business, the insurance industry. Centered in the Hartford area, insurance is still the single most influential industry in the state of Connecticut.

The recent economic prosperity which has brought rapid growth, increased earnings, job market growth, and increased state revenues has created a very comfortable environment for the business and general population. The danger here is that both those on the outside and on the inside of the existing structures find it necessary to create "strawmen" in order to prove their worth to the general public. This can create a volatile political and legislative climate for not only the tobacco industry, but all segments of the business community.

There are approximately 3.5 million people in Connecticut. It has a 1.2 percent market share and a 26-cent tax on cigarettes, compounded by a 7.5 percent sales tax applied at the retail level. Those taxes are collected on approximately 350 million packs of cigarettes, producing state revenues of approximately \$91 million in fiscal year 1985. This represents a decline of 3 million packs but an increase of \$400,000 in state revenues since 1984.

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STATE OVERVIEW

Economic Condition

While economic conditions vary considerably from one end of the state to the other, the variance is generally from good to better. The southwestern corner of the state, Fairfield County, has experienced huge growth since 1980. At the same time, the major urban areas are also experiencing a resurgence. Even the suburban and rural areas are benefiting from the corporate growth of the urban areas. Like the other New England states, Connecticut is virtually at full employment. The only observable problem is in the inner-city Black and Hispanic communities.

This economic boom has created a tax windfall for the state. The state surplus is growing rapidly and may exceed \$300 million this year. This will influence both the legislative and political situation in 1987, especially if, as is expected, the growth continues into 1987.

Political Situation

The 1984 Reagan landslide, which resulted in a change in party control in both the state's House and the Senate, was reversed in 1986. The opening of the 1985 session saw the first Republican-controlled legislature in many years. The opening of the 1987 session will see a return of the Democrats to power. Aside from the overwhelming success of Governor O'Neill at the polls, many of the freshman Republicans were political neophytes, not party regulars. These people found themselves in positions of authority, including committee chairmanships, with little or no power base from which to seek reelection. In essence, the minority had a difficult time learning how to be the majority. They were cognizant of their tenuous hold on the controls of the legislature. In some instances, the Republican majority looked more like a Democratic minority in their legislative objectives. This may have hurt them at the polls.

The 1986 Democratic sweep is likely to inspire unprecedented level of arrogance among legislative leaders in the state. The majority party will not only seek to vindicate its 1984 loss and 1985-86 legislative inadequacy, but will also seek a national stature by repudiating the national Republican leadership. Both the tobacco industry and the indigenous business community should expect some strident positioning on a variety of classic liberal, Democratic issues.

Early in the gubernatorial election process, it appeared that anti-tobacco Rep. Paul Gionfriddo's support for Democratic insurgent Toby Moffat might be beneficial for the industry in this legislative session. However, Gionfriddo's political acumen suggested the proper moment for him to jump to the O'Neill bandwagon. In fact, he was instrumental in bringing the two camps together after the primary. That action saved his position in the legislature and his spot as chairman of the Joint Health Care Committee.

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The legislative agenda may be more liberal this year than in the previous two sessions. There is also the possibility that the two parties will seek some "common ground." We may be it.

Significant State Problems

The fact that the state continues to be awash in money may be the most significant problem faced this year in Connecticut. Some of the other key concerns which will receive a great deal of public and legislative scrutiny in 1987 may include the continued deterioration of the state's infrastructure. Four years ago a bridge on the Connecticut Turnpike collapsed with no warning and resulted in loss of life. Since that time, Connecticut has undertaken a major rebuilding effort throughout the state. The condition of the state's roads, bridges, and public buildings will continue to be a concern in 1987.

Education will also receive public and legislative scrutiny next year. There is concern about the amount of money being spent for education, how that money is being spent, and where it may be spent better. Issues such as curriculum development, teacher recertification, and salary increases versus capital expenditures will be addressed.

Two other concerns are somewhat related. The first has to do with the cost of health care in the state and the ability of the health care community to deliver that service to the right people at the right time. Related to this is the Governor's task force on liability insurance. As in some other New England states, the Governor is concerned that health care providers are deciding to reduce or eliminate their activities in Connecticut because of the high cost of insuring themselves against malpractice suits.

Also, high on the list of concerns will be tort reform and interstate banking. These issues are clearly the problems of a state with few, if any, severe problems. For the entire business community, especially the tobacco industry, the lack of problems could prove to be the biggest problem of all.

RESOURCES

Tobacco Segments

The tobacco family in Connecticut is made up of the Connecticut Wholesale Candy & Tobacco Association and its loosely-affiliated members directed by Stanley Seligson, owner and president of S & S Tobacco; the New England Convenience Store Association's Connecticut affiliate; the Connecticut Automatic Merchandising Council; the Connecticut Food Stores Association; and the small number of retail tobacco dealers affiliated with the RTDA. The group is for the most part a loose amalgamation of individual entities with little coordination of their political and legislative activities except as imposed by the Tobacco Institute.

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In many instances, the various segments of the tobacco family have competing interests which over the years have driven a wedge between them. This situation is sometimes difficult to overcome, even when the legislative issue is of primary concern to the entire industry.

Notwithstanding traditional disputes and lack of coordinated efforts, the tobacco family has in recent years been surprisingly successful in its efforts. During 1985, efforts by the wholesalers, Convenience Store Association, and grocers were successful in defeating nearly every piece of anti-tobacco legislation introduced. The only exception to this success was the late-filed amendment to a bill on a "fast track" to tie an increase in the cigarette excise tax to the federal sunset. Similar success was won in 1986.

Following detailed discussions, individual efforts of the Connecticut Wholesale Candy & Tobacco Association have been enhanced. It is anticipated that the Association and their paid legislative counsel will be of great value to the industry in 1987.

Business

The business community in Connecticut is a reluctant ally. For the most part, business leaders are not supportive in areas other than smoking restriction legislation.

The major business groups -- Connecticut Business and Industry Association (CBIA), Southwest Area Commerce & Industry Association (SACIA), various local chambers of commerce, Connecticut Small Business Association, Connecticut Retail Merchants Association, Connecticut Hotel-Motel Association, and Connecticut Restaurant Association -- perceive open opposition to anti-tobacco legislation as a liability to other political and legislative goals. When we have been able to convince these groups of immediate legislative dangers, we have been able to get them involved.

One of our primary strengths with business is our affiliation with the law firm of Updike, Kelly & Spellacy. That firm's varied business contacts have allowed us to access organizations that would otherwise refuse to listen. Another strength lies in tobacco company and subsidiary locations in the state.

Labor

Labor still has a major influence on state legislative and political activities. As in most states, traditional labor organizations have lost some control over the total labor force. That has come about as a result of shifts in employment away from the traditional blue-collar, manufacturing jobs to the white-collar, high-tech employment in the computer and service-oriented industries.

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However, the AFL-CIO has been able to react to that shift and is bringing some of these new labor groups in under its umbrella. While that has assisted the maintenance of the AFL-CIO and the other traditional labor associations, it has also resulted in a softening of their positions on questions such as smoking in the workplace. Traditional labor groups would perceive a question of smoking in the workplace as a bargaining right. However, some of the new members of labor perceive the question of smoking in the workplace as a worker health question.

The decline of blue-collar labor, the rise of white-collar labor, the declining concerns over bargaining rights, the elevated concerns over worker health, and a need for labor to re-establish itself have resulted in a low-key stance on our issues in many instances. We have been able to count on organized labor for direct lobbying at the Capitol, but for little or no grassroots activity. We've also been able to make some inroads with the National Association of Government Employees as a result of a labor action in the town of Rocky Hill. That contact may be expanded in 1987 to other segments of labor to show the extent to which the anti-tobacco activists will go to erode labor's bargaining rights.

Fire Groups

As a result of the activities surrounding our "self-extinguishing" cigarette efforts, we have developed close working relationships with both the Hartford and New Haven fire departments. These groups should prove to be very helpful if we have to fight the "self-extinguishing" battle during 1987.

Institute Resources

Besides the obvious resources that are part of our overall legislative and legislative support programs in Connecticut, there are a number of untapped resources which could have significant impact. These resources include TI member companies, other tobacco companies located in Connecticut and the subsidiaries of TI member companies. Specifically: U.S. Tobacco, American Brands, Seven-Up Bottling, Gimbels Department Stores, Saks Fifth Avenue, Quality Care, Inc., and most importantly, Heublein, Inc. In past years these resources have largely gone untapped. In 1987, if authorized by the Tobacco Institute and the parent company, I plan to approach each of these organizations as I would any non-tobacco affiliate and attempt to develop their support. This may become imperative to our overall legislative support program.

The current lack of support from these companies is not just a missing segment of our program. It is keenly observed by the business organizations with whom these companies are affiliated. As a specific example, if the Institute and its legislative counsel inform CBIA that a workplace smoking restriction bill is potentially detrimental to their business members, but CBIA is not pushed by Heublein, U.S. Tobacco, or American Tobacco, then CBIA has to wonder how serious the concern is.

Our greatest resource in the state is the enthusiasm of our cigarette manufacturer sales representatives and their desire to work with The Tobacco Institute to defend the industry. There is a need to expand our program with these TAN activists in order to keep them involved in our efforts.

ANTI-TOBACCO FORCES

Anti-tobacco activists in the Coalition on Smoking OR Health have, in the past few years, developed a well-coordinated attack at the legislative level. They are led by Commissioner Doug Lloyd, head of the State Department of Public Health. Support also comes from the Connecticut Heart Association, Lung Association, Cancer Society, the League of Women Voters, some local GASP organizations, a number of local activist doctors, and the Yale University community. The legislative spokesmen for these people are Reps. Paul Gionfriddo and Frank O'Neill. Unlike some other states, the Connecticut anti-tobacco organizations tend to pick their fights rather than scattering their efforts.

In 1983 a number of anti-tobacco bills were introduced by these groups. Their focus was the workplace, and they were able to get a piece of legislation enacted during the 1983 session. It was not the legislation that they wanted, but it was a start. Also in 1983, they engaged in a side effort on the "self-extinguishing" cigarette issue. Because that issue did not have the full support of the traditional anti-tobacco advocates, it was defeated.

In 1985, they recognized the changing political realities brought about by the 1983 elections and chose to limit their goals to restrictions on smoking in schools, legislation not opposed by the tobacco industry. What appeared to be a good tactical move on the surface turned out to be a poor one when the various local boards of education and city councils suggested that the state government should keep its hands off the running of the local school systems. The issue was turned from a tobacco issue to a local control issue, and the anti-tobacco forces lost. In 1986 there was a very direct focus on workplace legislation. We were successful, but only because we were better parliamentarians than they were.

The only mistake we can make when dealing with the anti-tobacco organizations in the state of Connecticut is to underestimate them. They are numerous, well-organized, able to coordinate their activities, and above all, dedicated. They are able to generate a great deal of activity very quickly and sustain that activity over time. More importantly, they are able to sustain at least a low level of activity for an extended period of time. This ability to keep the anti-tobacco perspective before the legislators can have a wearing effect on the resolve of our friends.

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TOBACCO INDUSTRY

Brief History of Successes and Problems

Since 1980, there has been one increase in the cigarette excise tax and, for the first time, an application of the state's 7.5-percent sales tax on the product. A workplace law was enacted in 1983, but it is the least restrictive of any workplace law in the country.

Since 1980, a number of pieces of anti-tobacco legislation have been considered and rejected. Until 1984, those successes were totally a result of the efforts of our legislative counsel, with some input from the cigarette manufacturer sales representatives at the grassroots level. In 1984 we were able, for the first time, to develop a credible grassroots response from our allies in the wholesale, retail, and vending industries. The ability of the industry to develop that grassroots response was shown again during recent efforts on the federal excise tax and federal excise tax sunset.

Major Issues

Our primary concern in 1987 is to defeat anticipated efforts to strengthen the state's workplace smoking law. There is also concern about emerging issues: product liability, designation of cigarette smoking as a form of nicotine "addiction," bans on sampling and advertising, and "self-extinguishing."

In 1985 the industry faced local anti-tobacco legislation in the city of New Haven. This is the first municipality in Connecticut to consider such legislation. It is possible that anti-tobacco activists will follow the footsteps of their Massachusetts counterparts and take their campaign to the local level. If this occurs, it is likely to begin in the major urban centers and those municipalities surrounding various state universities.

Outlook

1987 is likely to be a fairly typical, but volatile, year for the tobacco industry in the state of Connecticut. The combination of economic prosperity, political uncertainty, and an influential and extremely anti-tobacco press community is likely to result in a difficult legislative year.

The expected increase in anti-tobacco activity requires us to expand our ability to respond at the grassroots level. There is a need to increase the ability of our cigarette manufacturer sales representatives, the backbone of our grassroots program, to respond at the state and local level.

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Similarly, there is a need to further develop the coordination of activities among the various segments of the tobacco family in the state. Finally, there is a need for us to bring to bear the legislative and economic clout of the various members of the Tobacco Institute and their subsidiaries.

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DELAWARE

PREFACE

Delaware has a population of just under 600,000. It is a pro-business, conservative state with a high concentration of white-collar jobs due to the large number of corporations with headquarters located in the state.

The state's market share is three-tenths of one percent.

STATE OVERVIEW

Economic Condition and Outlook

Delaware is in good fiscal condition with a projected yearly budget surplus of \$40 million and an additional "rainy-day" fund of \$40 million. The outlook is for continued economic growth in the state during 1987.

Delaware was one of twelve states to lower personal income taxes in 1985 through an increase in the personal exemption. In addition, inheritance taxes were reduced.

Delaware still has one of the five highest personal income taxes in the country. An unsuccessful effort was made to reduce the income tax rate, but the plan may come up again in 1987 session.

The state has a highly elastic tax system. States with high elasticity are able to cut tax rates and still maintain a steady relationship between revenue and personal income.

Political Situation

Delaware has a Republican governor and a Republican majority (22-19) in the House. The State Senate is controlled by the Democrats (12-9). The legislature can be considered pro-business.

Significant State Problems

The most significant state problems on the horizon are:

1. Continuation of a balanced budget with increased appropriation requests.
2. More funds requested for education.
3. More highway funds requested.

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RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

The tobacco segment in Delaware is very small due to the size of the state. Many retail accounts are serviced by wholesalers and vendors outside of the state (Maryland, Pennsylvania). There is no wholesale or vending association. Additionally, many member company sales personnel live and have offices in adjoining states.

Business

Delaware has a strong business community due to the large number of corporate headquarters and the even larger number of companies incorporated in the state. State laws including tax rates favor the corporate presence. The Chamber of Commerce is the largest business organization in the state and can be considered an ally in smoking restriction matters.

Labor

The organized labor force is centered in the Wilmington area. Unlike most northeastern states, organized labor is not an influential political force.

Fire Groups

Fire groups are active in the state and helpful to The Tobacco Institute, generally speaking. A former president of one of the largest national fire groups resides in Delaware.

Institute Resources

Industry resources in Delaware center on the business community and the various business organizations in the state.

ANTI-TOBACCO FORCES

The anti-tobacco forces in the state are few and very low key in their approach to anti-tobacco programs. The lung, cancer and heart associations are the largest and strongest anti-smoking groups, but their influence is limited.

TOBACCO INDUSTRY

Brief History of Successes and Problems

Most legislative issues in recent years have been confined to the state level. Cigarette taxes were the chief threat during the last several sessions. A federal contingency tax bill was introduced and passed the House in 1985, but died with adjournment in a Senate committee.

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A smoking restriction bill was narrowly defeated in the House in 1986. An OTP tax was implemented by legislation passed in 1986, but its effective date was suspended by industry protests until March 1987.

Major Issues - State and Local

The public smoking issue has not been considered at the local level, nor has the state legislature paid much attention to it until this year.

Outlook

There is a probability of restrictive smoking legislation appearing again during the 1987 session. This would probably take the form of restaurant, public places, or government building restrictions. No increase in the cigarette tax is expected to be considered.

We anticipate legislation in the area of product liability and tort reform.

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FLORIDA

PREFACE

In 1985, the State of Florida was ranked as one of the three fastest growing states in the Union, following only California and Texas. The trend remains the same as it gains not only the largest share of retirees in the country, but also an ever-increasing number of young professionals who see Florida as one of the better places to live. This is due to its stable economy, excellent weather conditions and new-found employment opportunities.

Florida has an economy based on the tripod of tourism, industry and agriculture, with all three facets measured in the billions of dollars to the state's economy. The tremendous number of tourists -- expected to be more than 40 million in 1987 -- bodes well for service-related jobs.

The biggest reasons for the optimistic growth by the year 2000 are the population boom and the state's new and more stable economy, one based on high-tech manufacturing as well as international finance and banking.

A 1985 census showed a population of 10.9 million. The prediction is that Florida will have a population in the neighborhood of 15 to 16 million in the year 2000. Currently, figures indicate that 13.8 percent of the population is black and 8.8 percent is Hispanic. The state's market share is approximately 5 percent.

STATE OVERVIEW

Economic Condition and Outlook

Many years ago Florida agriculture was the predominant factor in the economy. Many good returns were given to the state's farmers, ranchers and citrus growers due to the usually warm weather, good rainfall, plentiful farm labor and inexpensive transportation from farm to market. Tourism was considered second and industry was a distant and poor third. Over the years this picture has changed, with tourism taking over the top spot. However, in recent years industry has forged its way to the top, followed by tourism and then agriculture.

In 1984, tourism brought in some 36 million visitors from around the world, resulting in \$850 million in tax revenues, more than 632,000 tourism-related jobs, and an annual payroll of more than \$4.3 billion.

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Industry in Florida ranges from "silicon valley" factories, to huge defense industries, plus manufacturing of food, clothing and housing. These businesses include plants with thousands of employees down to hundreds of "mom and pop" operations. Florida has an unemployment rate of 6.3 percent.

Florida agriculture produces all major fruits and vegetables. Most of these products are grown during the winter months when much of the rest of the nation is unable to grow such commodities. The Florida citrus industry suffered disastrous freezes in 1983 and 1985, killing thousands of acres of trees. In 1986, agriculture has returned to the profit side after these disastrous freezes.

Florida's various regions will grow economically in very different ways. Miami has staked its future on international trade and banking, as well as tourists from South and Central America. Fort Lauderdale and Palm Beach, however, are turning to high-tech manufacturing with giants such as IBM, Rolm, Storage Tech, Tyco Labs, Tektronics, and United Tech, etc. All these companies provide well-paid corporate jobs.

Tampa is a booming center of commerce, construction and culture with a growing number of light industries settling there. Orlando isn't just Mickey Mouse and Walt Disney World anymore. In 1982, Disney opened its billion dollar Epcot Center, and recently acquired Arvida, a large housing development company. This year they announced construction of a massive new filmmaking center. Just a few miles from Disney World is the 11,000 worker defense plant of Martin Marietta. AT&T has also announced construction of a major plant. Jacksonville is rapidly becoming the insurance capital of the world, and it recently brought in the prestigious Mayo Clinic's first spin-off operation.

One of the state's profitable "industries" is the hosting of corporate conventions. In 1983, there were 11,600 annual association conventions around the country. Florida received the majority of these groups.

In the past few years the state has also gone after the movie business. In 1984, 35 feature films were shot in the state, and in the first six months of 1985 thousands of commercials, training films and feature films were shot here.

The state's political and industrial leaders are confident that it will escape its historical tendency toward boom and bust, and now will simply get on with the boom. The future looks good. Tourism continues to gain following the fears of terrorism of overseas trips and vacations. All phases of industry have increased with larger economic benefits accruing to all sections of the state.

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Political Situation

Historically, the Florida legislature has been conservative. While there are Democrats and Republicans in both houses, the dominant Democrats have been reluctant to go along with the very liberal philosophy of the national Democratic Party. It has often been said the Florida Democrats are more Republican than some of the Republicans. There has been a major shift in party loyalty over the past seven years, with 35 percent of Florida residents identifying themselves as Republicans (versus 26 percent in 1976), 35 percent identifying themselves as Democrats and 10 percent as Independents. Blacks, however, have maintained their Democratic ties by a nine-to-one margin.

The Florida legislature is composed of two houses, the House of Representatives and the Senate. The former has 120 members and the latter 40 members.

The 1986 elections in Florida showed a definite power shift. For the Republicans on the state level, it means that the GOP is getting closer to parity in this rapidly-changing state. Republican Bob Martinez broke a 20-year drought for the GOP when he became only the second Republican Governor since 1900. At the same time the Republicans were able to capture or hold onto 15 seats in the Senate and 45 seats in the House.

The GOP Senators have closed ranks with a number of conservative Democrats to form a coalition that has wrested power from a liberal group of Democrats. In the House, GOP members can effectively uphold any veto that the governor might wish to attach to any legislative proposal.

Political scientists point out that many of the thousands of new residents are registering as Republicans. This will have a significant impact on Florida's political future. Governor-elect Martinez had a 300,000 vote margin over the Democratic nominee in a state where Democrats have a large majority in registered voters.

In the various Senate races, the GOP took five more seats than it had two years ago and gave a scare to several other liberal Democrats.

The only saving grace for Democrats was the election of Governor Bob Graham over U.S. Senator Paula Hawkins in one of the most hotly contested and costliest campaigns in the state.

It would appear that with a GOP Governor and a coalition of Republicans and conservative Democrats in the State Senate, the newly-found strength of the Republicans would give them control of many political and legislative proposals. But Democratic State Representative Jon Mills, House Speaker, says the Florida House becomes the key to how far Governor Martinez can carry his conservative agenda.

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Significant State Problems

Major problems facing the state are those relating to management of its tremendous growth. Hundreds of plans are underway by many different agencies and groups. Many call for different solutions to the problems of education, transportation, prisons, waterworks and future economic development. Some solutions suggest a strong program of privatization. Other solutions suggest consolidation of services, streamlining the permitting processes, local option taxes, etc.

A major problem facing landowners in Florida is the issue of amending the state's Marketable Record Title Act. The question is whether the 1963 Legislature intended the title clearing act to deprive the state of title to underwater lands, previously assumed to be in state ownership. The 1963 law clears titles to lands that are free of conflicting claims for 30 years. A legislative commission reviewing the law has found itself deadlocked over the vesting of such land rights. Other legislative issues include the repeal of joint and several liability doctrine, child abuse, higher education, the disposal of hazardous wastes, protecting the environment, reducing crime, protecting life on the highways, and providing affordable housing.

Another major issue which will come up during the 1987 legislative session will be the repeal of sales tax exemptions. The legislature passed a bill in the last session that automatically repeals most exemptions to the five-percent sales tax, with the exception of food and medicine, unless they are re-enacted before July 1, 1987. Such repeal is expected to bring in more than \$1 billion. This additional money cannot be spent, however, without the approval of the governor and both legislative bodies.

Despite what is done with the sales tax exemptions, Charles Zwick, Chairman of the State Comprehensive Planning Committee, says that Florida's basic tax structure must be changed because the government cannot keep pace with the ever-increasing need of services to new residents. He says the costs of such increasing growth will outstrip projected revenue collections by \$72 billion over the next ten years. He sees the need for additional tax increases, including the possibility of a one- to two-cent increase in the sales tax, a personal income tax or a business receipts tax.

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RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

There are approximately 900 tobacco farmers growing tobacco on approximately 7,500 acres. While there are no cigarette factories in Florida, there are some 41 cigar manufacturers, including Jno. Swisher and Sons of Jacksonville, and the Hav-A-Tampa Company in Tampa. There are numerous small cigar manufacturers located in Miami, Tampa and Key West, with Florida cigar manufacturers producing about one-sixth of the nation's cigars each year.

Florida is fifth among states in tobacco product manufacturing employment and fourth in tobacco retailing and vending jobs. Just under three percent of all private sector jobs are generated directly or indirectly by tobacco, for a total of 81,520 jobs, and total wages of \$1.15 billion.

The Florida Tobacco and Candy Association has approximately 40 members throughout the state. Within recent years, it has come of age as a lobbying support group and the future looks bright for the association. We hope they will continue to be effective partners. With the election this year of Fred Hoyland of Eli Witt Distributing Company as president, this hope should become a reality.

Contact is being maintained with the TAN activists for watchdog purposes and for the necessary phone calls, personal contacts and letter-writing campaigns when needed. It is anticipated that this same level of cooperation will be present in the future.

Business

During the 1985 Legislative Session, Florida had perhaps the best ever grouping of allies and business coalitions lobbying against the Florida Clean Indoor Air Act. Because of such efforts, the tobacco industry and friends were able to weaken the proposed smoking restriction considerably. Unfortunately, a few unpalatable provisions were passed in the legislature. The allies included:

The Florida Chamber of Commerce
Associated Industries of Florida
Florida Hotel and Motel Association
Florida Restaurant Association
The Florida Retail Federation
Retail Grocers Association of Florida
National Association of Independent Businesses
The Florida Independent Beverage Dealers Association
The Florida Outdoor Advertisers
The Eli Witt Distributing Companies
The Barnett Bank Group
Various labor unions under the AFL/CIO

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Throughout the session, this group of allies met on almost a weekly schedule. They were always on call, ready to plan strategy and to meet with their friendly legislators to amend the bill. Without their assistance, it would have been difficult to stop a more restrictive bill.

During the 1986 session, most of the same coalition members joined us in our fight against revisiting the Clean Indoor Air Act. In addition, many of them aided us in our unsuccessful efforts to defeat the cigarette tax increase.

Labor

Betty Palmer of the Bakery, Confectionery and Tobacco Union in Orlando, was the first to make contact with The Tobacco Institute in Tallahassee on the proposed Florida Clean Indoor Air Act in 1985. Through her efforts, contact was made with Don Resha and Mike Walsh of AFL/CIO, and through their lobbyist, a solid working relationship was established that will serve us in the future.

Fire Groups

Some contact has been made, but little help has been derived from such contacts as far as legislative lobbying is concerned. It appears that their sole interest is fire prevention, rather than legislative lobbying.

Institute Resources

This year there has been a restructuring of the lobbyist program in the state. It is anticipated this will result in better lobbying among the leadership of both houses. It is also hoped that cooperation among our various allies and coalitions will continue during the next session.

ANTI-TOBACCO FORCES

In prior years, it was not too difficult to defeat legislative attempts to restrict smoking. The militant anti-smoking groups were not organized. In 1985, these groups formed a coalition and were active on the local scene long before the legislators arrived in Tallahassee, even to the extent of getting legislators' prior commitments to endorse anti-smoking legislation. For the first time, the anti-smoking group hired a full-time lobbyist who was very active throughout the 1985 session.

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TOBACCO INDUSTRY

Brief History of Successes and Problems

For a number of years, Florida had two TI lobbyists, a public relations consultant and a TI regional director. The wholesale group, The Florida Tobacco and Candy Association, was not very effective. It was little more than a group that put on a party for the trade, funded by The Tobacco Institute and the tobacco manufacturers. Today, members are becoming more politically active because of Eli Witt's leadership.

Major Issues -- State and Local

Comments by various health group officials throughout the state indicate there may be some attempts to amend the Florida Clean Indoor Air Act by increasing its enforcement provisions or by amending out the local preemption section of the law. We have some assurance from our friends in the Florida League of Cities and the Florida County Commissioners Association that they are not interested in having this "hot potato" tossed back to them.

Outlook

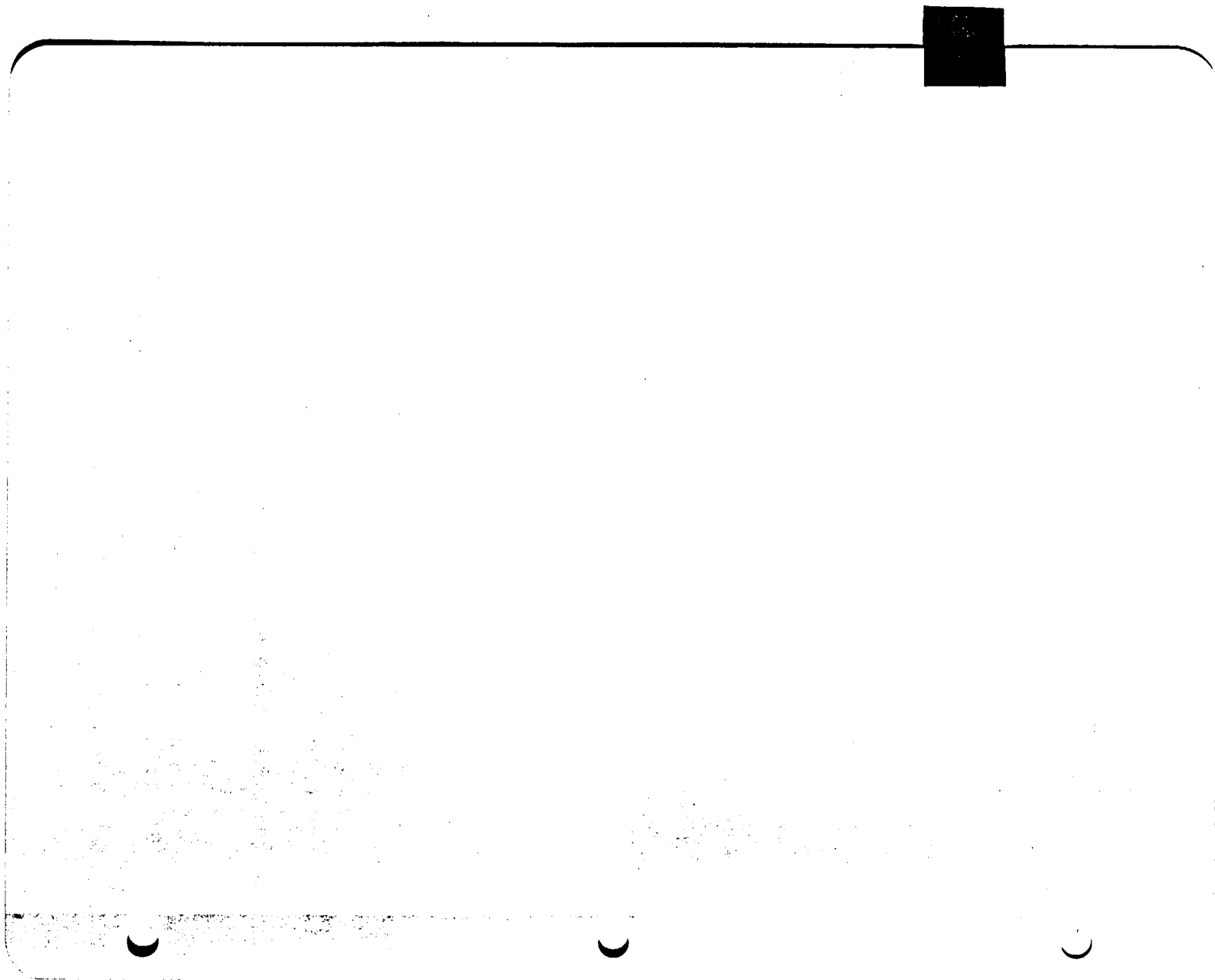
The Florida Legislature increased the Florida cigarette excise tax by three cents in 1986. We anticipate there will be attempts to increase the tax during 1986. There may be some bills introduced to earmark a cigarette tax increase for some health related purpose.

In addition, legislation may be introduced to ban tobacco product sampling as well as to restrict advertising of such products. We are optimistic about our lobbyist's ability to handle such legislation.

December, 1986

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GEORGIA

PREFACE

Georgia has a population of just under 6 million. Georgia is really two states - Atlanta and the rest. Over 25 percent of the state's population lives in the Atlanta metropolitan area. This area consists of 5 counties out of a total of 159.

Naturally, the legislature reflects this population concentration, making it increasingly difficult to control anti-tobacco legislation.

The state's market share is 2.8 percent.

STATE OVERVIEW

Economic Condition and Outlook

In 1980, Georgia ranked as the fifth fastest-growing state in the nation, exceeded only by California, Texas, Florida, and Arizona. By 1983, the state population reached 5.7 million people, the twelfth largest state in the U.S. The minority population represents 27 percent of the state's total. Approximately 78 percent of Georgia's 1980 population was under the age of 50.

Georgia's economy is heavily weighted toward manufacturing and service industry. Manufacturing output contributes almost one-fourth of the total gross state product and is the largest single sector in the Georgia economy. Collectively, service-producing industries provide 71 percent of the state's total gross product. In 1950, farm output represented 7 percent of the state's gross product; by 1981, farming's share of gross state product had fallen to 2 percent.

Manufacturing represents the second largest segment of Georgia's 2.2 million workers. Some 26 percent of manufacturing employees work in technological industries such as transportation equipment, chemicals, machinery, metalworking, and instruments. Textiles, the largest single manufacturing industry group, employs 20 percent of all manufacturing workers; apparel follows with 15 percent. Unionization in the state amounts to only 14 percent of all non-agricultural workers, compared to the national average of 24 percent.

The State of Georgia has one of the most favorable small business climates in the nation. Georgia received its highest marks for its overall business activity, ranking third in the nation in employment gain and fifth in personal income gain. The state also beat the national average with its low tax rate, population increase and overall state government assistance to small business.

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Georgia's largest corporate employer is Lockheed Corporation which employs almost 16,000 Georgians and has an annual payroll of \$489 million. Rounding out the top five out-of-state companies in terms of number of employees are AT&T (14,900); Sears Roebuck (12,600); General Motors (10,760); and J. C. Penney (10,400).

Many international companies have been attracted to Georgia due in part to the excellent business climate and to an ongoing state campaign to attract business. The number of non-U.S. firms has grown five-fold since 1975.

Political Situation

Governor Joe Frank Harris (D) will begin the first year of his second and last four-year term in January. He is a fiscal conservative and a successful businessman. He ran on a promise of not raising taxes and has generally held to this. However, he is now likely to support a 5 cent per gallon gas tax increase to fund rural highways.

Historically the Georgia General Assembly has been fiscally conservative and, in general, pro-business. The legislature is comprised largely of entrepreneurs engaged in small private businesses. It should, therefore, be recognized that their pro-business stance is more closely aligned with small business rather than big industry. Even so, both the legislative and the executive branches of state government have been extremely committed to growth and economic development, which has been demonstrated in their moderate application of regulations on the private sector.

The Georgia General Assembly is overwhelmingly Democratic. The 1987 General Assembly will have a total of 21 new members in the House and six new members in the Senate. The 1987 House will margin will be 152 Democrats to 28 Republicans; the Senate breakdown will be 47 Democrats to 9 Republicans.

State Representative Calvin Smyre (D-Columbus), a friend of tobacco, will serve as the governor's floor leader in the 1987 session. He is Black.

Significant State Problems

Georgia's local governments are beginning to take the possible loss of federal revenue sharing seriously. Many have integrated the funds into their operating budgets rather than using them for one-time expenditures. Raising local property taxes is the obvious way to maintain spending, but one municipal association official has estimated that a sharp average increase of roughly 30 percent would be needed.

Georgia has not decided how to link up with federal tax reform. The fiscal year 1988 budget is expected to be tight, but balanced. The gas tax is the only tax increase being considered.

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The budget for 1987 will be in the \$5.3 billion range. An \$85-90 million surplus is projected. Some taxes could be considered. The revenue shortfall reserves are full. The big expenditure this session is \$400 million new dollars for education, allowing an average teacher pay of \$23,000 a year. This will be an area to watch in future years.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco segments

Georgia is the fifth leading tobacco-producing state in the country. The growing areas are in the southeast portion of the state, and legislators from this area are strong supporters of the industry.

The Georgia Farm Bureau Federation has been a strong ally in opposing anti-tobacco legislation in the General Assembly.

The Georgia Agricultural Commodity Commission for Tobacco has also been helpful in generating grass roots involvement in anti-tobacco legislation.

Member company sales representatives have played an important role in opposing state legislation to restrict smoking. Their impact has been felt in the large metropolitan areas of Atlanta, Columbus and Savannah.

Other resources for grass roots support are the Southern Tobacco and Candy Association and the Georgia Wholesale Grocers Association. Assistance from these groups has been good.

Business

A strong coalition of business groups has been effective in keeping smoking restriction legislation bottled up in the House Health and Ecology Committee for the past 10 years.

The coalition, put together with the assistance of the Institute's lobbyist, consists of the Business Council of Georgia, the National Federation of Independent Business, the Georgia Retail Association, the Atlanta Chamber of Commerce, Delta Airlines and the Georgia Hospitality and Travel Association.

The Georgia Legislative Black Caucus has also been helpful.

Labor

Labor has not played a role in our efforts to oppose anti-tobacco legislation.

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Fire Groups

The Institute has had no involvement with such groups in the state.

ANTI-TOBACCO FORCES

Georgians Against Smokers' Pollution has a very active chapter in the Atlanta area and is backed by the Georgia Lung Association. Every session they appear at the General Assembly to lobby for public restriction legislation. Since 1984, they have not been successful in finding legislators willing to sponsor their bills.

A new foe is DOC ("Doctors Ought to Care"), led in part by Dr. Jesse Steinfeld, former Surgeon General, now with the Medical College of Georgia in Augusta.

TOBACCO INDUSTRY

Brief History of Successes and Problems

In 1975, the General Assembly passed a law which bans smoking where no-smoking signs are posted. This law is voluntary and has been a useful argument for us in opposing further legislative action in this area.

In 1982, the City of Atlanta defeated an effort to restrict smoking in public places, but did restrict it in City Hall. The sponsor is still a member of the Council and may try it again.

In July 1986, the Atlanta City Council banned cigarette pack sampling on public property.

Major Issues - State and Local

The smoking restriction issue at the state level is our main concern. GASP and DOC publicity resulted in legislation being introduced in 1986.

Banning the sale of smokeless tobacco to minors is also possible.

Outlook

We expect smoking restriction action in 1987, probably centered around restaurants or hospitals. We must also be vigilant to a tax-hike effort that could spin off from the gasoline tax debate.

December 1986

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HAWAII

PREFACE

In addition to its geographic location, the State of Hawaii is unique both in its politics and in its economy. With a population of slightly over 1 million people, the islands are subject to tourism surges that increases the number of people within the state significantly at any given time.

Hawaii's share of market is just under three-tenths of one percent.

STATE OVERVIEW

Economic Condition and Outlook

Hawaii's economy is dependent upon three major industries: tourism, shipping and agriculture. Its pineapple and sugar cane production contribute greatly to the state's economic health. The tourist dollar is also vital. As a crossroads for Pacific trade, Hawaii will continue to be a significant factor in shipping and commerce in the Pacific; therefore, its revenues from shipping should stay relatively stable.

Political Outlook

Following the 1986 elections, the new governor is Democrat John D. Waihee III, the former Lt. Governor.

The Hawaii House of Representatives remains the same as in the previous biennium: 40 Democrats, 11 Republicans.

The Hawaii Senate shows a one-vote increase for the Republicans over 1986: 20 Democrats and 5 Republicans.

With regard to the U. S. Senate and House seats, Democratic Senator Dan Inouye, Republican Representative Patricia Saiki and Democratic Representative Daniel Akaka have maintained their Congressional seats.

Significant State Problems

Hawaii's revenue picture is relatively stable. However, there is considerable pressure upon the legislature to increase state employees' salaries and benefits and to improve upon some state services that have not had funding increases in several years.

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RESOURCES: STRENGTHS AND WEAKNESSES**Tobacco Segments**

The state of Hawaii has only one major tobacco wholesaler. This business is relatively new, in that it is the successor to the wholesaler that filed Chapter 11 in 1984. This particular tobacco wholesaler is also the only major vendor in the state. Member company employees are relatively few, with only the two major companies being specifically represented.

Business

We have been extremely fortunate in having the coalition support of the Hawaii Food Industry Council as well as the Hawaii Restaurant Association in recent legislative efforts. Both groups are extremely anxious about the imposition of public smoking restrictions and have been quite helpful to our legislative counsel's efforts.

Labor

Organized labor elements, specifically the State Employee's Unions, are very important. Thus far we have had limited success in developing coalition support from labor interests.

ANTI-TOBACCO FORCES

The major anti-tobacco effort in the islands, at this point, is generated from the Hawaii Lung Association. However, the news media uses an inordinate number of print stories from the Mainland. Therefore, island residents are exposed to all of the anti-tobacco press generated in California. This has a tendency to make anti-tobacco efforts seem as if they are part of a popular movement.

TOBACCO INDUSTRY**Brief History**

Until 1985 only three locations in the Hawaiian Islands had tobacco restriction legislation on the books. Early in 1985, the City and County of Honolulu passed a restrictive tobacco ordinance. This ordinance covers most public places but excludes restaurants and the hospitality industry.

Cigarette excise taxes in the Hawaiian Islands are unique. This is the only state in the Union that taxes cigarettes with an ad valorem tax. This tax, presently imposed at 40 percent of wholesale price, makes Hawaii's among the highest tax rates in the nation.

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Outlook: Major Issues - State and Local

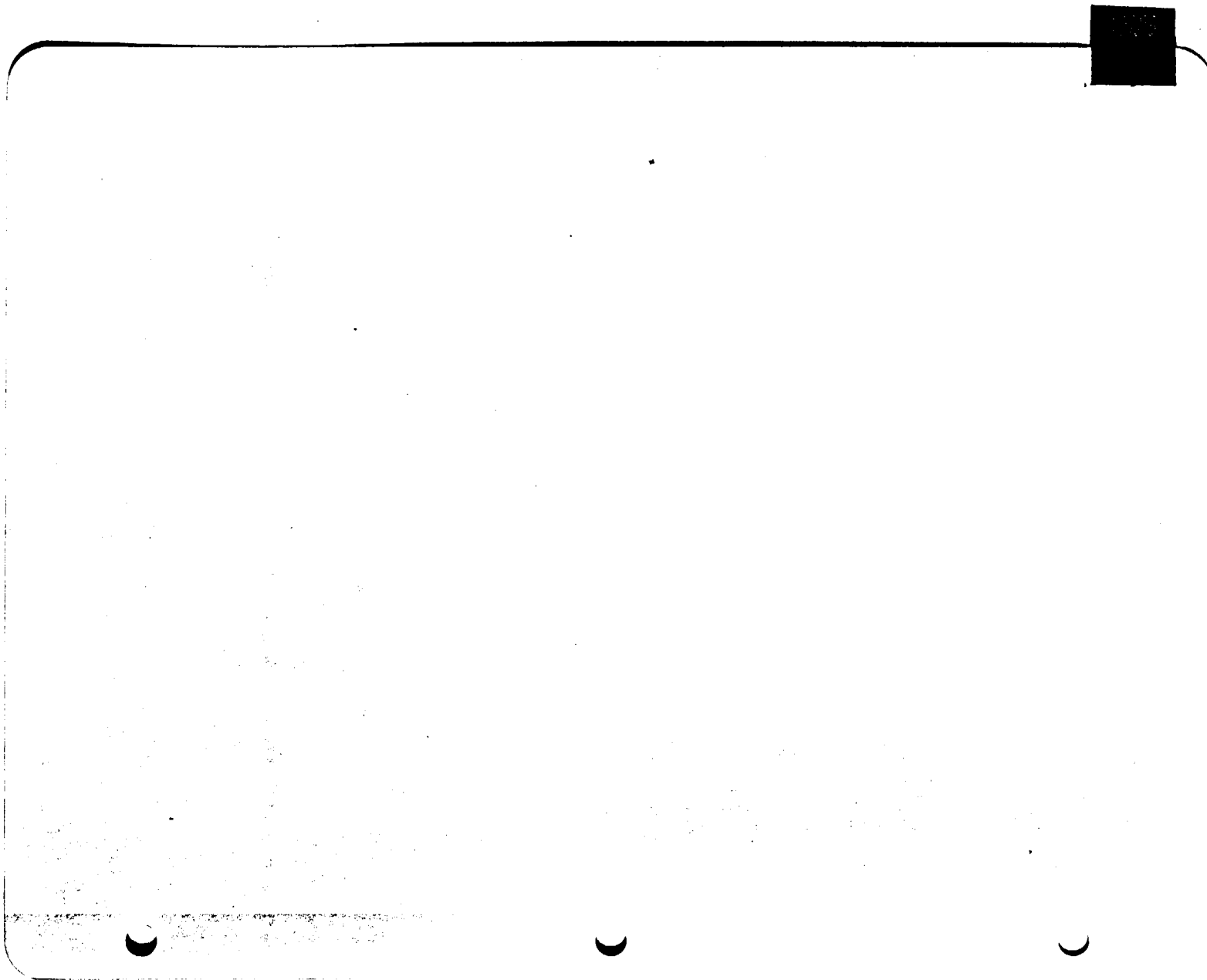
As noted above, Hawaii's fiscal picture is relatively stable. However, with increasing pressures to improve state human services programs, increase state employees' salaries, etc., it appears there will be a continued effort to increase the rate of the present ad valorem tax.

In addition, contrary to past experience, it appears there may be an increased effort to duplicate at the state legislative level what the City of Honolulu did in terms of tobacco restrictions.

December 1986

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IDAHO

PREFACE

Idaho, with slightly less than 1 million people, controls less than four-tenths of one per cent of this nation's tobacco market.

STATE OVERVIEW

Economic Condition and Outlook

Idaho's economy remains dependent upon its ranching, farming, timber and mining industries. Although Idaho is beginning to see electronic assembly operations, new economic growth is not enough to offset the downturn in the timber and mining industries in recent years. Its export of agricultural products is increasing and is assisting the revenue picture.

Historically, the legislature has been prudent in its management of state revenues. However, shortfalls in mining and timber are finally catching up with the state's revenue needs. One forecast shows the state considerably in the red.

Political Overview

In the 1986 race for Governor former Carter administration interior secretary, Democrat Cecil Andrus, was elected over Republican Dave Leroy by 4,300 votes.

Even after losing two seats, the Republicans will maintain control of the Idaho State Senate with a margin of 26-16.

In the Idaho House, the Republicans, who have maintained control since 1961, will enjoy a 64-20 vote majority.

U. S. Senator Symms and the state's two Congressmen retained their seats.

Significant State Problems

The most significant state problem at this point is uncertainty in the state's fiscal picture. Revenue forecasts since 1985 have shown budget shortfalls and revenue deficits. This is partly due to the increasing costs of committed state resources, and a population that is growing slowly.

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The state does have balanced revenue sources (income tax, sales tax, property tax), so solutions to the revenue shortfalls will either amount to reductions in state spending or increases in state taxes. Considerable attention is being given to the possibility of a cigarette excise tax increase. Idaho's tax is now 9.1 cents per pack, and surrounding states are considerably higher. This inordinately low tax rate, makes Idaho a natural for an effort to "equalize" cigarette excise taxes between Idaho and surrounding states.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

Idaho has only two major tobacco wholesalers, both located in the southern part of the state, in Pocatello and in Boise. Although a relatively small organization, the Idaho Association of Tobacco and Candy Distributors has been quite helpful to us in fighting tobacco restriction legislation. The distributor from Pocatello is particularly well-connected with legislators from his part of the state. Member company personnel are very few in number. Several of our companies have Idaho as part of sales territories which are headquartered beyond Idaho's borders, specifically in Salt Lake City and Seattle.

Business

Idaho's major business organization, the Idaho Association of Commerce and Industry (IACI), has been reluctant to become involved in tobacco issues. However, we have recently begun discussions with IACI on a cooperative program (similar to Washington's) to encourage voluntary workplace policies. This may well be the avenue through which we'll get more support from this association.

On the other hand, we have had extremely good support from the Idaho Restaurant Association, the Idaho Innkeepers Association and the Licensed Beverage Dealers Association. This is due to the fact that members of these associations believe government should not interfere in business and because our legislative counsel has represented them in the past.

Labor

Organized labor is not a significant factor in Idaho. As a matter of fact, during the 1985 legislative session Idaho became a "right-to-work" state. The lobbyist for the state AFL-CIO has been quite cooperative with us, particularly in workplace restrictio; efforts, however, he does not carry a significant amount of political clout.

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ANTI-TOBACCO FORCES

The primary anti-tobacco organization in Idaho is the Idaho Lung Association. Although the lung association has sponsored tobacco restriction measures in the past, it was not until this last session that they were able to create a coalition significant enough to pass a modified Clean Indoor Act.

TOBACCO INDUSTRY

Brief History

Several efforts have been made to pass broad smoking restriction legislation since 1975 when smoking was banned in public meetings. Until the 1985 session, however, these efforts were not successful. Continued growth of anti-tobacco religious forces, and an attitude that this was an issue whose time had come, caused the Idaho Clean Indoor Air Act to pass during the 1985 legislative session.

There have been significant efforts in recent sessions to increase cigarette excise taxes. However, most of the previous bills would have earmarked those tobacco taxes for specific projects. Idaho is not a state that likes earmarking funds and, there has not been a tobacco tax increase since 1972.

Outlook: Major Issues - State and Local

It does not appear at this time, that we will see significant restriction legislation in the 1987 legislative session, partially because of the recent passage of smoking regulation legislation. Although the Idaho Lung Association has announced that it will introduce a workplace restriction bill, it is felt that most legislators would prefer to take a "wait and see" approach to further smoking legislation.

There will, however, be a significant effort to increase Idaho's current 9.1 cent per pack cigarette tax. The difference in the 1987 effort, versus previous years, is that this year the revenues will most probably be proposed for the general fund. As the rates in the two states to the west of Idaho are more than eight cents higher, it is an increasingly attractive idea to raise the tax to the vicinity of sixteen cents.

There was a noteworthy effort in Moscow, Idaho, the location of the University of Idaho, to impose local public smoking restrictions in early 1985. After passage of state legislation, this effort was dropped and it appears there will be little local activity in 1987.

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December 1986

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ILLINOIS

PREFACE

Three major political and socioeconomic divisions exist in Illinois: Cook County, the "collar counties" surrounding Chicago and the "downstate" area. Together they comprise a population of 11 million people and 5 percent of our industry's market share.

STATE OVERVIEW

Economic Condition and Outlook

The Illinois unemployment rate exceeds the national average, because of difficulties in the heavy labor groups and in the agricultural community. No immediate relief is seen for either segment. Like many states, there is a concerted effort to attract heavy industry and increase construction projects to improve overall employment.

Political Situation

The State Senate (31D-28R) and the House of Representatives (67D-51R) are both Democratically controlled. No major changes are anticipated in leadership of either house. At the federal level, 13 Democrats and 9 Republicans hold U.S. Representative seats. Both U.S. Senators are Democrats.

Cook County and Chicago politics are controlled by Democrats; however, factions within the party will cause a great deal of competition during the 1987 mayoral campaign.

Significant State Problems

As in previous years, concerns over finance and employment will remain the foremost difficulties faced by the state. However, no new cigarette excise tax increases are anticipated at this time.

RESOURCES - STRENGTHS AND WEAKNESSES

Tobacco Segments

Strong support from the I.T.C.D.A. and member company personnel forms the core of our grassroots program in Illinois. The association also greatly supplements our direct lobbying and campaign support activities.

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Business

Due to concerns regarding the Illinois Clean Indoor Air bill, our business allies are growing in numbers and participation. The state Chamber of Commerce has been extremely supportive and will remain so during similar drills in 1987. The state restaurant and bowling proprietors associations have both greatly increased their support.

Labor

In spite of personal contacts with organized labor, labor representatives have done little on our behalf. Recently, however, AFSCME indicated great interest in defeating restriction legislation. During 1987 that contact will be used to encourage more support from other labor organizations.

Fire Groups

Despite industry efforts to involve this segment, little political support has been received. We will, however, continue our efforts to gain fire officials as allies.

ANTI-TOBACCO FORCES

The Illinois cancer society retains two high-level, independent legislative agents. Additionally, the state medical society is involved in a broad-based anti-smoking coalition. Thus, both political tactics and grassroots support for anti-tobacco activities are of unusually high quality in this state.

TOBACCO INDUSTRY

Brief History of Successes and Problems

We have successfully prevented enactment of the Illinois Clean Indoor Air bill for 11 years; however, it is important to note that in 1986 the bill was only a few votes short of passage in the House. Tax issues at the state and local level have presented the greatest difficulty for our industry. Local cigarette excise taxes currently exist in Chicago, Evanston, Rosemont and Cook County.

Major Issues - State and Local

Tort reform, including product liability, will continue to be a considered during 1987 in Illinois. Additionally, we anticipate another attempt to pass a state clean indoor air bill again next year. To date, local legislation has not been introduced in many communities; however, as with other midwestern states, more introductions may be anticipated.

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Outlook

Due to activities we undertook late in 1986 to encourage large-scale business support for voluntary smoking policies, we anticipate again defeating the clean indoor air bill. Further, this effort may serve to blunt those activities at the local level. We also feel this business coalition may be helpful in defeating other anti-tobacco legislation.

December 1986

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INDIANA

PREFACE

Indiana is a contrast of urban and rural demographics. The major industrial concerns are centered in a few primary cities. The state is considered politically conservative.

The state's population is 5.5 million; it has a market share of 2.7 percent.

STATE OVERVIEW

Economic Condition and Outlook

Unemployment is below the national average. Due to the state's heavy reliance on the agricultural base, national farm policy can greatly affect its employment and general economic well being.

Political Situation

Indiana remains a traditionally Republican state. With the exception of the Secretary of State, all state offices are in Republican hands. The Senate (30-20) and the House of Representatives (52-48) both have Republican majorities. In the Senate, leadership and chairmanships are expected to remain largely the same. The Speaker of the House did not succeed in his re-election bid; that, coupled with the contention of three House seats, means leadership and chairmanships are expected to change.

Significant State Problems

Revenue returns for the state declined in the last half of 1985, came back in the first six months of 1986, then started declining again in the last six months of 1986.

Welfare and educational funding will continue to be major issues in the 60-day session of the Indiana Assembly.

Introduction of excise tax increases certainly should not be ruled out in 1987, even though the administration says the state will try to live within its means.

RESOURCES - STRENGTHS AND WEAKNESSES

Tobacco Segments

Indiana's tobacco family continues to be cohesive and effective. Tobacco farmers, warehousemen and company personnel consistently are responsive to our action calls any tobacco-related concern.

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Business

The position of the Indiana State Chamber of Commerce remains the same for our industry: we cannot expect them to take a public position on an issue concerning only tobacco. However, the Indianapolis Chamber of Commerce will oppose anti-tobacco legislation for the 1987 session. This position will help bring the State Chamber along for "behind the scenes" lobbying.

Indiana's manufacturing association, state restaurant association, state retail association and fourteen other allies, will continue to oppose public and workplace smoking restriction issues, but most will not express concern over proposals to increase cigarette taxes.

Labor

Labor in Indiana remains sensitive to the fact that some member companies are not unionized. But personal relationships still exist between TI and elements of organized labor in Indiana, therefore, labor elements will continue to be very helpful in opposing anti-tobacco legislation.

ANTI-TOBACCO FORCES

These forces have long been present in Indiana, but previously have not been organized statewide. The state cancer society and state medical association have been organizing for the past year, however. According to the press, they will work hard for passage of a bill to ban smoking in restaurants, public and workplaces during the 1987 General Assembly session.

TOBACCO INDUSTRY

Brief History of Successes and Problems

The industry has defeated clean indoor air bills in the Indiana General Assembly since 1972, and has been successful in defeating local ordinances for the past six years. However, the restriction bill in 1986 was defeated by only two votes in the House. Therefore, we see the need for an extended mobilization in 1987.

The cigarette excise tax rate has not been raised since 1977. We have defeated several bills since that time, but we are approaching a tough tax fight year.

Major Issues - State and Local

Fiscal concerns are foremost in the minds of state and local legislators in Indiana. State legislators may turn to excise taxes to solve these concerns.

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Additionally, we anticipate another attempt to pass a state clean indoor air bill. To date, local legislation has not been introduced in many communities; however, the cancer society notes that if the state assembly doesn't pass clean indoor legislation, it will work to enact local ordinances.

Tort law provisions, including product liability laws, were revised in 1978 by the Indiana General Assembly and are considered to be among the toughest in the U.S. Little action directly related to product liability is anticipated.

Outlook

Anti-smoking groups show signs of strengthening as lobbyists in the state capitol. Our continued success against "clean indoor air" legislation at the state level will be more difficult than ever before because of the close vote in the 1986 session. We will continue to encourage business support for voluntary smoking policies and programs.

The new Speaker states he does not anticipate major tax increases next year, despite the state's budget balancing problems. However, he hasn't ruled out miscellaneous tax increases such as those on alcoholic beverages or cigarettes. It will be a real challenge to prevent passage of an increase in Indiana's cigarette tax.

December 1986

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IOWA

PREFACE

Iowans enjoy the most fertile farmland in the world. The state's farm-based economy dates back to post-Civil War days when the early move westward made Iowa a crossroads for frontier settlers. Its German-Catholic and Scandinavian-Protestant population lives primarily in rural settings. During the past 50 years, technology has made Iowa farmers some of the most productive farmers in the world. The state's industry, centered mostly around Des Moines, has focused in the banking and insurance industries. Iowa has, in the past, distinguished itself as a leading meat processor and farm equipment manufacturer.

Today however, Iowa is in dire straits economically. Its farm economy is on the brink of collapse, its equipment manufacturing is in a depressed condition and an uncertain future with regard to its financial community clouds the future further.

The state of Iowa, with 2.9 million people and a market share of 1.2 per cent, is controlled by Democrats in both houses; its Governor is Republican. Iowa's current economic situation is grave: plummeting farmland values, reoccurring budget deficits, a shrinking farm import market and depressed farm implement manufacturing. All of this points to a very tenuous economic climate in Iowa for the remainder of the 1980s.

STATE OVERVIEW

Economic Conditions and Outlook

Iowa's economic situation is a much more complex problem than the depiction of an "Oil-Can Harry"-type loan officer evicting the hard-working farmer while his runny-nosed and teary-eyed children look on desperately.

Iowa land values have plummeted due to speculation and mid-1970s inflation-fueled prosperity. Banks were more than happy to loan money on farm land collateral, using an ever-rising and sometimes questionable land value appraisal as the yard stick for loans. Land that was going for \$2,000 an acre, is now worth \$600 an acre. That farmer who took out a \$100,000 note from his friendly banker, now finds himself in a dilemma. When the bank reviews the note and determines that the land is only worth \$600 an acre, that banker must compute the generally assumed "80 percent of appraisal" as the loan value. The farmer's equity at \$2,000 an acre, based on an 80-percent loan value rule, was \$100,000. Now, that same land, worth \$600 an acre, only provides the farmer with \$37,500 of land value or only \$30,000 of loan value.

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Due to weather conditions, one-third of all crops are left in the field unharvested. Farmers have no borrowing power. Therefore, the farmer in trouble stays in trouble. The crop is still in the field, so there is no money from the crop...the farmer needs seed for the next planting, but he has no money. And, since he can't borrow, his options are very limited.

Political Situation: Current and Outlook

Governor Branstad was reelected over former Senate majority leader Lowell Junkins by a margin of 52-48 per cent. The victory for Branstad is not considered good news for the tobacco industry due to the influence of Mrs. Branstad, a very vocal anti-smoking campaigner.

The Democrats will maintain control of the Iowa House of Representatives by a margin of 58-42. The new Majority Leader is Representative Bob Arnould (D-Davenport).

In the Senate, the Democrats will maintain control by a margin of 27-23.

With regard to Congressional elections, incumbent Senator Charles Grassley (R-IA) regained his seat by an overwhelming majority of 66-34 per cent. The surprise victor for the 3rd Congressional District seat was Democrat Dave Nagle, who defeated Representative John McIntee by a margin of 55-45 per cent. This particular race is not good news for the tobacco industry in that McIntee was a very close friend of the industry.

In the 6th Congressional District, "Love Boat" actor Fred Grandy won a tight race to become the new Republican member of Congress in that district.

Significant State Problems

Iowa faces some of the Midwest's most troubling problems during the coming year:

- o Disastrous farm economy.
- o Depressed farm equipment manufacturing.
- o Huge budgetary shortfalls.
- o Perceived lack of confidence in financial institutions.

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RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

Iowa's tobacco segments are not always dependable. Its wholesaler association, even with recent overtures, has not been responsive to general tobacco industry legislative concerns. If a choice between a vote on the state's minimum mark-up law or an increase in the state's cigarette excise tax, the wholesaler association's choice would be the former.

There are no tobacco farms in the state of Iowa; however, major efforts are underway to work with farm groups for help on tobacco issues.

Business

The Iowa business community, concentrated in the Des Moines area, can be a source of coalition help for our issues. Additionally, we have had good success in working with chambers of commerce, business associations and the hospitality industry.

Labor

With the depression in the farm equipment manufacturing industry, and considering several meat processing plant labor strikes, labor as an organization, is an unreliable ally. It has enough problems of its own.

Institute Resources

The most valuable resource provided by The Tobacco Institute in Iowa has been the securing of the best possible lobbyists to represent our industry, as well as the continuation of the honorarium program.

ANTI-TOBACCO FORCES

For five legislative sessions, clean indoor air bills have been introduced and defeated. However, anti-industry forces headed by lung association operatives, have announced a major new effort during the upcoming legislative session.

The Iowa political environment has not succumbed to the national hysteria regarding indoor smoking restrictions. Due to a more professional fund-raising effort, however, lung association lobbyists will be in better financial shape and more able to organize locally regarding their agenda.

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TOBACCO INDUSTRY

Success and Problems - History

The major disappointment in 1985 was that the FET sunset precipitated an 8-cent "mind set" in the Iowa legislature. Originally viewed as a "pick-up" or a contingency based on the FET sunset, Iowa's \$75 million budget shortfall generated the momentum for passage of an outright 8-cent cigarette tax increase that year. These conditions still exist and will continue to exist during the next legislative session.

Major Issues - State and Local

The following issues will continue to loom on the horizon:

- o **Smoking Restrictions**
A major effort to promote a state-wide anti-smoking bill will be given high priority by lung association operatives.
- o **Tax Increase**
Due to the dreadful economic situation, a cigarette tax increase is always possible.
- o **Sampling Bans**
Coupled with smoking restrictions, a sampling ban may become a part of a complete and comprehensive anti-smoking package.

Outlook

It is our hope that 1987 will be as successful as 1986. However, the legislature will go to the line of least resistance, and it is our expectation that a fight on cigarette tax increases will ensue early in 1987. Additionally, we anticipate a strong effort by our adversaries to enact comprehensive workplace smoking measures.

December 1986

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KANSAS

PREFACE

The State of Kansas is generally regarded as rural, agricultural, and staunchly conservative. While the application of these characteristics is valid, it would be inaccurate to view Kansas only in this way. For example, Johnson County is urban, affluent and a major business center, and Wichita, a major metropolitan area, is the home of a huge aircraft manufacturing industry.

Kansas' diversity manifests itself in the state capitol. While a solid Republican majority exists in the state legislature, its membership splits as frequently on an "urban vs. rural" basis as along partisan lines. The gas and oil industries join aircraft manufacturers and agricultural concerns as major influences in the state's politics.

The state population was 2.4 million in 1980. Kansas has just over a one-percent market share.

STATE OVERVIEW

Economic Condition and Outlook

With few exceptions, Kansas' economic condition is very poor. The meat packing industry in Kansas City is relatively steady, as is aircraft manufacturing in Wichita, although it is known to have drastic ups and downs corresponding with the national economy.

The western two-thirds of Kansas is depressed, as are other major agricultural centers of the country. The situation has been made worse by low crude oil prices and the resulting reluctance of companies to explore Kansas' gas and oil reserves. Kansas farmers and their neighbors in related industries will face a serious and continuing struggle for some time to come.

Political Situation

Kansas is solidly Republican. Its U.S. Senators, three of five Congressmen and the Governor are Republican; and both houses of the state legislature are controlled by the GOP.

Kansas' Democrats best hope in 1986 was to elect Lt. Governor Thomas Docking (whose father and grandfather have served as governor) to the Governor's office. However, Docking was soundly defeated by former House Speaker Mike Hayden. In 1987, Republicans will control both the Governor's office and the state legislature for the first time in eight years and can be expected to move rapidly forward with their legislative agenda.

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Significant State Problems

It is not necessary to discuss in depth the agricultural depression and its effect on the state. This is truly a problem of national scope and will persist in the foreseeable future. A related problem worthy of note is water. Kansas is engaged in squabbles with neighboring states over the use of water from shared streams. Water shortage is an especially serious issue in western Kansas where irrigation is vital to crop production.

The tremendous fiscal problems faced by Kansas in 1986 will not be as serious in 1987. This is primarily because of the one-time "windfall" in income taxes the state will enjoy due to federal tax reform. However, the state must anticipate future revenue shortfalls if the price of crude oil remains low and state severance taxes remain relatively unproductive.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

The principal tobacco-related organization in Kansas is the Kansas Tobacco-Candy Distributors & Vendors Association, one of few such groups that encompasses both the wholesale and vending segments of the industry. The KCTV has been a tremendously responsive and valuable ally of The Tobacco Institute for many years, but is now experiencing some internal problems that may hinder its effectiveness.

Harry O'Riley, who has served as KTCV Executive Secretary for many years, is now 77 years old and has announced his retirement. This period of transition and a shortage of Association funds to retain competent staff is, at least, troubling. Nevertheless, KTCV leadership is committed to finding and retaining a competent executive secretary and legislative counsel. Accomplishing this is essential to maintaining the association's viability and avoiding a split between wholesale and vending interests. ^L

The Institute's member companies have produced a large number of excellent TAN Activists in Kansas. These individuals have proven to be invaluable in maintaining an awareness system and acting as the catalyst to an effective grassroots lobby.

Business

The major lobbying group for business is the Kansas Association of Commerce and Industry. While KACI is not a consistent ally of The Institute, it will support a TI position when it is in keeping with perceived business interests. A case in point was in the 1985 legislative session when KACI representatives lobbied against an increase in the state cigarette tax, arguing that the revenue it produced would be insufficient to fund a program of inventory tax relief favored by KACI.

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The Kansas Retail Council within the state Chamber of Commerce has been helpful to The Institute on a number of occasions, especially in fighting smoking restriction legislation. Bud Grant, the KRC Executive Director, has very strong feelings on this issue and has been consistently cooperative.

Labor

Inasmuch as Kansas is a "right to work" state, organized labor is not a major political force. Most labor unions are concentrated in the Kansas City and Wichita areas. They have some influence with Democratic legislators, but have never taken public stands on tobacco-related issues.

Fire Groups

Firefighter organizations in Kansas do not constitute a lobby of any major consequence. The industry has had two brushes with the state fire marshal in recent years. In 1984, legislation was introduced and defeated which would have earmarked a portion of the state's cigarette tax for the fire marshal's office. In 1985, when the Kansas legislature began discussing "fire-safe" cigarettes, the fire marshal had discussions with TI representatives and concluded that the idea had no merit.

ANTI-TOBACCO FORCES

Kansas has no shortage of anti-tobacco activists. As early as 1978, a GASP organization in Wichita pushed a smoking restriction law through the city council. This ordinance is now almost totally ignored. The Wichita GASP group seems largely dormant.

"Kansans for Non-Smokers Rights," headquartered in Topeka, is presently the largest (claiming 300 members) and most aggressive anti-smoking group in the state. KNSR convinced Topeka City Councilman Gene Miles to introduce a smoking control ordinance before the Council, and it was approved in early 1986. Elements of this same group were successful in passing a limited smoking restriction ordinance in Lawrence.

An unnamed group of anti-smoking activists in Overland Park became active in 1984 with logistical and financial support from the American Lung Association. The group put together a very aggressive campaign to obtain enactment of a stringent smoking restriction law, targeting primarily restaurants and workplaces. They were nearly successful. However, the ordinance ultimately approved by the Overland Park City Council was relatively mild and contained no workplace or restaurant restrictions.

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Many of the same anti-smoking activists involved in the Overland Park ordinance fight have twice tried a similar effort in Olathe, a neighboring community. The Olathe City Commission has rejected, outright, their proposals.

At present, Kansas' anti-smoking groups have not formed any statewide coalition to press for legislation in the state capitol.

TOBACCO INDUSTRY

Brief History of Success and Problems

With the exception of Wichita, Topeka and Overland Park, anti-smoking organizations have had no success in passing ordinances in Kansas. In the same vein, at least six smoking control proposals have been introduced in the Kansas legislature during the past four years. None has progressed beyond the committee level. Legislation concerning "fire safe" cigarettes and sampling restrictions has similarly died.

The tobacco industry's major legislative problem in the State of Kansas has been an inability to defeat tax increase proposals. The state's tax has increased five times since 1964. The latest 8-cent increase, approved in the 1985 session, brought the tax to 24 cents per pack, one of the highest rates in the nation.

Major Issues -- State and Local

Like many other states which have depended heavily upon gas and oil severance taxes, Kansas now badly needs to restructure its taxing scheme. Otherwise, the state will continue the "feast or famine" cycle produced by wildly fluctuating petroleum prices. Governor Mike Hayden should be expected to take the lead in dealing with this major problem.

Given the number of active anti-smoking groups in Kansas, it is realistic to expect smoking restrictions proposals at both the state and local levels in 1987.

Outlook

Legislative counsel has been adept in the past at maneuvering anti-smoking bills to quiet defeat in the state capitol. This trend should continue at the state level.

The Institute's major difficulties in Kansas during 1987 will be in dealing with local smoking restriction proposals. History has shown that when anti-smoking activists are frustrated in state capitols, they turn their attention to municipalities and their city councils. With this in mind, 1987 may very well be the year when such cities as Wichita, Salina, Lawrence and Pittsburg consider smoking restriction ordinances.

December 1986

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KENTUCKY

PREFACE

Traditionally, Kentucky has had four sacred cows: horses, coal, liquor and tobacco. Each of these has been treated with a certain degree of "tenderness" during the legislative process.

Tobacco, Kentucky's number one cash crop, provides much direct and indirect income for state coffers. Only during Governor Brown's administration have we seen any organized efforts against tobacco; a tax bill was introduced in 1982, his last session. He later signed the Kentucky Health Plan, which named cigarettes as a health hazard.

Kentucky's market share is 2.4 percent.

STATE OVERVIEW

Economic Condition and Outlook

Considering the poor economies in many states, Kentucky's remains in fair condition. The state is expecting a \$88.5 million shortfall in revenues on a \$3.2 billion budget. Some automatic cutback programs have taken effect, and the governor has announced that \$25 million will be taken from the "rainy day" fund. The shortfall was created by absence of inflation - a 6-percent inflation rate is required to break even on projected revenues.

There has been a great deal of hassle in Kentucky this year because of the way the location of a Toyota plant was handled. The state has gone into debt roughly \$200 million in bonds to back this plant, which should provide 2,000 direct jobs and many indirect jobs. Since the auto plant is located in the center of the burley/bluegrass belt, it is expected to offset some of the poorer conditions which exist because of the lagging farm economy.

The federal tobacco program is one of the key factors in stabilizing Kentucky's farm economy. Without the program, land prices could fall dramatically. Many small family farms could be forced out of business. Small and large banks would be damaged severely through defaults.

Tobacco has a positive ripple effect throughout Kentucky's economy. If, however, the tobacco economy fails, the negative ripple effect will be very harsh. The changes in the tobacco program, which have lifted the burden of the pool from the farmers, should help. However, the low prices in the opening days of the market have dampened spirits.

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Political Situation

Kentucky is primarily a conservative Democratic state. One congressional seat changed this year. Gene Synder (R) retired and was replaced by Jim Bunning (R). All other seats remain unchanged.

The State House and Senate elections showed very few surprises. The political balance has not changed; Democrats still have substantial control.

The 1987 governor's race still has no clear cut leader. The Democratic primary will be wide open for several more months.

Significant State Problems

The state has a small revenue shortfall, but it is manageable. The farm community remains fretful and sluggish. Unemployment teeters around 7 percent.

All in all, the economy is in the doldrums.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

All segments of the tobacco industry are present in Kentucky. Each is, in turn, represented by an organization or association, sometimes with overlapping interests and efforts.

Growers: Kentucky Farm Bureau
National Farmers Organization
Grange
Council for Burley Tobacco
Kentucky Seed Improvement Association
Kentucky Seedman's Association
Burley & Dark Leaf Export Association
Burley Growers Cooperative
Burley Farmer Advisory Council
Burley Auction Warehouse Association
Burley Leaf Dealers Association

The Kentucky Department of Agriculture has always been a vociferous supporter of tobacco. We are also very fortunate to have an extremely active and effective wholesaler association. Both groups are active in the legislative process. The Kentucky Tobacco and Candy Association maintains a lobbyist/executive director who is very effective.

The Council for Burley Tobacco has an on-going program for congressional aide education, "The Bluegrass Agricultural Tour." TI staff participates in the planning, development and implementation of this project, which brings 25-30 staffers from Congress to Kentucky every year.

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Finally, Kentucky is the headquarters for Brown and Williamson Tobacco Company. In addition, Philip Morris, Lorillard, Pinkerton Tobacco and R. J. Reynolds have manufacturing or processing operations here.

Many people are involved in the tobacco industry in Kentucky, literally from the seedbed to the supermarket. Each of the groups mentioned is considered a resource.

Business

In the past we have had excellent cooperation from the Kentucky Chamber of Commerce and Associated Industries of Kentucky. These organizations are actively supported by many members of our industry coalition. They are aware of the tobacco industry's impact on Kentucky's economy.

The local chambers in Louisville, Northern Kentucky, Lexington, Paducah, Bowling Green and Owensboro are all cognizant of tobacco's importance. They work cooperatively with TI staff to prevent restrictive measures.

We share common interests with the Kentucky Bankers Association, Kentucky Retail/Wholesale Grocers and the Kentucky Restaurant Association.

In Kentucky we are fortunate to have governmental organizations interested in tobacco. We have good working relationships with the Kentucky County Judge/Executives Association, Kentucky Municipal League, Kentucky Association of County Officials, and the Kentucky Treasurers Association. Most members of these groups are touched by the tobacco industry. Many are tobacco farmers or have family involved in tobacco farming.

Labor

Louisville and Lexington -- and Kentucky in general -- are heavy in union organization. Representative Ron Cyrus heads the AFL-CIO. He has been a friend and supporter of tobacco, and we have received support from his staff.

Fire Groups

The Louisville Fire Department requested support from our member companies for a smoke detector program in 1985. TI contributed in their behalf. It has not been necessary to ask any fire group in Kentucky for legislative support.

ANTI-TOBACCO FORCES

There are no organized groups in Kentucky that attempt to disrupt the tobacco industry. A group called H.E.C.K., or Health Education Consortium of Kentucky, which is comprised of doctors, nurses and some educators, is the closest we have to an anti-tobacco organization. Thus far, they have been ineffective.

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The Department of Health and Human Services began observance of national "smokeout" day under Governor Brown. Brown, whose wife is no friend of tobacco, was the first Kentucky Governor ever to sign anything condemning tobacco.

TOBACCO INDUSTRY

Brief History of Successes and Problems

We have been successful in defeating all attempts to increase the three-cent cigarette tax, or to restrict the use of tobacco in Kentucky. Not to be repetitive, but this state depends on tobacco for much of its livelihood.

Farmers, warehousemen, importers/exporters, auctioneers, leaf processors, manufacturers, wholesalers and retailers are all involved in state and local politics. They are involved in business and social organizations. Leaders in the academic community recognize that tobacco supports the university system.

There was a rift in the tobacco family in the 1986 session. It was caused primarily by House Speaker Pro Tem Pete Worthington. He agreed with Congressman Rose's ideas and introduced a cigarette tax to trigger when the price supports went below a specific level. The cigarette tax would have funded income tax credits for Kentucky burley producers. When the Kentucky Farm Bureau broke ranks we were unable to hold the bill on the House floor. We were, however, able to keep the bill in committee in the Senate.

The most difficult part of TI's job is to communicate with all segments of the industry and to ascertain whether they are moving along the same path on specific issues.

Major Issues -- State and Local

The major issues will remain:

- Health care cost containment
- The tobacco support program
- The loss of revenue sharing
- Workman's compensation

Outlook

There is no session scheduled for 1987. However, there have been repeated statements on the need for a special session to deal with workman's compensation and other business problems. We should remain watchful in this regard. If there is a special session, there will be efforts to expand the call.

December 1986

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LOUISIANA

PREFACE

No state has seen more drastic changes in its economy and standard of living in the past generation--up, down, and sideways--than Louisiana. Forty years ago its income level was about 60 percent of the national average; as late as 1970 it was about 75 percent. In the early 1980s it reached 90 percent; and so, accounting for differences in local taxes and cost of living, income levels in Louisiana had essentially reached the national average.

Yet as the 1980s went on and the national recovery surged ahead, Louisiana slumped. Its unemployment rate was, suddenly, one of the nation's highest, and income growth stopped. This may just look like a pause on the charts, but for many Louisianans it spelled catastrophe. The reason is that Louisianans had come to expect rapid growth, had banked on it, literally; citizens made all their plans on that basis.

When prosperity failed to show up, they were in trouble. As a symbol of the situation, the 1984 World's Fair in New Orleans serves nicely. Planned on an unrealistically optimistic basis (it was outdoors and open mostly during the steamy Louisiana summer), it was overpriced for tourists and not of much interest to business travelers. It was sloppily and perhaps scandalously financed by the state government and wound up millions of dollars in debt.

Since 1935, proteges of former Governor Huey Long and members of the Long family have held high political office in Louisiana. Elections for 30 years split on pro- and anti-Long lines. Huey Long built a coalition of the rural poor, including some blacks, against the rich and better off. He never, however, did well in New Orleans, even in its poor neighborhoods.

What is so amazing is that this structure of politics was superimposed on a state already divided in two other ways. First was division by race. Although Louisiana has always had a large black population (in 1980 the third highest black percentage among states), many blacks, especially in New Orleans, were always allowed to vote.

The other division was between Catholic and Protestant, Cajun and Baptist. About one in every six Louisianans today speaks French as his native tongue.

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In short, there are many cultural differences between the teetotaling Baptists of northern Louisiana and the beer-drinking Cajuns of the south, and those differences emerge from time to time in politics, usually in no more threatening form than a preference for a candidate of one religious background or another.

Louisiana's rapid economic growth for a time smoothed over some of these old divisions: elections are not referenda on the Longs any more, racial issues are submerged if not gone, and cultural hostilities between Cajuns and Baptists are of little importance. Louisianans are family people, with lots of children. The politics of cultural variety is not yet a major factor here. As for politicians and businessmen, they are judged by results, not the process by which they achieve them, ends justify the means.

STATE OVERVIEW

Economic Condition and Outlook

Presently the Louisiana economy is in its worst position since the Great Depression. Oil is at \$15 a barrel, gas is down proportionally. Drilling is way down, offshore activity is limited. Thousands of vessels, rigs, etc., are rusting away along the banks of rivers and bayous.

Unemployment is the highest in the nation, with some areas in the 30 percent category. Agriculture is down. Soybean farmers are going out of business. Sugar cane farmers are barely able to survive. Real estate values are down. Farm land value is down from \$1,500 per acre to \$600 - \$800 per acre. Some banks are in trouble, some have closed as a result of the economy.

Tax revenues have been reduced by at least 20 percent in just about all areas. The state has a deficit for the 1984-85 fiscal year of about \$200 million and a projected 1985-86 fiscal year deficit of \$177 million, total \$386 million. This is after a 10 percent cut across-the-board ordered by the governor.

Economic and fiscal conditions will cause our industry to be:

- a. An appealing target for increasing state taxes.
- b. Faced with legislation giving all other taxing bodies the right to tax tobacco. The New Orleans consumption tax is an example of this sort of tax.
- c. Subject to legislation allowing the state to keep all of the proceeds of the present tobacco taxes, thereby encouraging local governments to levy their own taxes.
- d. Hit with a smokeless tobacco tax. There is presently no tax on smokeless products.

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Political Situation

The present political situation in the state is highly disorganized. It is felt that up to 50 percent of the present members of the legislature may not be back for many reasons after the next elections in 1987.

It is generally concluded, by people in the know, that the present governor will not run again. However, he should not be counted out yet. There is a long line of possible candidates. Of the Republicans, only one will make the race. He will be selected by the Republican party and the rest will close ranks and support him. The Democrats may not be so cooperative. The race is wide open and it's anybody's guess who the winner will be.

In order to solve the short-range fiscal problems, the governor called a special session in December 1986. While the call was open to all forms of revenue-raising, no increase in the state excise tax was proposed. A defeated bill would have allowed for local governments to tax tobacco and other products, however. As yet, there are no long-range plans for solving the state's fiscal problems.

Significant State Problems

The state faced a deficit in 1986. The revenue shortage will cause a decrease in government services, a general increase in taxes, or both.

Money is needed to fund education, including parochial schools which presently receive public funds. The state owns hospitals, which are not profitable. Prisons are overcrowded, and the unemployment rolls are a burden. There is a need to restructure the property tax. By lowering the homestead exemption, the pressure on local communities would be lessened. Added to all of these problems, Louisiana state government is bloated with high-paid bureaucrats.

It will take decisive, bi-partisan action by leadership to put Louisiana back on the path to financial security.

RESOURCES: STRENGTHS AND WEAKNESSESTobacco Segments

There are fewer than ten tobacco farmers in Louisiana. They have almost no impact on legislation. The perique tobacco grown there is sold through the only warehouse for chewing and pipe blends. It is grown for export to European and Asian countries.

The wholesale and vending segments of our industry are active politically. They participate at the local and state levels of government. The wholesale association has a full-time executive director who lobbies. She works closely with TI's lobbyist.

Business

We have worked with the Hotel/Motel Association, Restaurant Association and the Wholesale Grocers' Association. The Institute is a member of the Louisiana Association of Business and Industry. We hope to get more participation from this group in the future. Individual company representatives have been most helpful on a voluntary basis.

Labor

Labor groups have been quiet in past sessions. The primary union lobbyist and his wife are not pro-tobacco. We have requested assistance with contacts from our Washington office and from our union friends in Kentucky.

Fire Groups

We have had no occasion to deal with fire groups in Louisiana. They have not been involved in tobacco issues. Their legislative friends usually vote with us.

ANTI-TOBACCO FORCES

Three health organizations announced a major anti-smoking campaign on November 27, 1985 aimed at one million Louisiana smokers and youngsters. Sponsors of the campaign, the American Heart Association, American Lung Association and American Cancer Society, designed the program to coincide with the new surgeon general's "warning labels" that began appearing in November, 1985.

The health agencies want their public service advertising campaign and educational program to help publicize the serious health messages on the labels. The campaign has continued through 1986.

Other goals of the group included: passage of non-smokers rights legislation on the state and federal level; raising money for cancer research by increasing state tobacco taxes; lobbying against cigarette promotions and cigarette company-sponsored events and "fighting R.J. Reynolds in their deliberate and calculated attempt to mislead the public" through its advertisements.

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TOBACCO INDUSTRY**Brief History of Successes and Problems**

In a 1984 special session called one week before the regular legislative session, the cigarette tax was increased by 5 cents, to 16 cents a pack. High cigarette tax rates in neighboring Texas and Arkansas helped make the tax hike palatable to legislators. The increase was the first in 14 years. Also, at that time, we were able to convince the Governor not to use "a percent of value tax" which is what the proposed legislation originally contained.

During 1985, legislation to increase the tobacco tax for cancer research was proposed. We were able to hold back that legislation by appropriating instead a set amount from the state general fund. \$one million of the tobacco tax was appropriated for cancer research. However, it was not put in the appropriation bill and the funds could not be used until 1986.

During 1986 the health organizations were relatively quiet in Louisiana. They have been involved with the studies pertaining to the relationship of high lung cancer and the petrol chemical industry.

Anti-smoking legislation was introduced in each of the past seven years. Each time we were able to keep it bottled up in committee. During the 1985 session one bill got out of the Health and Welfare Committee and was killed on the floor.

In 1986 one of the main proponents of anti-smoking legislation, Representative Jon Johnson of New Orleans, won the race for the Senate. This was good for us because the vacant space on the House Health and Welfare Committee had been filed by a friend of ours, Representative Louis Jetson. A vacant place left on the Senate Health and Welfare Committee was filled by Senator Joe McPherson, also our friend.

In summary, only one tax increase in 15 years and no anti-smoking legislation has been successful. A piece of enabling legislation concerning the Superdome passed this year. It provided the management with the right to restrict smoking in the Superdome. After it was passed the Superdome management group realized they had made a mistake with the legislation. Thus far, no rules of enforcement have been promulgated.

In New Orleans a "consumption tax" of five percent was levied on cigarettes late in 1984 and increased this year. A formal resolution was passed by the City Council that if The Tobacco Institute could assist in collecting revenues in another way, the Council would rescind the tax. On December 1, 1986 during the City Council meeting the consumption tax was amended to be repealed if the city's earnings tax was ruled constitutional. The increased consumption tax goes into effect January 1, 1987.

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Outlook

There appears to be no impact on our programs as a result of the recent elections. Congressman Henson Moore was against tobacco, but he lost. Clyde Holloway, the new congressman, is a farmer. It is not known how newly elected Congressmen Richard Baker and Jimmy Hayes feel about the tobacco industry.

The state of Louisiana's economic picture remains dim. If the OPEC nations set their oil price at \$18 per barrel it will take several years to restimulate the oil economy. We expect to see larger deficits, maybe as much as \$600 million in projected revenues.

Two things to consider for 1987 are:

1. Odd numbered years mean non-fiscal sessions of the legislature. To increase revenues and taxes would require a special session.
2. 1987 is an election year. House and Senate members have not recovered politically from the \$750 million tax increase of 1984. This means Louisiana will probably remain in a political and fiscal morass for the next year.

Our most dangerous time will be immediately following the November elections when we would have to deal with the possibility of a lame duck session.

December 1986

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MAINE

PREFACE

Maine is really two states. The southern coastal regions below Augusta support more than 50 percent of the total population, and yet cover less than one-third of the total land mass. The northern two-thirds of the state is largely unincorporated territory, wilderness, logging operations, and highways connecting a few outposts of human activity. The socio-economic and political dynamics in Maine can be extremely volatile.

To a large extent, northern Maine is what most people perceive Maine to be. Southern Maine--like New Hampshire, its neighbor to the west--is one of New England's fastest growing areas. The majority of the people who have made up that growth are vastly different from the traditional Mainers. They demand more of government and are willing to pay for it. They are wealthier, more liberal, and better educated than the indigenous population.

This backdrop of unequally shared growth and prosperity, combined with an increasingly affluent, activist, liberal population, suggests continued problems for not only the tobacco industry, but all business within the state. This has become evident in recent years. The legislature has enacted increasingly burdensome tobacco taxes and restrictions on smoking in public places. In addition, the legislature has enacted the highest minimum wage base in the country, and workers compensation laws have literally driven a number of members of the insurance industry out of the state. The popular notion is that Massachusetts is New England's most liberal state. Today, however, many view Maine as the area's most liberal, anti-tobacco and anti-business state. Ideas and legislative initiatives born in the think-tanks and back rooms of Boston may be initiated in Massachusetts, but they are enacted in Maine.

There are approximately 1.5 million people in Maine. It has a 0.5 percent market share and a 28-cent per pack excise tax on cigarettes, compounded by a 5 percent sales tax. Those taxes are collected on approximately 149 million packs of cigarettes, producing state revenues of approximately \$29.8 million in fiscal year 1985. This represents a decline of 7.4 million packs and an increase of \$300,000 in state revenues since 1984.

STATE OVERVIEW

Economic Condition and Outlook

Maine is a state of economic contrasts. The northern section relies heavily on its forest products industry, and to a lesser degree, farm and dairy industries, for survival. Like any region that does not enjoy economic diversity, a downturn in one of those major industries can have devastating effects.

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All across the country, dairy and farm industries are having difficulty. While the paper industry continues to enjoy prosperity in Maine, there have been a number of adverse legislative actions in the last few years which have hit at the previously unassailable paper industry. These actions may give some of those major companies concern about the future.

In the southern part of the state, the development of the tourist, ship-building, fishing, and the service industries has resulted in phenomenal growth and prosperity. The rate of this growth has actually caused some to ask if there should not be more controls on the rate and type of growth that is allowed in the state. One of the most influential parts of this growth is the Bath Iron Works and its locations in both Bath and Portland. Notwithstanding the activities of the ecologists and the environmentalists, it is likely that the tourism and resort industries will continue to grow during the next few years, and will replace the paper industry as the state's largest employer.

Political Situation

The year 1986 was one of the most politically interesting and active in some time. The Democratic party strengthened its control of both houses. However, battles with broad interest and appeal were fought for the statewide and federal offices.

Governor Joseph Brennan's second term expires in January 1987. He will move to Washington as the narrow victor in the First Congressional District race. While a variety of political leaders in both parties tested the waters of the governor's race, the final candidates were Attorney General James Tierney and Congressman John McKernan. Although McKernan will be governor, Tierney will probably continue as the legislatively-elected attorney general.

Significant State Problems

Primary legislative concerns in 1987 will likely focus on environmental topics. These will include solid waste disposal, low-level nuclear waste disposal, ground water pollution, the ecological impact of hydro-electric production, the Bay of Fundy electric generation project, and others. Beyond this, a variety of issues will come back to haunt legislators in Maine. These are likely to include education, its quality, funding, and the accountability of its practitioners; workmen's compensation; and unemployment compensation. Any one of these is a tough issue. However, the combination of a variety of difficult and media-sensitive topics and state-wide elections is likely to make for some very interesting legislative action.

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RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

Like the rest of New England, the tobacco industry in the state tends to be disorganized and torn by a variety of petty disagreements and competition. What organization exists, we impose. The fact that there is not an organized wholesaler association in the state requires a great deal of individual contact. In contrast, the Pine Tree Vending Association, Maine Grocers Association, and the Associated Grocers of Maine are extremely helpful sources of both legislative lobbying support and grassroots involvement. For the past few years, our relationships with these three groups have grown. They are excellent allies.

Business

Even on matters unrelated to the tobacco industry, the business community in the state of Maine has little real legislative clout. This can be seen in some of the major defeats -- including those in workmans compensation and minimum wage -- it has suffered over the past few years.

The two main organizations representing the community, the Maine Chamber of Commerce and Industry and the Maine Merchants Association, have attempted to be helpful to TI and our legislative counsel on many bills from smoking in the workplace through sampling and advertising. Nonetheless, they are also constantly seeking ways in which to ingratiate themselves with the liberal Democratic majority in the House and Senate. Too often, this has caused them to seek compromises at an early stage rather than maintaining a strong opposition.

We have always been able to access the various associations' members and have found them helpful with support when they can.

Labor

Unlike other states where the AFL-CIO and general labor community are suffering from declining blue-collar employment and a loss of interest among workers in union concerns, Maine's labor community, particularly the AFL-CIO and the state employees union, are alive and well and somewhat influential.

In prior years organized labor testified on our behalf, in opposition to both smoking restriction legislation and tobacco tax legislation. In 1985 Maine labor took a more active role as a result of the interest and involvement of the Maine Locals of the Bakery, Confectionery, and Tobacco Workers Union.

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It is likely that we can continue to count on their support. However, as with business, tobacco-related issues are not of the highest priority to the labor movement.

Institute Resources

In the last few years, the most valuable resource TI has in the state (outside of our legislative counsel and his law firm) has been the Maine Grocers Association. On numerous occasions, that organization and its sister group, the Associated Grocers of Maine, have almost literally turned over the operation of their associations and their members to the Tobacco Institute.

To a lesser degree, the members of the vending industry have provided support, mostly on tax-related matters. The key individual resource in the state is Mr. Charles Canning of Pine State Candy & Tobacco, his management staff, and the 200 employees located primarily in Augusta but travelling throughout the state.

If we are to be successful in 1987 and beyond, we must continue to develop friends and allies in the moderate-to-liberal wing of the Democratic party.

ANTI-TOBACCO FORCES

Under the Coalition on Smoking OR Health, anti-tobacco activists in Maine developed a well-coordinated attack in the state legislature. They are led by the Maine Lung Association, Cancer Society, and Heart Association. However, there are 24 other members of the Coalition. It is supported by State Public Health Commissioner Michael Petit and championed in the legislature by Reps. Merle Nelson and Peter Manning. In the past, they have used the shotgun approach to legislative activities, and we were very successful in deflecting their attacks. In more recent years, they have learned to focus on one or two objectives.

In 1983 and 1984 the Coalition focused in a timely fashion on tobacco taxes. Their goals of increasing product cost and imposing a certain level of punitive taxation on tobacco products combined very well with the state's need for additional revenues. Many members of the Joint Taxation Committee would privately jeer at the tobacco "crazies." Publicly, however, they enjoyed and encouraged support for tax legislation providing additional dollars for major state projects: aid to local education and tax reform. In 1985 the anti's focused on a San Francisco-type workplace bill and came away with a vastly weaker piece of legislation. In 1986 their focus was on smokeless tobacco, and they were successful in their efforts to impose a 45-percent tax on the product.

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TOBACCO INDUSTRY

Brief History

The legislative history of the tobacco industry here is somewhat checkered. In one state, we are losing the only governor to have vetoed anti-tobacco legislation on two occasions. At the same time, we have the calamitous 18-month period when Maine increased its cigarette excise tax first from 16 to 20 cents, then imposed the state sales tax, and then further increased the excise tax from 20 to 28 cents.

Our past successes may have contributed to our recent setbacks. Until the 1983 session, we were effectively winning every major legislative battle. The perception that the tobacco industry was simply winning too many took focus. That is a perception that no legislator or legislative body wants to encourage.

We enjoyed success because we had the best legislative counsel in the state and because we were able to support him with both quantitative and qualitative grassroots input. However, in recent years, the overwhelmingly negative press, a more coordinated attack by the anti-tobacco community, and a firmer control on the legislative process by the more liberal elements of the Democratic party have resulted in an inability to defeat all legislation. This condition is likely to continue into the future.

Major Issues--State and Local

At the state level, it appears that the anti-tobacco activists will be pre-occupied in 1987 with smokeless tobacco and youth-related issues. These attentions should include cigarette methods of product promotion, including sampling and advertising. Also, we are likely to see an attempt to expand and enforce the current workplace law.

The rash of local anti-tobacco ordinances has not yet struck Maine, nor is it likely to do so in the foreseeable future. However, if and when it does occur, it is likely to happen first in the southern cities, followed shortly by action at the town meeting level throughout the state. A well-coordinated town meeting attack on the tobacco industry could be devastating.

Outlook

The next few years in Maine are difficult to predict. If the national anti-tobacco fever continues to grow, it will be fueled locally by the Boston and local media outlets. There will be continued pressure brought on the legislature to restrict smoking and smokers throughout the state.

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Four years ago at a legislative hearing, a woman from Gardiner suggested that the worst form of child abuse was that which forced a child to live in a household with a parent who smoked.

The elderly woman suggested that it should become the state's duty to identify those smokers with children, inform them that they were being investigated, and if they did not refrain from smoking in the home, they would have their children removed and made wards of the state for their own protection. At the time most people felt that this was fanatical. During 1985, without suggesting any state actions or remedies, the director of the Mid-Maine Medical Center in Portland called cigarette smoking by parents a form of child abuse. No one laughed. During 1986 the NRC reported on the effects of ETS on children. Some people in the state may think the 1983 statement was on target.

December 1986

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80420312

MARYLAND

PREFACE

Maryland, the headquarters for major anti-smoking groups such as GASP and ASH, and having a high concentration of federal government employees, presents a unique challenge in fighting smoking restriction legislation. Maryland has a population of 4.2 million and its market share is 1.9 percent.

STATE OVERVIEW

Economic Condition and Outlook

The economy remains diverse. Twenty percent of employment is government oriented. Revenue growth predicted for 1987 will be in the seven percent range. The state has a built-in increase of five percent. State leaders are awaiting federal tax changes which have not yet been quantified. There is a possibility of a \$2 billion gain in personal tax, plus a \$250 million change in corporate tax gain. In addition, there is a potential for \$100 million more in miscellaneous areas.

For fiscal years 1987-89, projections are for stability with modest growth. Maryland will have a significant budget surplus in fiscal year 1987. Most of this will be as a result of recent federally enacted tax reform. Therefore, no tax increases are expected during the 1987 session of the legislature.

Maryland ranks high in per capita income, about 10th in the nation. Of the nonagricultural work-force, manufacturing employment is a moderately small part (12.3 percent), while both services (23.8 percent), and government employment (23.3 percent), are larger.

Maryland also ranks high in the following economic indicators: state and local per capita revenues (14th); state and local per capita taxes (10th); state debt as a percent of state revenues (13th); and state and local tax effort (11th). Maryland ranks low in state aid from the federal government (38th).

Maryland depends more heavily than most states on selective sales taxes. However, Maryland has a very low tax rate on distilled spirits (47th), slightly lower than average on beer and wine taxes, and also lower than average on public utility tax rates. Its 13-cent cigarette tax is lower than the national average. ^L

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Political Situation

The Maryland legislature is Democratically controlled by a wide margin. In the House there are 124 Democrats and 17 Republicans. In the Senate there are 41 Democrats and 6 Republicans.

1986 was an active year for Maryland politics. All state-wide elected offices were open in 1986. Maryland is unique in that all state House and Senate seats are four year terms that start and end at the same time.

The membership of the Maryland Congressional delegation changed dramatically as a result of the 1986 elections. There was nearly a 40 percent turn-over rate in the state legislature due in part to the number of state delegates and senators running for the U.S. Senate seat being vacated by Senator Mathias and for four congressional seats being vacated by incumbents.

Third District Congresswoman Barbara Mikulski was elected to the U.S. Senate. The four incumbents seeking re-election to Congress - Dyson, Bentley, Hoyer and Byron - won without much trouble. The races for the remaining four seats shaped up as follows:

Third District - Former House Speaker Benjamin Cardin won election to Mikulski's old seat.

Fourth District - Incumbent Majorie Holt retired. N.B.A. basketball player Tom McMillan (D), won the election to this seat in a very close vote.

Seventh District - Incumbent Parren Mitchell retired. The winner was Kweisi Mfume (D), a former Baltimore County Councilman.

Eighth District - Incumbent Barnes ran for the Democratic nomination for the U.S. Senate race and lost. His seat was filled by former state legislator, Delegate Connie Morella, a Republican.

In the race for Governor, Baltimore Mayor William Donald Schaefer won election.

Significant State Problems

There are four significant problems facing state legislators in 1987:

- a. Resolving the savings and loan crisis.
- b. Medical malpractice and general insurance liability availability.
- c. Health cost containment.
- d. Transportation and education.

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RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

The tobacco segment is relatively strong in Maryland, particularly at the wholesale level. The Maryland Association of Tobacco and Candy Distributors and the Maryland/D.C. Vending Association have large memberships and are very active politically at the state level.

Tobacco is grown in a small section of the state which provides allies in the legislature with a strong vested interest in opposing anti-smoking legislation. The Maryland Farm Bureau has been active in fighting such measures, but the Maryland Tobacco Growers Association has not.

The company sales departments have a fairly limited number of sales personnel in the state. Most are concentrated in the suburban Washington and Baltimore markets.

Business

Business organizations such as the Chamber of Commerce, Maryland Restaurant Association, Maryland Hotel and Motel Association, the Maryland Association of Retail Merchants and the Mid Atlantic Food Dealers Association are politically active and have considerable clout. They have all testified in opposition to smoking restriction bills.

Labor

Organized labor is particularly active in Maryland, with the Bakery, Confectionery and Tobacco Workers International Union headquartered in the suburban Washington area. Labor has been very helpful with tobacco legislation and often testifies on our behalf. This includes the state AFL/CIO as well as the other unions, such as the state employees union.

Fire Groups

The most active fire groups in the state are in the Baltimore area, which was one of the pilot cities for the initial T.I. fire program.

Institute Resources

The Institute's resources in Maryland center on the business community and the various business organizations in the state.

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ANTI-TOBACCO FORCES

Maryland is a hotbed of anti-tobacco activity and a microcosm of the national anti-tobacco scene. Many of the anti-tobacco groups are headquartered in Maryland. So far their effectiveness has been limited at the state level, and they are more vocal than effective.

The proponents of smoking restriction legislation have formed a statewide coalition known as the Healthy Majority and have hired lobbyist, Robin Schavitz, to represent them in the General Assembly in 1987.

The Healthy Majority is made up of a dozen health groups including state chapters of the American Cancer Society, American Heart Association, American Lung Association, GASP and the Maryland Nurses Association.

TOBACCO INDUSTRY

Brief History of Successes and Problems

Much of the recent legislation at the state and local level has been in the field of smoking restrictions. The tactic of the anti-smoking lobby is to push for passage of several different bills, each covering a specific public place.

In the 1986 session, for example, four bills were defeated in the House Environmental Affairs Committee. These bills would have restricted smoking in retail stores, food stores, restaurants, and state office buildings. No smoking restriction bills were introduced in the Senate.

Senate Bill 155, which would have increased the state cigarette tax by one cent to fund research for AIDS, was defeated in the Senate Budget and Tax Committee. An OTP tax of 20 percent was also defeated.

The Montgomery County Council enacted an ordinance to restrict smoking in county government workplaces and metro stations.

Major Issues - State and Local

The 1987 legislative year will show a continuation and perhaps acceleration of smoking restriction efforts, but again no laws are expected to be enacted.

Local legislative problems also accelerated in 1986 particularly in the Maryland counties in the Washington metro area. It is expected that this trend will continue.

December 1986

80420317

MASSACHUSETTS

PREFACE

From a tobacco industry standpoint, the Commonwealth of Massachusetts may defy description. But then there are those who suggest that from any viewpoint, the "People's Republic of Massachusetts" defies description. During the late sixties, some conservative Congressional leaders suggested that the entire New England region, but especially Massachusetts, be physically separated from the rest of the United States and floated out to sea. Since that time, the philosophical distance between Massachusetts and mainstream America has not shortened. In fact, it's probably true to state that Massachusetts has more in common with its West Coast counterpart, California, than with the vast majority of other states, including the majority of its New England neighbors.

Certain state inconsistencies, however, have allowed us to survive. On the one hand, the state is known for its high level of taxation and its lenient welfare, workers compensation, and unemployment laws. It is one of only two states in the country to regulate automobile insurance. Republicans are rare at the state and local levels. But, in recent years, Massachusetts Democrats have voted overwhelmingly for Republican candidates for president.

An initiative petition drive recently gave voters an opportunity to vote in support of a cap on municipal local property taxes. Another recent initiative, to repeal state legislative pay raises, passed. Moreover, in 1986, the voters elected to repeal the mandatory seat belt law and the "Dukakis 7.5-percent income tax surtax" while imposing a tax cap. Both these measures were strongly supported by the governor.

There are 6 million people in the state of Massachusetts. It has a 2.4 percent market share and a 26-cent per pack excise tax on cigarettes. That tax is collected on 680.3 million packs of cigarettes, producing state revenues of approximately \$176.9 million in fiscal year 1985. This represents an increase of 11.6 million packs and increase of \$3.5 million in state revenues since 1984.

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STATE OVERVIEW

Economic Condition

If Connecticut is awash in cash, the Massachusetts ship of state has clearly spent 1986 sunk in a sea of money. Depending on whose accounting methods you use, the state has a surplus between \$500 million and \$1 billion. Every elected official or appointed bureaucrat wanted to spend it, hide it, or give it back during the 1986 election year. Ultimately, they will return some of this to the people in the form of a repeal of the surtax.

Despite recent setbacks for some high-tech companies like Wang and Digital Equipment Corporation, the Commonwealth is virtually at full employment. Recent reports indicate that there are not enough workers to fill the seasonal jobs made available by the Christmas holidays. Employers are resorting to paying as much as \$250.00 bounties to current employees who bring new employees into the company. A number of businesses in the western Massachusetts suburb of Framingham have initiated a daily private shuttle bus service to some of the central Massachusetts industrial communities to bring unskilled and low-skilled workers in for full-time jobs. The cost of the transportation is paid for by the employers.

The prosperity that is part of the Reagan and high-tech booms is likely to continue for some time. Recent legislative actions, like the passage of a modified unitary tax by the Massachusetts Senate, may result in a number of companies giving some additional thought to the opening of new facilities in the Commonwealth. All of this has helped make the governor a strong candidate for President in 1988.

Political Situation

The only interesting race was for the Eighth Congressional District. That seat was held by the Speaker of the House "Tip" O'Neill, who succeeded Jack Kennedy. Joe Fitzgerald Kennedy, son of late Senator Robert Kennedy, has successfully won election to the position.

The second most interesting fight was the initiative questions which appeared on the ballot in November. Both the surtax repeal/tax cap and the seat belt laws repeals were approved. Postcard voter registration was not adopted. Each of these referendum questions is strongly associated with the current governor.

The public and media attitude toward these two initiatives was the only interesting part of an otherwise-lackluster governor's race. However, Governor Michael Dukakis raised more money than any gubernatorial candidate in the history of the Commonwealth for his 1986 campaign, and the Republicans were unable to mount a credible candidate. For all intents and purposes, Massachusetts is a one-party state.

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In the Statehouse, we are likely to see a quieter year. The fragile coalition that elected current House Speaker George Keverian is likely to survive the brief winter adjournment and the elections squabbles of 1986. If the coalition survives, Speaker Keverian will begin to consolidate his power and use it to circumvent some of the "rules reforms" forced upon him during his first session as Speaker. On the Senate side, we have probably seen the final election campaign of Senate President William Bulger. It is likely that he will not seek re-election in 1988.

This suggests a year that appears very active on the surface and in the media, but is actually fairly quiet.

Significant State Problems

Massachusetts has a number of problems that it shares with other New England states. Some of these are environmental and include the clean-up of Boston Harbor, solid waste management, destruction of the region's groundwater supplies, and hazardous waste dumps. In January 1984, Governor Dukakis declared educational reform as the state's highest priority. To date, there has been a great deal of breast-beating about educational reform, but no substantive action. It is an area of concern and one which may be addressed during the upcoming election year. There are also a number of "human" issues which have preoccupied the media and a number of political figures. These include the problem of the homeless and drunk driving.

There are a great many volatile issues facing the people and the politicians of the Commonwealth. If the local media has its way, ETS is likely to be one which receives a great deal of public and legislative attention.

RESOURCES

Tobacco Segments

The tobacco industry in Massachusetts is not unlike the tobacco industry in the other five New England states. It is disjointed. Each segment tends to go its own way. Within the wholesaling community, individuals have a tendency to act independently of other individuals within that segment.

The active players include: Massachusetts Food Association, New England Wholesale Food Distributors Association, and Massachusetts Automatic Merchandising Council. The 1985-formed/1986-disbanded New England Wholesale Tobacco & Candy Association sought to develop and operate a wholesalers' association spanning the six New England states. Its "on again/off again" status was blamed on TI and the manufacturers.

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Also working with us on our federal, state, and local legislative activities is the New England Convenience Store Association. While we are capable of organizing and coordinating the activities of all the various segments of the industry, that coordination and cooperation would be much more valuable if the individual members of the wholesale trade could get along.

Business

The business community in the Commonwealth is essentially a community in fear of its life. It recognizes the extreme liberal tendencies of the legislature and the various local boards with whom its members must deal. The various associations and individual businesses that make up this community are extremely selective in picking their battles and the extent to which they will go to war. All segments prefer to find some "reasonable accommodations" that are to the satisfaction of everyone. In light of the other issues affecting business which are before the Massachusetts legislature, the tobacco issue has yet to become a top priority.

Labor

The labor community in Massachusetts, like many of the other large industrial states of the north, is suffering from declining blue-collar employment, lack of understanding of the history of unionism, and a shift of perceived goals in Massachusetts. After many years of looking with some disdain on some of the service-type workers' organizations, the state AFL-CIO has begun to act on their behalf. If they are successful, there is potential for the members of organized labor to have considerable impact on our behalf.

However, like business, labor representatives in the Commonwealth are at best reluctant allies of this industry at the legislative level.

Fire Groups

As a result of our activities surrounding "self-extinguishing" cigarettes, we have developed a close working relationship with the Fire Marshal's office in Boston. It is unlikely that this group would be helpful on any issue other than "self-extinguishing" cigarettes.

Institute Resources

Our greatest resource is our affiliation with Attorney William F. Coyne. Coyne's ability to move about in a variety of legislative circles and represent the industry is unquestionably the single largest reason for our success to date.

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Added to those considerable talents, we have available the activities of our allies, who have consistently offered us direct lobbying support and access to their members. The TI office is located in Massachusetts, providing us with much easier legislative access in Massachusetts than any of the other New England states.

ANTI-TOBACCO FORCES

A complete description of anti-tobacco advocates in Massachusetts would make a very long book. In brief, Massachusetts is one of the founding locations of GASP. Some of the current leaders of GASP have developed the Tobacco Product Liability Project to act as a clearing-house for legal information related to product liability suits against manufacturers.

In addition, the Massachusetts heart, cancer, and lung associations are constantly involved in the anti-tobacco movement at both the state and local levels. Of considerable concern to the industry are the various local chapters of the League of Women Voters. Not content to be involved with issues of voting rights, the League has decided to involve itself in such social issues as smoking in the workplace. In fact, at the local level the League has been the initial sponsor of more pieces of anti-tobacco legislation than any other single organization in the state.

Supporting these groups are the governor and his Public Health Commissioner, Bailus Walker, Jr. In 1983 Walker proposed to prohibit cigarette sales in the Commonwealth. His suggestion was attacked by the head of the Department of Revenue and was consequently withdrawn. Since that time the Commissioner has been actively involved at both the state and local levels. During 1984 and early 1985, he requested that the 351 local boards of health take action on sampling, smoking in restaurants, and smoking in the workplace. However, during most of 1985, the Commissioner focused the attention of his department and the state's Public Health Council on various smokeless tobacco issues, including labeling, sampling, and taxation. In 1986 he has returned to cigarette issues, but his department is currently lost in negative press about delayed cancer statistics and reports.

The anti-tobacco community in the Commonwealth is extremely well organized, well financed, and finely tuned. They have moved from the state level to the local level, attacking us on the issues of sampling and restaurant restrictions. They have learned to target their attacks and have retained full-time counsel.

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TOBACCO INDUSTRY

Brief History

Until the passage of a juryroom smoking restriction bill this year, the only piece of anti-tobacco legislation to clear the Massachusetts House and Senate since 1977 was a tobacco tax in 1983. Against all odds, we continue to win against legislative introductions that number up to 56 in 1986.

In Massachusetts we have won only one floor vote and are unlikely to be able to win a second one in the near future. The key to our success, therefore, has been our ability to keep bills bottled in committee. The response to that may be to develop massive grassroots action in the Commonwealth during the next few years.

At the local level, we have sustained a certain number of losses, but our record has been and remains consistently good. In most cases, our strategy is to work through surrogates at the local level, either in the restaurant or business communities or friendly members of the particular board or council.

Major Issues--State and Local

Depending on the outcome of the 1986 session, which will not close until year-end, it is likely that the anti-tobacco activists will come back at the state level with another "Clean Indoor Air" bill. It is likely that that legislation will again cover the workplace. As in Maine, it is likely that the legislature will focus on issues relating to the smokeless tobacco industry and questions of sampling, advertising, and taxes.

It is also likely that the numbers of local legislative problems will increase in 1987 and succeeding years.

Outlook

The outlook for Massachusetts is essentially for more of the same: more pieces of legislation, more activity on each piece of legislation, more grassroots activity, more direct lobbying, more of everything that challenges the industry.

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MICHIGAN

PREFACE

Michigan, in many regards, can be considered one of the more liberal midwestern states. The state has a "value added tax" as its major source of business taxation and several communities have public "right-to-know" ordinances, requiring the announcement by the press of ordinances to be introduced, the scheduling of hearings and the final outcome of those ordinances.

The state's population is 9.3 million; its market share is 4.3 percent.

STATE OVERVIEW

Economic Condition and Outlook

Unemployment problems continue to dog the Michigan economy. Although efforts to diversify from heavy manufacturing are underway, the state's unemployment figures remain high. A large state income tax increase in 1983 helped slow the need to raise consumer product taxes; however, income loss from unemployment works to offset the effects of income tax increases.

Political Situation

The Michigan Democratic Party continues to rule the political roost. The two U.S. Senators, a majority of the congressional delegation (11D-7R) and the Governor are all Democrats. The House of Representatives (64D-46R) is under Democratic control. Only the Senate (20R-18D) is held by the Republicans. Little change is expected in the leadership of the House. In the Senate the retirement of the president pro tempore may alter the leadership structure.

Significant State Problems

Unemployment concerns, rekindled by the closing of four GM plants, will remain one of the most significant issues for Michigan. Product liability reform will again be of major concern. Environmental issues are traditionally a high priority for this state and will remain so in the coming year.

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Resources - Strengths and Weaknesses

Tobacco Segments

The M.T.C.D.V.A. has been extremely supportive in direct lobbying, PAC activities and grassroots participation. Their numbers, however, are limited. Member company interest and support have increased greatly in the last two years. Our activities, especially with this latter group, will be increased during 1987.

Business

In the past, the support we have received from the Michigan Chamber of Commerce has been excellent. During the latter half of 1986 and continuing into 1987, the chamber has undertaken a large-scale effort to involve businesses statewide in a voluntary smoking policy program, designed to prevent passage of mandatory legislation. Other traditional allies of our industry have also been quite supportive on smoking restriction issues. However, our efforts with the state restaurant association remain unsuccessful. (The state has had a restaurant restriction law since 1976; it was amended in 1986.)

Labor

Unions remain extremely powerful on the political front in Michigan. We continue to maintain personal relationships with many; however, few have been willing to lobby publicly on our behalf. We will continue to seek greater labor support in 1987.

ANTI-TOBACCO FORCES

The lung association in this state continues to be one of our most powerful adversaries. It retains a full-time lobbyist and expends almost unlimited resources on grassroots activities at the state and local levels. In 1987 we also anticipate increased activities by the state medical society.

TOBACCO INDUSTRY

Brief History of Successes and Problems

The Michigan General Assembly passed a Clean Indoor Air Act in 1986 (Public Act 198) which becomes effective January 1, 1987. The law restricts smoking in public places and in government workplaces.

In an effort to assist its members, other organizations, and local governments, the Michigan Chamber of Commerce will mail, in December 1986, a brochure listing suggestions for voluntary smoking policies for businesses.

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Because of uncertainty over the federal sunset, excise tax increases were not considered seriously in 1986. Due to the closing of four GM plants, however, this unemployment rate is expected to increase in 1987. This decline in revenue may create some interest in cigarette excise tax increases.

At the moment, the sampling issue is on the back burner. Michigan lawmakers appear concerned about constitutional and enforcement problems associated with such legislation. This concern stems from a 1986 sampling hearing.

Major Issues - State and Local

Tort reform, including product liability bills, will continue to be a major concern during 1987. We do not expect any new clean indoor air bills; however, amendments to the present act could be presented.

Sampling ban bills are not expected to prevail. Smokeless tobacco efforts in the area of labeling and restrictions are expected. We may also face O.T.P. tax bills.

Outlook

We do not expect 1987 to be as difficult a year as 1986. But we must remember the legislature's penchant for anti-tobacco measures. Additionally, state revenue funds are declining and the unemployment rolls are increasing. We will follow all issues very cautiously.

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MINNESOTA

PREFACE

Few other states have produced more political leaders of national stature and distinction than the state of Minnesota. Hubert Humphrey, Harold Stassen, Walter Mondale, Warren Burger, Eugene McCarthy, Orville Freeman and Justice Harry Blackmun provide the patchwork of prominent American leaders hailing from the Gopher State. Similar to Wisconsin in its ethnic heritage, Minnesota was the far outpost in America's move westward. Railroads and the giant grain mills of the Twin Cities provided the basis for the development of Minnesota traditions as we know them today.

The state of Minnesota has a population of 4.1 million people and a market share of 1.6 per cent. The governor's office and both houses of the legislature are currently held by Democrats. The political parties, the Democratic Farm Labor Party, or DFL, and the Independent Republican Party, or IR, are still relatively strong in this state.

Minnesota has been spared much of the "rustbelt" turmoil in that it has concentrated its recent economic efforts in the so called "high tech" industry. Honeywell, 3M and Sperry-Rand all enjoy thriving businesses in Minnesota.

STATE OVERVIEW

Economic Conditions and Outlook

Minnesota is now emerging from a farm-intensive economy to a high-tech metropolitan economy. Due to this phenomenon, a perception of "metro vs out state" has become prevalent not only in the media, but in the legislative arena as well.

The economy in metropolitan Minneapolis/St. Paul is robust. However, the economy in other parts of Minnesota ranges from poor to destitute. In the area once known as "America's Iron Range," unemployment reaches the 60 per cent level. Silver Bay, a major taconite/iron ore processing area, reports that nearly 90 percent of its people receive some sort of public assistance, be it food stamps, AFDC or the voluntary "food shelf" program, where food is charitably donated for the needy.

The outlook for Minnesota could be termed mixed. Out-state counties face farm foreclosures and bank failures, while the metropolitan Twin City area can expect continued low unemployment and healthy business activity. This combination is a dangerous contrast in that state legislators from the city and outlying counties will ultimately be at odds over tax and revenue policy.

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Political Situation: Current and Outlook

In the November 1986 elections, Incumbent Democratic Governor Rudy Perpich won an easy reelection over former Representative Cal Ludeman by a margin of 57-43 percent.

The Republicans suffered a disastrous defeat in the Minnesota House of Representatives, a house they controlled by a margin of 69-65 during the last legislative session. The Democrats now hold an 83-51 majority over the Republicans. The DFL will probably elect Representative Fred Norton (DFL-St. Paul) as the new Speaker.

With regard to the State Senate, the DFL increased its majority by four seats, giving it a 47-20 advantage.

The next session of the Minnesota legislature will be extremely difficult for the tobacco industry in that with the increased liberal Democratic majority, tobacco issues will take a higher profile. In particular, we should expect legislation dealing with advertising bans, sampling bans, expansion of the Clean Indoor Air Act and even a tax proposal.

Significant State Problems

Minnesota faces what have become almost perennial budgetary and economic problems:

- o Budget shortfalls; rural revenues are down, income tax is down and projections have become overly optimistic.
- o Iron, lumber and Great Lakes port operations are in a serious economic slump.
- o Bank failures have become a major concern, with three banks that failing in 1985. This is the worst banking record since the 1930s.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

From the agricultural level, the tobacco industry's profile in Minnesota is small. With only four tobacco growing farms in the state, the growers' segment can be considered insignificant.

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However, two major wholesaler groups dominate the Minnesota tobacco market. The first group, headed by Miami Dolphins' owner Joe Robbie, controls 35 to 40 percent of the wholesaler market in the state of Minnesota. This group, only moderately active on general tobacco issues, can be termed rural in scope and parochial in policy, concentrating mostly on minimum mark-up laws and OTP taxes. The other group, headed by Jim Erickson, a Minneapolis attorney, controls 60 percent of the market statewide. Even though there appears to be, at times, an arm's length relationship between the Minnesota wholesalers and The Tobacco Institute, concentrated efforts are being continued to ensure cooperation with these groups.

Business

With the onslaught of anti-tobacco efforts and the ten-year-old Clean Indoor Air Act, the industry is pursuing a common ground with private sector business in coalition and "business round table" activities. Efforts are now being planned for a dialogue between The Tobacco Institute and major Minnesota industries in the development of private sector smoking policies.

Labor

Minnesota's deep-rooted tradition in the labor movement is a natural for exploration. However, the perceived decline of heavy industry in Minnesota, including mining, railroads and milling, created a situation unexpected by labor during the past decade.

Institute Resources

The most valuable resource provided by The Tobacco Institute in Minnesota would be the securing of the best possible lobbyists to represent our industry in the legislature and the continuing support of TI to the wholesaler associations.

ANTI-TOBACCO FORCES

Minnesota, the Granddaddy of anti-tobacco activity, is one of the most critical states in the country regarding anti-tobacco activism.

The 1985 Minnesota Technical Advisory Committee on Nonsmoking and Health report will be the guideline for anti-industry concerns during the remainder of this decade. The published report, weighing over two pounds, was a textbook example of a zealous and focused effort to attack the tobacco industry on both the public and private sector levels.

U. S. Surgeon General C. Everett Koop, in testimony before the Minnesota legislature, contended that the Minnesota Technical Advisory Committee report was quite possibly the most definitive weapon to promote a "smoke-free society by the year 2000."

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TOBACCO INDUSTRY**Success and Problems - History**

The most active legislative effort experienced in this region to date was the 1985 Minnesota legislative session. This session highlighted the Technical Advisory Committee report as a legislative agenda for the Minnesota Department of Health. Due to active lobbying and cooperation among member company concerns, the entire report, in the form of legislation, was rejected during the legislative session.

However, due to an immediate call for a special session by Governor Perpich, literally on the heels of the regular session's adjournment, small portions of that report were inserted as a part of a five-cent cigarette tax increase.

The industry has experienced many successes in the past five years in Minnesota: no tax increases from 1971 to 1985, defeat of statewide sampling bans, defeat of segregated revenues for fire and health-related items and defeat of modifications to the present Clean Indoor Air Act.

Major Issues - State and Local

Confronting the industry in Minnesota, the following issues will be considered in the near term:

Tax Increase. With budget shortfalls, a cigarette tax increase is always a distinct danger.

Restrictions. The Minnesota Department of Health is presently attempting to promulgate administrative rules regarding statewide smoking policies and health issues.

Sampling Bans. Several legislators have indicated that they will introduce a statewide sampling ban during the next legislative session.

Advertising Restrictions. Several legislators have indicated that they will introduce a statewide advertising ban during the next legislative session.

Ventilation Standards. Ventilation standards are presently being considered in Department of Health rule promulgation discussions.

OTP Tax Increase. Always a consideration when budget problems exist.

Tobacco Manufacturer Liability. If neighboring Wisconsin is doing it, Minnesota cannot be far behind.

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Outlook

In the regular legislative session scheduled for this winter, the tobacco industry will face another brisk legislative calendar.

It is essential that member company, wholesaler and coalition forces maintain a good level of communication and cooperation in our efforts to defeat anti-tobacco measures.

Our major problem areas reside in the determination of Health Department rules and the problematic budget shortfalls. Unfortunately, these two areas, due to the existing political and economic environment, will consistently become "an unwanted house guest" at our industry's doorstep.

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MISSISSIPPI

PREFACE

Mississippi is primarily a rural state with agriculture, forestry (17 million acres), tourism and manufacturing as the economic mainstays. Commercial catfish is fast becoming a major industry for this state. Commercial fishing in the gulf section should not be overlooked as an economic asset. Production of quality wines in the northern and southern sections of the state has brought another dimension to agriculture.

Mississippi is among the top ten states in production of cotton, rice, pecans, sorghum, sweet potatoes and soybeans. It ranks fifth in the production of broilers.

Oil and gas exploration occurs throughout the state, with Mississippi claiming one of the largest natural gas deposits in the nation. It ranks ninth in the production of these fuels. Coal and lignite deposits are common and offer promise for future mining.

The state's market share is approximately one percent.

STATE OVERVIEW

Economic Condition and Outlook

The 1986 legislature adjusted revenues to cover the state budget's estimated shortfall. The economic growth for the state is zero. State leaders cannot seem to bring in the kind of business and industry necessary to make the economy begin a new growth cycle.

Industry is depressed. Agriculture is in deep trouble except for emerging catfish farming enterprises. On the bright side, the Navy has recently supplied a multi-billion dollar ship building contract to the shipyards in Pascagoula. This windfall is most needed.

Political Situation

One new congressman was elected in Mississippi. Congressman Esby (D-35) will replace Congressman Franklin. Indications are that Esby is a reasonable and dependable individual.

There were no state elections this year. They will be held in 1987. Many of our friends may choose not to run again. There are several underlying reasons:

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- a. The depressed economy places pressure on some of them to spend more time in their personal businesses.
- b. Others may have conflicts of interest if the ethics law is held constitutional.
- c. Still others are becoming disillusioned because of the fiscal conditions of the state.

There is a power struggle going on in the House, and the speaker may be overthrown. If he is not, there will be at least one change in the method of selection and operation of committees.

Significant State Problems

The most significant problem the state has to face is a lack of money. State agencies have already been cut back. Programs have been reduced. Most of the standard sources of taxation have been hit, many of them very hard.

The state faces federally-mandated prison reform, loss of revenue sharing and health care cost containment. The outlook for increased revenue is bleak. The tax base is so limited there are no new sources of revenue.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

Other than company employees, there is no large constituency of tobacco supporters in Mississippi.

The wholesale grocers organization has been very supportive of our efforts at the state and federal levels. We expect to continue this relationship.

The wholesale tobacco distributors are a "strange and wonderful" group. While they have no formal meetings, they collectively retain counsel for legislative work. They will respond to our requests for contacts, letters, or testimony when called on an individual basis.

We have received some support from the Mississippi Association of Convenience Stores and the Vending Association of the Gulf States. However, we receive no real support from the retail segment.

Business

TI is a member of the Mississippi Manufacturers Association. We have not had the opportunity to develop the kind of personal relationships which bring about support on legislative matters. Efforts in this area will be increased in the future.

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Labor

Over the years, our lobbyist has enjoyed a good relationship with the union representative in Mississippi and has helped us garner votes in the legislature. But, by and large, labor is not a significant political force in Mississippi.

Fire Groups

The majority of the fire groups in Mississippi are volunteer departments. They have never caused a problem for us. The industry has never had problems at the local level. Therefore, we have not requested the aid of the fire groups.

ANTI-TOBACCO FORCES

There are no strong anti-tobacco organizations in Mississippi. The past speaker was not pro-tobacco, but he has been unable to pass his health measures. The medical society also has been unsuccessful in pushing its anti-tobacco agenda.

TOBACCO INDUSTRY

Brief History of Successes and Problems

The 1986 session saw a bill to restrict smoking introduced in the Senate. The chairman of Senate House Ways and Means never assigned it to a subcommittee.

The excise tax was last increased in 1985. Several bills to raise cigarette taxes were introduced in 1986, but we managed to side-step the problem, and all bills died.

Finally, a bill to remove the distributors discount was introduced. Without our help, the wholesalers would have lost their entire discount. Through counsels' efforts we were able to rejuvenate the wholesaler grassroots program. The proposal was unanimously defeated in the Senate. We feel that not only was the effort a major legislative victory, but it proved the worth of our lobbyists and wholesaler program.

Outlook

Next session we will see a bill introduced in the Senate to restrict smoking. The chairman of Senate Health and Welfare Committee, however, is not supportive of this measure.

As previously stated, the economic outlook for Mississippi is bleak. The state, counties and cities will be short on revenue. We will probably see another effort to increase cigarette taxes. We believe we will have a good chance to defeat such legislation.

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MISSOURI

PREFACE

Missouri is, in virtually every sense, a border state. From the standpoints of culture, politics, climate, economy, and geography, Missouri is a transition point from the nation's North and South as well as its East and West. This fact makes the "Show Me State" an interesting study in contrasts. The population of Missouri is approximately five million. Its market share is about 2.2 percent.

There are several opposing economic and political forces in Missouri that combine to make the state as unique socially as it is geographically. These opposing forces make it difficult to "pigeon-hole" as liberal or conservative, industrial or agrarian. Despite this, or perhaps because of it, Missouri is a key state in gauging political and social trends. Its geographical position (it shares borders with seven other states) demands that Missouri be given close attention by any group interested in a national political strategy.

STATE OVERVIEW

Economic Condition And Outlook

Economic conditions vary considerably from one area of Missouri to another. Urban areas are faring much better now than in recent years, primarily because of a resurgence of industrial activity. A prime example of this is the now re-activated Chrysler assembly plant in St. Louis County. It was virtually closed only a few years ago. The state's unemployment rate is now well below the national average.

Missouri's large agricultural population, however, is in trouble. As in many other Midwest states, farm foreclosures have risen drastically. Low prices on agricultural products and a high cost of doing business are problems that will continue to pose serious threats to Missouri farmers.

There is little reason to expect that Missouri's economy will improve markedly in the near future. A downturn in the national economy could spell trouble for manufacturing in the state's metropolitan areas and worsen the statewide picture substantially.

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Political Situation

Missouri is a traditionally Democratic state. Its House and Senate remain under Democratic control, but the state is part of the nation's shift to conservatism. This change is illustrated in the fact that all state officers except the lieutenant governor are Republican. Lieutenant Governor Harriett Woods ran unsuccessfully for the U.S. Senate in 1986, but has two more years in her present term of office.

It is worthwhile to note that the number of registered Republican voters in the state has climbed considerably. The state Republican party is well-financed, computer equipped, and becoming more and more aggressive. As a consequence, 1986 was a critical year for Missouri Democrats, and they did very well. Despite a large number of serious challenges by Republican candidates, Missouri Democrats still have post-election control of the Senate (21 - 13) and House (111 - 52).

Significant State Problems

As with many other states, Missouri's major concerns are fiscally related. While revenue collection was slightly improved in 1986, no great growth occurred. This lack of economic growth, accompanied by the loss of much federal revenue, has many state officials very worried. Many see the state's tax base continuing to decline. Missouri's population has become the nation's fourth oldest which will surely present problems for the state's health care system in the years ahead.

Progressive state legislators fear that a majority of their colleagues will opt for a "band-aid" solution to the state's anticipated fiscal difficulties, rather than taking a broader approach and revamping the entire state tax structure.

Introduction of excise tax increase proposals should be anticipated in the 1987 legislative session.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

Missouri's "Tobacco Family" has proven to be surprisingly cohesive and effective. The elements of this cadre are TI member company personnel, tobacco farmers and warehousemen, tobacco wholesale distributors, and vendors.

The most consistently responsive among these groups probably are the state's member company personnel and tobacco farmers. These two groups can always be expected to follow through with action pertaining to any tobacco-related concern.

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Wholesale distributors have become an increasingly dependable and effective ally in the three years since their state association (Missouri Association of Candy & Tobacco Distributors) reorganized and hired full time staff. Member company personnel and M.A.C.T.D. members also account for the greatest portion of the Institute's "awareness system" in Missouri.

If there is a weak link in Missouri's chain of tobacco activists, it would be the vending segment. This is true primarily because the vendors' state association (M.A.M.A.) is a rather loose-knit, inactive group. Nevertheless, many individual vendors in the state are very dependable and aggressive activists.

Business

Missouri's two major business-related organizations, the State Chamber of Commerce and Associated Industries of Missouri, while perhaps supportive, are not active allies of the tobacco industry. As a rule, the Chamber and A.I.M. legislative platforms are in basic accord with TI positions, but neither organization can be expected to take a public position on an issue concerning only tobacco. Despite this, individual officers and staff members of both groups have frequently been helpful in legislative tracking and "behind the scenes" lobbying.

The Institute has enjoyed cooperation on tobacco-related legislation from many industries and trade associations. Among these are the Missouri Restaurant Association, Missouri Retailers Association, Missouri Hotel/Motel Association, the Seven-Up Corporation, Seven-Eleven Stores, King Louie Corporation, and many others. Experience has shown that the elements of a coalition involved with a tobacco-related matter will vary with the nature of the issue and the location concerned. For example, the Missouri Restaurant Association is a tremendous ally against smoking restriction legislation, but is not at all concerned over proposals to increase cigarette taxes.

Labor

Many good personal relationships exist between TI and elements of organized labor in Missouri. These relationships have occasionally have been very helpful in fighting anti-tobacco legislation. However, it is unlikely that labor in Missouri will take many formal, public positions on tobacco-related issues. The major reason for this is labor's sensitivity to the fact that some of TI's member companies are not unionized.

Fire Groups

The Kansas City and St. Louis fire departments and firefighter associations have strong lobbies in the Missouri state legislature, as firefighter salaries in these two cities are set by the state legislature. As a result, firefighters have lobbied legislators regularly through the years, and good relationships have developed.

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The Institute's program of assistance to fire departments has helped strengthen personal relationships with firefighter lobbyists. It is probably unrealistic to expect Missouri firefighters to become directly involved in issues such as cigarette excise taxes or smoking restrictions. But firefighters may be reluctant to become active proponents of any ill-conceived "fire-safe" cigarette legislation.

ANTI-TOBACCO FORCES

While most of the traditional anti-tobacco groups have existed in Missouri for several years, they have become active only in recent months. With leadership from the American Lung Association, anti-smokers gained enactment of a smoking restriction ordinance in Kansas City this year -- Missouri's first.

The "Coalition on Smoking or Health", headquartered in St. Louis, is making a major effort this year to unify and coordinate the efforts of the state's many anti-smoking groups. The coalition's primary goal is to secure passage of a statewide smoking control law; but, failing in that, it will unquestionably seek to become involved in pushes for local ordinances.

TOBACCO INDUSTRY

Brief History of Successes and Problems

Local smoking restriction legislation has not been a major problem to this point in Missouri. Anti-smoking groups in four cities (Columbia, Kansas City, Independence and Clayton) have attempted passage of smoking control laws, but have been successful only in Kansas City.

There has been limited success in fighting excise taxes in Missouri. The state legislature increased the state's cigarette tax from 9 to 13-cents per pack in 1981. The legislature passed another increase in 1985, contingent upon a federal tax reduction. All other attempts to increase Missouri's cigarette tax in the past five years have been unsuccessful.

Missouri municipalities have statutory authority to levy excise taxes on cigarettes. In 1984, 118 cities in the state taxed cigarettes, with rates ranging from 2 to 10-cents per pack. In addition, Missouri counties of the first class (St. Louis, Jackson, Clay and Greene) may levy cigarette taxes. Of these, only St. Louis and Jackson counties levy a tax, both of which are 5-cents per pack.

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Local tax increases have proven very difficult to stop. Advance information on such measures is often difficult to obtain and cigarette tax hikes usually enjoy good support from the electorate. Happily, though, there are exceptions to this. Successful campaigns against municipal taxes have been waged in the last year in Smithville, Lathrop, Cameron, and Marceline.

Major Issues -- State and Local

Fiscal concerns are foremost in the minds of state and local legislators in Missouri. The Reagan administration's "New Federalism" has placed an increasing burden on state and local government to provide necessary services, while reducing financial assistance from the Federal government. In 1987, the State of Missouri and Missouri cities will face some serious financial problems, which will result in consideration of a wide variety of "tax packages." The tobacco industry undoubtedly will be involved in these issues.

Outlook

Preventing passage of an increase in Missouri's cigarette tax will be the most severe challenge. With neighboring Kansas and Iowa having recently increased their taxing rates to 24-cents and 26-cents per pack, respectively, Missouri's 13-cent rate is comparatively low. This makes introduction and passage of a tax increase more likely than ever in 1987.

Cigarette tax increases in Missouri's counties of the first class and municipalities also will be difficult to stop in 1987. St. Louis County officials in 1986 sought statutory authorization to increase their county's tax from 5 to 10-cents per pack. They were unsuccessful, but will try again in 1987. In addition, many cities can be expected to attempt increases in their cigarette tax rate to help offset anticipated fiscal problems.

Continued success against "clean indoor air" legislation at the state level is expected. The Institute's legislative counsel in Missouri has been very adept in dealing with this threat in the past; and anti-smoking groups do not yet show much sign of strengthening as a lobby in the state capitol. On the other hand, increased activity by anti-smoking activists at the local level is quite likely, and could pose a more serious threat. Efforts to pass smoking control laws should be expected in a number of Missouri cities. Likely candidates are St. Louis, Joplin, Columbia, and Springfield. Success against these proposed ordinances will require constant monitoring by the tobacco family and close cooperation with traditional allies and coalition members.

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MONTANA

PREFACE

Montana's "Big Sky" country is the stereotype of the ruggedly individualist, frontier economy. Yet Montana is also a liberal, forward-thinking state with a deep concern for human services. The political pressures of these divergent political realities make legislative forecasting somewhat inexact.

Montana's share of market is three-tenths of one per cent.

STATE OVERVIEW

Economic Condition and Outlook

The reduction of federal funding promises to wreak havoc with the Montana state economy in the next few years. Montana legislators have come to depend on federal revenue sharing funds more than in most states. Historically an agricultural and mining economy, Montana has been hurt seriously by significant reductions in work forces in the mining industry. Entire communities are becoming ghost towns because of no activity in copper mining.

In spite of these serious economic reversals in previous years, the Montana legislature has continued to fund new state construction programs, new human services programs and other revenue-hungry programs as if there were never-ending sources of dollars.

Political Overview

In state legislative races, 51 Republican House members were elected and 49 Democrats were elected. Previously, the House was tied at 50-50.

In the state Senate, 25 Republicans and 25 Democrats were elected; therefore, the Senate President will be selected based on the party of the Governor. As Governor Schwinden is a Democrat, the Democrats will select the tie-breaking post of Senate President. In the 1986 session, the Democrats held a majority in that house by a margin of 28-22.

There was no race for governor in 1986. In Congressional races, all incumbents were reelected.

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Significant State Problems

Montana's most significant problem is revenue shortfalls. Current estimates put the state's revenue needs between \$100 million and \$120 million.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

Montana's wholesaler association (Montana Association of Tobacco and Candy Distributors) has been quite helpful to us in the past. Due to the state's size, distributors, as well as member company personnel, are sparsely located, yet are able to make contact with key legislators from their respective legislative districts. The member company representatives are also willing to involve their accounts, retailers, etc., in fighting tobacco restriction measures.

Business

The Montana Retail Association has been moderately helpful to us in the past, as has the Montana Restaurant Association. Both organizations, though, are somewhat ambivalent to tobacco issues, preferring to become involved only in those that appear to affect them directly.

Montana's vendors were not mentioned in the discussion of tobacco family because they are primarily food and music vendors. These businesses, although few in number, have been quite helpful to us in the past and would appear to be supportive of our efforts to limit excise tax increases.

Labor

Organized labor is traditionally a significant political force in Montana, largely due to its mining activities. However, because of the decline of that industry, labor's influence at the Capitol has waned. We have not been particularly successful in recruiting labor on any of our tobacco issues in the past, but such efforts will be a major priority during 1987-88.

ANTI-TOBACCO FORCES

Montana does not have the traditional anti-tobacco forces at work in the legislature, at least on the surface. Most anti-tobacco legislation in past years has come from one or two specific legislators with a particular interest in tobacco restriction efforts. On occasion, the local Helena Lung Association does make its presence known to the legislature, and similar groups in Great Falls and Billings have contacted their local legislators.

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TOBACCO INDUSTRY

Brief History

Montana's first piece of tobacco restriction legislation was passed in 1979. At that time it was primarily a "sign ordinance" that required posting of signs announcing to patrons the availability of smoking or non-smoking areas. Since that time, efforts have strengthened the law to the point where the language now reads like a Clean Indoor Air Act.

The cigarette excise tax remained at 12 cents from 1971 through the 1983 legislative session. In 1983 the legislature raised the state tax by four cents. In 1985 the legislature passed a contingency bill to increase the state tax by eight cents if the federal government reduced its tax on October 1.

Outlook: Major Issues - State and Local

Montana's prime concerns for the coming year are funding of its human services programs. Since the state did not receive the additional eight-cent cigarette tax it expected after the 1985 legislative session, there will be a strong effort to increase the cigarette tax to fund anticipated revenue shortfalls due to federal revenue sharing fund cutbacks.

On the legislative front for 1987, a bill has been drafted to raise the state cigarette tax by 10 cents. Senator Richard Manning (D-Great Falls) is proposing this tax increase and will introduce it when the legislature convenes.

On another matter, Initiative 30 (I-30) passed, changing the Constitution by giving broad power to the legislature in dealing with lawsuits. It is therefore likely that tort reform will be an issue in the 1987 session.

Since statewide restriction laws essentially make local legislation unnecessary, it is unlikely that there will be any significant local legislative activity.

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NEBRASKA

PREFACE

The State of Nebraska, having the nation's only one-house legislature, is a state of many contrasts. Ordinarily assumed to be a conservative Republican state, Nebraska has had Democratic governors for 16 of the last 24 years. However, in 1986, Nebraska elected its first female governor, a Republican, who defeated a female opponent.

To equate conservatism with Republicanism would be a mistake. The conservatism of Nebraska's people stems from their independent, individualistic lifestyles. Its current population of 1.6 million has remained relatively constant since 1890. The market share in Nebraska is just over 0.6 percent.

Nebraska's economy relies heavily on corn, livestock production (primarily pork), and the insurance business. The people of Nebraska have, for the better part of this century, provided our nation's eastern populace with an ample supply of grain and meats.

To fully understand Nebraska's traditions and people, one must analyze its history back to the "boom days" of the 1880s and to the "bust days" of the 1890s. The 1880s were a decade of ample rain and general prosperity for the new settlers of Nebraska. However, the 1890s were a time of severe hardship due to the droughts and absence of an organized farm cooperative system.

The famous orator and presidential candidate William Jennings Bryan emerged prominently as a result of this condition. Bryan was only 36 years old when he first won the Democratic nomination for President of the United States.

Almost as a symptom of midwestern political thought, the progressive movement, as in Minnesota, Wisconsin and North Dakota, sprung to the forefront of Nebraska politics during the 1930s. Congressman, and later Senator, George Norris, led the progressive era in Nebraska, championing the Norris-Laguardia Act which was the first pro-union legislation in the United States. Additionally, Senator Norris promoted the controversial Tennessee Valley Authority. It is not surprising that during this period Nebraska, with its progressive fervor, decided to abolish one of its legislative houses to become the country's only Unicameral Legislature.

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STATE OVERVIEW

Economic Conditions and Outlook

Nebraska's economic condition, in a slightly sardonic sense, could be termed "typically midwestern." Its farm economy, with its back to the wall, has placed severe strains on that state's financial institution system. Already chronicled in the CBS network television show "60 Minutes," Nebraska's savings and loan system is an example of poor management, poor judgement and poor administration.

Nebraska's economic condition, in the Omaha area, is considerably better. Bolstered by active insurance, railroad and agribusiness industries, a first impression of Omaha would be as a city on the move rather than in decline. However, as in any city vs. country situation, Omaha is still dependent on the economic health of the entire state.

Due to the depressed farm economy, Nebraska faces the specter of annual budget shortfalls. These budget shortfalls required a major modification of the state's income tax in 1985, as well as an increase in the cigarette tax. The outlook for the near term is pessimistic; the farm economy could not be any worse, the banking community is under siege and the people will not stand for any new tax increases.

Additionally, the special session in November placed emphasis on the farm credit crisis. This issue will remain in the forefront during the 1987 legislative session.

Political Situation: Current and Outlook

The 1986 Nebraska Unicameral session adjourned in April. However, that legislative body went into special session in November to discuss issues specific to homestead exemptions, agricultural liens and other farm issues focusing on federal law mandate deadlines.

Republican gubernatorial candidate Kay Orr won election by 30,000 votes, running up a majority of 53-47 percent over Helen Boosalis of Lincoln. Orr's election, in a comparative degree, is good news for the tobacco industry.

With regard to the legislative elections several surprises emerged. Former caucus leader John DeCamp was defeated, recently indicted Senator James Pappas won reelection, while incumbent Senator Tom Vickers was defeated.

All state constitutional offices are now Republican, while all members of the Nebraska Congressional delegation were reelected.

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Significant State Problems

Nebraska faces some major problems in the last years of the 1980s:

- o Chronic budget shortfalls due to a depressed economic situation, hampering the collection of revenues.
- o Potentially explosive banking occurrences, spelling collapse, and near collapse, of many of the state's existing banks.
- o A politicized and highly-charged environment. The departure of Governor Kerry adds instability to a state in search of long-term solutions to severe economic problems.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

There is no tobacco farming in the state of Nebraska, therefore, Nebraska's tobacco presence rests with the wholesale and retail segments of the industry.

Nebraska's wholesalers have been generally helpful in dealing with anti-tobacco legislation during the past year. It is becoming exceedingly clear, however, that the industry's relationship with wholesaling groups can become strained due to the existence of protective minimum mark-up laws in many states and Nebraska is no exception. Legislators around the country have cleverly noted that the "soft underbelly" of the industry's grassroots presence lies with the wholesalers' dependence on the minimum mark-up law. With this knowledge, it is becoming very common to see the introduction of excise tax increases while dangling the abolition of minimum mark-up laws, or the reduction of discount rates. It is within this context that industry lobbyists must walk gingerly through the "minefield" and appeal directly to the wholesalers' interdependence with the tobacco industry as a whole.

Business

The Nebraska business community, particularly the Omaha and Lincoln chambers of commerce, have been very helpful in our efforts to defeat anti-industry legislation. However, private anti-smoking groups have emerged in the offices of major Nebraska industries attempting to regulate smoking in the private workplace.

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Labor

Labor, as a major force, is not pronounced in the State of Nebraska. With the exception of the Omaha area, labor's grasp on the state as a whole, is minimal.

Institute Resources

The most valuable resource that TI can provide in order to maintain or strengthen our efforts in Nebraska, is the adequate funding of the best lobbyist possible, assisting the Nebraska wholesalers' organization and the continuation of the corporate campaign contribution program.

ANTI-TOBACCO FORCES

For four legislative sessions, a clean indoor air bill has been introduced in the Nebraska Unicameral. Although failing on each of these legislative attempts, anti-tobacco forces in Nebraska have stated their goal to revise the state's broad, but unenforced 1979 Clean Indoor Air Act next year.

The most zealous anti-tobacco activist in the legislature is Senator Shirley Marsh of Omaha. Senator Marsh has consistently pushed for a strict workplace smoking bill and has, at every turn, urged punitive legislative policy against the industry.

TOBACCO INDUSTRYSuccess and Problems - History

The cliché "close but no cigar" applies to the most recent legislative history in the state of Nebraska. It is important to note that due to the legislative rules and the nature of a Unicameral legislature, a bill is not dead until the legislature adjourns sine die.

Nebraska's legislative rules present the following train of events: introduction, committee action, first reading (General File), second reading (Select File), third reading (Final Reading), messaging to the Governor, veto or enactment and veto override. The most unnerving aspect of this system is that legislation can be reconsidered by a simple majority vote at any step before Final Reading.

Major Issues - State and Local

The following issues will be in the forefront of consideration during 1987:

Clean Indoor Air Act. Proponents have already announced their intention to promote more restrictive legislation during 1987.

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Tax Increase. Although hit with a 5-cent tax increase in 1985, Nebraska's farm crisis and economic situation spells more trouble.

OTP Tax. The legislature might feel that since it recently hit cigarettes, a look toward other tobacco products as another revenue source is appropriate.

Outlook

It could be assumed that the first bill to be considered having an impact on the industry would be a smoking restriction bill. Depending on revenue projections, tax bills may not be far behind.

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NEVADA

PREFACE

Nevada, which has a four-tenth of one percent share of the market, is California's smaller cousin. It is divided from California by the Sierra Mountains in the north and the Mojave Desert in the south. California residents are the largest utilizers of Nevada's major industry -- tourism and gambling. Nevada is affected sometimes quite deeply by what happens in California. But because of its geographic location and relatively small permanent population, Nevada is isolated from other neighboring states. Nevada is not a wealthy state. It has meager natural resources and its geography is basically mountains and desert.

STATE OVERVIEW

Economic Condition and Outlook

While Nevada's major industry, tourism and gambling, is generally thought to be recession-proof, Nevada has nonetheless felt the impact of competition for the gamblers dollars from Atlantic City, cruiseship gambling, state lotteries, etc. As a result, the economy is not as healthy as it once was. On the plus side, Nevada has a small but growing industrial base composed primarily of small manufacturers and commodity distribution businesses. These business leaders are taking advantage of cheap land, low living costs and the income tax-free environment Nevada offers.

Reno is barely four hours by Interstate highway from all the major population centers in Northern California, and Las Vegas is not a great deal farther from Los Angeles, Orange County and San Diego. Thus, Nevada's two major population centers, containing about 80 percent of its citizenry, are healthy and vigorous and can expect to continue to enjoy prosperity so long as California remains healthy.

Nevada, because it has so much desert wasteland, is one of the target states for repository of high level toxic waste. Many in the state view this as very attractive since it would create a whole new industry in the state and bring in perhaps hundreds of millions of dollars in new state income.

Political Situation

Governor Bill Bryan handily won re-election in 1986 - largely because Republicans were unable to field a good opposing candidate. Bryan is thought by many to have ambitions for the U.S. Senate in 1988 when incumbent Senator Chic Hecht will stand for re-election. The election of a Democratic Lt. Governor, Bob Miller, to replace Republican Lt. Governor Bob Cashell can only encourage such ambition.

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The Nevada Legislature saw a major flip-flop in 1986 elections. A one-term Republican majority in the 42-member Assembly reverted to a safely Democratic majority with 15 new Democratic assemblyman against one new Republican. This represents a 40% change in names and faces in this body. Assemblyman Joe Dini is expected to be elected Speaker.

The Senate's Democratic majority similarly flip-flopped to a 12-9 Republican majority.

Senator Bill Raggio is expected to be elected Majority Leader, the top power post in the Nevada Senate.

It is difficult to assess the impact of these changes at this point. However, since 12 of the new Democrats in the Assembly are from Clark County (Las Vegas) it is possible to guess that there will be a more liberal tilt to this body. The Senate, always conservative, will continue to be so.

Significant State Issues

- o Health care cost containment.
- o Tort reform/Insurance regulation.
- o High level nuclear wastes.
- o Money will be tight but manageable. New leadership is known to oppose additional taxation.
- o Lake Tahoe land development.
- o Education funding.

RESOURCES: STRENGTHS/WEAKNESSES

Tobacco Segments

Virtually non-existent in this state. Member companies maintain few representatives within the state. There are only a few wholesalers and the major ones are branches of California based operations.

Business

Gaming and distribution centers are still the major businesses in Nevada. Gaming is with us on smoking restriction measures but takes an "it's them or us" attitude on taxation.

Labor

Is a significant factor in Nevada, particularly the gaming, hotel, and restaurant employees unions. While untried on tobacco issues, we believe some support will be available if needed.

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ANTI-TOBACCO FORCES

They are only recently coming into evidence in the state. The Reno Chapter of ALA seems to be the major one. Their activity to this point has been in developing news stories aimed at eventually causing smoking restrictions legislation. A few legislators are known to harbor anti-smoking feelings but to this point their efforts have been quietly contained.

TOBACCO INDUSTRY

Brief History of Successes and Problems

Our major losses in this state have been in the tax area. The state's tax system and the attitude that tourists pay most of such taxes make excises continually vulnerable.

Smoking restriction measures will probably be a problem in 1987. At least one member has indicated that he will introduce a restriction bill for grocery stores at the request of his constituents.

Outlook

We can expect to be challenged, but the Nevada legislature does not generally put up with attempts at frivolous legislative initiatives. The new members of the legislature are mostly unknown quantities and as such are unpredictable. Call Nevada questionable for 1987.

December 1986

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NEW HAMPSHIRE

PREFACE

Like many other New England states, New Hampshire is really two states. The northern half above Manchester still retains the flavor, attitude, and appearance that the nation has come to expect from the site of the "first in the nation" presidential primaries every four years.

The southern counties, on the other hand, have been described as simple adjuncts to their southern neighbor Massachusetts. These three southern counties have experienced phenomenal growth in the last ten years. The influx of large numbers of Massachusettsites and other transplants has been a challenge for New Hampshire in recent years. These newcomers are generally more educated, more politically and socially active, and more liberal than the indigenous population. They expect more from government, and they are willing to pay for more. The conflict between newcomers and the long-term population can be evidenced not only on the "op ed" pages of the various newspapers, but also in legislation enacted and in initiative/petition efforts.

An example of the complex forces at work was the voter response to two separate initiatives which appeared on the November 1985 ballot. In the first instance, the voters were asked to determine whether the legislature should have annual sessions or continue meeting once every two years for 60 legislative days. By a narrow margin, the people voted in support of annual sessions.

On the other hand, the voters were asked to determine if there should be a reduction in size of the New Hampshire legislature. In this instance the voters chose to reject the concept of a smaller, "more efficient" legislative body. While clearly different questions, the underlying issue -- "progress" -- is the same. It is the question of full-time, professional legislators versus part-time, citizen legislators.

Not surprisingly, a full-time, professional legislature concept is supported primarily by those recent arrivals to the state. The slower, part-time body is supported by the long-term residents. These two votes may be somewhat symbolic of the dynamics at work within the state, both in the public and private sectors. They are dynamics that are likely to both help and harm our fortunes in 1987.

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There are approximately 1.2 million people in New Hampshire. It has a 0.7 percent market share and a 17-cent per pack excise tax on cigarettes. No sales tax exists in the state. Taxes are collected on approximately 197 million packs of cigarettes, producing state revenues of approximately \$34 million in fiscal year 1985. This represents a decline of 12 million packs and a decline of \$800,000 in state revenue since 1984.

STATE OVERVIEW

Economic Condition

Most people tend to agree that the state has a reasonably large surplus. The question is, "How large?" And, the effects of federal tax reform and "budget reconciliation" are yet to be determined.

The private sector economy, particularly in the southern tier, continues to grow rapidly. The favorable tax laws in New Hampshire make the state most accommodating for both large and small businesses. The lack of both state income and statewide sales taxes makes residence in the state particularly attractive to employees. Historically, the state's largest business has been the hospitality industry. Recently, the manufacturing of durable and consumer goods has replaced the hospitality industry as the number one employer and revenue producer for the state.

The reliance of the state on special excise taxes for the bulk of its operating revenue is poor economic planning. These taxes are not only regressive, but also rely on the whim of consumer spending. The state's stand on income and sales taxes has made it a shining example to national conservatives. However, there is a general consensus that at some point, if a more realistic taxing policy is not developed, the entire "house of cards" will come crashing down.

Political Situation

An analysis of the political situation in New Hampshire depends on your point of view. It is generally accepted that Governor Sununu has developed a good administrative program for running the state. The voters confirmed this by returning the governor for another term. The only blemish on the campaign was the Seabrook nuclear power plant issue. It did syphon votes away from Sununu.

However, at the legislative level, in contrast to the apparent calm of the Chief Executive's Office, there is apparent disarray. The political parties have little or no clout and less control of their members. They are poorly financed, understaffed, and have no substantial campaign funds to ensure the loyalty of party members. In the 400-member legislature, there are no strong political leaders, and the elected leadership that does exist very much serves at the sufferance of the body.

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An example of the near anarchy in the legislature is the case of anti-tobacco activist Sen. Johnson. In 1983 Sen. Johnson was defeated for the Republican nomination for his Senate seat. Since the Democrats had no credible candidate in the district, Sen. Johnson decided to run as a Democrat. In order to do that, he needed the permission of the Democratic party. That permission was granted on the condition that Sen. Johnson register as a Democrat and remain a Democrat throughout his term in office. Sen. Johnson agreed to those terms, ran a successful campaign, and was elected to the New Hampshire State Senate, whereupon he immediately re-registered as Republican. This is somewhat indicative of the disdain individual members have for party and legislative leadership control.

In order to win the Senate presidency, Sen. William Bartlett forged a coalition of Republicans and Democrats. The reward was six committee chairmanships for Democrats. This may consolidate control, but it also diminishes true power.

An added pressure on the political condition of the state is the rapidly approaching "first in the nation" presidential primary. The attention that is normally focused on this event is likely to be heightened by the entry of Massachusetts Governor Michael Dukakis into the fray. He is likely to make nuclear and other environmental issues a part of the campaign rhetoric. This could spill over and do tobacco interests no good.

Significant State Problems

One of the major concerns is unrestricted resort and business growth. That general concern spawns a variety of environmental concerns with which the legislature must deal.

One of the main, but little recognized, concerns that must be faced in the next year is the condition of Public Service of New Hampshire. The state's only electric utility is in serious jeopardy of going into bankruptcy. The funds being drained off by the construction of the nuclear power facility at Seabrook, combined with some untimely conversions to coal-generated electric plants, have resulted in enormous pressures on the utility. The fortunes of private corporations, and, indeed, the entire state, are at stake. In this area the Commonwealth of Massachusetts and its presidential aspirant, Governor Dukakis, are active players. In a move to assure himself coverage in New Hampshire's "first in the nation" primary, Dukakis has refused to certify the emergency evacuation plans for Seabrook, further delaying the opening.

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RESOURCES

Tobacco Segments

The tobacco industry in New Hampshire is extremely small. There are fewer than 50 manufacturer sales representatives, only eight wholesalers, and a very small vending industry. The largest single tobacco-related ally is the New Hampshire Retail Grocers Association. Traditionally, the New Hampshire Retail Grocers Association has provided the industry with outstanding support. That support should continue. The recent tendency of the tobacco industry at the wholesale level to contract-out has a marked impact on states like New Hampshire, where one or two in-state and one or two out-of-state wholesalers might end up dominating the market.

Business

For many years the business community in New Hampshire enjoyed a certain level of security. The extremely conservative Thompson Administration and the desire of Democratic Governor Gallen to avoid the appearance of being a liberal Democrat resulted in extremely secure legislative conditions for the general business community.

Unfortunately, the result was a growing lethargy and lack of involvement in the legislative process. In fact, for almost 18 months the Business and Industry Association of New Hampshire--an amalgamation of the Southern New Hampshire Business and Industry Association and the old New Hampshire State Chamber of Commerce--was without an executive director. That condition is mirrored by the New Hampshire Hospitality Association, which has been without a full-time executive director since the retirement of Hal Thomas in 1983.

Part of the reason for this, like the BIA situation, is an actively involved board of directors. There are those within each organization who argue that since the members of the organization are so actively involved in its legislative concerns and day-to-day operations, there is no need for expansion of the full-time staff. Many share the opinion that the decision has more to do with an unrealistic impression that "they (the legislature) can't do anything to us (the business community)" and a certain degree of Yankee cheapness. They, frankly, aren't willing to pay for the type of legislative representation they require. With regard to tobacco issues, the business community tends to be a very reluctant ally. It views tobacco issues as "no-win" situations.

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Labor

The largest labor organization is the New Hampshire State Employees Association. From time to time the New Hampshire State Employees Association has been supportive. But, it is usually bogged down in its own running battles with the legislature, which is usually trying to avoid paying its most recent pay increase. For the most part, organized labor (AFL-CIO) is not a significant force in New Hampshire.

Institute Resources

We have been able to defend successfully against the anti-tobacco activists by utilizing the resources and manpower of our friends and allies, especially in the hospitality and retail grocery industries. In 1986 we were successful in bringing the Business and Industry Association into the battle on our side.

However, as our legislative needs increase in New Hampshire, it is likely that we will have to continually review the need for additional legislative help and the help of other consulting services, such as public relations. As in all of New England, one of our biggest assets in the state is our legislative team. Their access to both sides of the aisle in both houses and to both ends of the political spectrum has made our overall program the success that it is.

ANTI-TOBACCO FORCES

Anti-tobacco organizations in New Hampshire have become better organized. However, they are less organized than elsewhere in New England. In recent years, they have come together under the popular title of Coalition on Smoking OR Health. That coalition has now learned how to work together toward a single legislative objective.

The prime mover against the tobacco industry in the state is the New Hampshire branch of the American Lung Association. That particular group is among the most active lung associations in New England. The association has also broken from its regional and national counterparts in that it no longer approaches business in a simple, adversary context on the smoking issue. The lung association has begun to attempt to develop voluntary programs within the restaurant and business communities. Part of their goal is to get on the inside of the major business organizations and stay there long enough to erode our credibility and our efforts. To date the association has not been successful. However, that effort has made it much more difficult for us to make the major business organizations move decisively in our favor.

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TOBACCO INDUSTRY

Brief History

A review of the industry's efforts reveals an extremely successful record. Since 1977 five pieces of tobacco legislation have been enacted in New Hampshire. The first two, in 1977 and 1981, dealt with smoking in public places. The third was the passage of a 5-cent tobacco tax increase in 1983. The most recent were bills prohibiting smoking in large grocery stores and requiring smoking policies in places of work.

Undoubtedly, one of the key problems we face in New Hampshire is the recognition that, on a tax level, New Hampshire is the keystone of the New England states. As the lowest tax state in the region, an increase in any of the New Hampshire taxes, including tobacco, usually results in an increase in taxes in the other states. This makes New Hampshire extremely vulnerable to both internal and external pressures, as we saw in 1985 on the federal sunset tax activity.

Major Issues--State and Local

The major issue of concern in 1987 and beyond is the workplace issue. The lung association and certain legislators have targeted this issue as one of their key legislative concerns for the next session. In the future, the "youth" issue will become a major concern. In 1985 and 1986 we witnessed efforts to prohibit all sales of cigarettes in vending machines and to impose stringent fines on retail grocers who sell products to minors. These will return in 1987. Finally, the smokeless tobacco controversy is likely to draw us into areas, like sampling, that we would prefer to avoid.

As in Maine and Vermont, the tobacco issue has not yet reached the local level. When it does, we are likely to see, as the nuclear activists attempted three years ago, a restriction question on the town meeting warrant in every town across the state -- all on one day. If that occurs, the issue will have to be approached from a statewide referendum perspective, as opposed to a simple, local situation.

Outlook

Undoubtedly, 1987 will be a most difficult year for the tobacco industry. The level of negative tobacco media activity in the New England region has created a general impression among the population at large and the legislators that there is a completed case against environmental tobacco smoke. That means we are walking into any legislative hearing two, and in some cases three, strikes down. It makes the industry's perspective a difficult "sell" at best.

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To this overwhelmingly negative press is added the influx of liberal southern New Englanders. These people are a ready-made anti-tobacco grassroots organization. The next two years may in fact be benchmark years on the tobacco issues. Attempts to expand the workplace statute, combined with sampling, advertising, and vending sales bans, will provide a focus for anti-tobacco forces during that time.

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NEW JERSEY

PREFACE

New Jersey is, in every sense of the word, a stepchild state. The Garden State is a suburban bedroom community of New York City on its northern border and Philadelphia on its southern border. A large number of New Jersey residents commute to these metropolitan areas to earn their livelihoods. Recently, however, a large number of corporations have abandoned New York City and have developed new corporate headquarters in northern and central New Jersey.

The New Jersey economy is fueled by essentially white-collar workers, although blue-collar industries are prominent in the northern part of the state. The state also enjoys a bright economic condition with unemployment below the national average. Beyond a 70-mile radius of New York State, New Jersey is rural, with agriculture the predominant industry, particularly in the southern part of the state.

The state capital, Trenton, is located in central New Jersey, which enables lawmakers to travel to the capitol quickly. As a commuter legislature, the legislative session is year-round and lawmakers, although they may not be in session, continue to hold committee meetings either in Trenton or in various parts of the state. This means the state is constantly besieged by legislative activity.

STATE OVERVIEW

Economic Condition and Outlook

The state economy is now in its best condition in recent history. Although much of the land area has lost its agricultural role, the continuing increase in population and the ensuing housing boom has put state revenues at an unprecedented surplus level.

New Jersey is a bedroom community of New York City and Philadelphia. A large percentage of the work force commutes daily, but lives and plays in the Garden State. New Jersey's white-collar work force is well educated and enjoys a standard of living well above the national average. The once-prosperous agricultural population is dwindling rapidly as land values shoot through the ceiling. Corporations are relocating from New York City and opening up plush corporate parks in lush green settings. There is good reason to believe that New Jersey's economy will continue to be prosperous. Only a national economic slump would change this forecast.

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Political Situation

Although traditionally thought of as a Democratic blue-collar state, since 1981 voters have stampeded to the Republican party. The state is one of the few that conduct odd-year elections. With Governor Kean running at the top of the ticket, Republicans enjoyed a sweeping victory in 1985 by winning control of the New Jersey Assembly for the first time in 14 years. In 1981 Governor Kean was elected by a slim 1,700 vote margin and inherited a Democratically controlled legislature. Now, however, Republicans have control of the Assembly and enjoy a 50-30 margin.

Senate elections are held every four years; Assembly members serve two-year terms. The Democrats still maintain control of the Senate by a 23-17 margin, but based on the past sweeping victories of the Republican party, Senate Democrats will be focusing much more closely on their reelection prospects in 1987. Because Governor Kean enjoys such popularity, because of the bright economic condition, and because of the changing nature of the political party alignment, the once-influential Democratic party machinery is crumbling in the face of Republican prosperity.

The battle for control of the 203rd New Jersey Legislature, which will be settled on November 3, 1987, is now underway. The Republicans are looking to pick up the four seats necessary to gain control of the 40-member Senate. The Democrats are seeking to win back the 11 seats they need to regain control of the 80-member Assembly. Governor Kean cannot seek reelection.

With Republicans controlling both Chambers, Kean has an opportunity in his final two years in office to do many of the things he has been unable to do during his first six, as well as pursue any national elective office.

Significant State Problems

The State of New Jersey, and particularly the legislature, will face significant problems addressed by other states in the recent past. These problems come full circle to New Jersey as the media paints a picture of nonactivity by the legislature when comparing the state's activity to the surrounding state's legislative efforts.

These issues include liability insurance questions (particularly medical malpractice), toxic waste disposal/clean up programs, infrastructure rebuilding, and automobile insurance rate questions.

Although not problems at the present time, several issues may surface in this final year of the two-year session. They may include amendments to the recently-adopted smoking restriction laws, the issue of fire safety, advertising restrictions and smokeless purchase age restrictions.

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RESOURCES: STRENGTHS AND WEAKNESSES**Tobacco Segments**

Tobacco is not grown in New Jersey and other segments of the industry are only a small part of the business community. The other segments consist of manufacturers and their subsidiaries, distributors and retailers. By their numbers they could be considered insignificant players in the economy of New Jersey.

The Tobacco Distributors Association of New Jersey is a diverse group, with internal "dog-eat-dog" problems. Despite internal problems, the association has been responsive to requests to mobilize its membership as well as its customers. The executive director, as a former member of the Assembly, has kept the organization in the forefront through actions and contributions to assist in impacting the legislature. The association also continues its political campaign contribution program to support effectively members of the legislature who are receptive to the industry's concerns.

The Tobacco Action Network (TAN) in New Jersey has 451 activists. These activists have been particularly responsive to local legislative activities in their legislative support efforts. This past year our TAN activists were not mobilized as the legislature adopted 6 restriction bills in 1985.

Business

There are two primary business organizations in the state. Generally, the New Jersey Business and Industry Association and the New Jersey Chamber of Commerce have been responsive to industry requests to assist with adverse legislation. Several member companies have been members of these organizations in the past and have been helpful.

However, particular problems arose in 1985 regarding the adoption of smoking restriction legislation. The New Jersey Business and Industry Association endorsed workplace restriction legislation.

Efforts have been ongoing to work with these organizations and it is perceived that they will continue to oppose any additional restrictions regarding smoking in the workplace. Also, these organizations have been in the forefront of efforts to promote voluntary workplace programs.

Labor

New Jersey's labor groups have traditionally remained neutral on smoking restriction issues. An exception is AFSCME, represented by James Hedden, a former TI employee. Because union membership is on the decline and they are concerned with other labor related issues, it is not expected that unions will become extremely active on issues of concern to the industry.

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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.

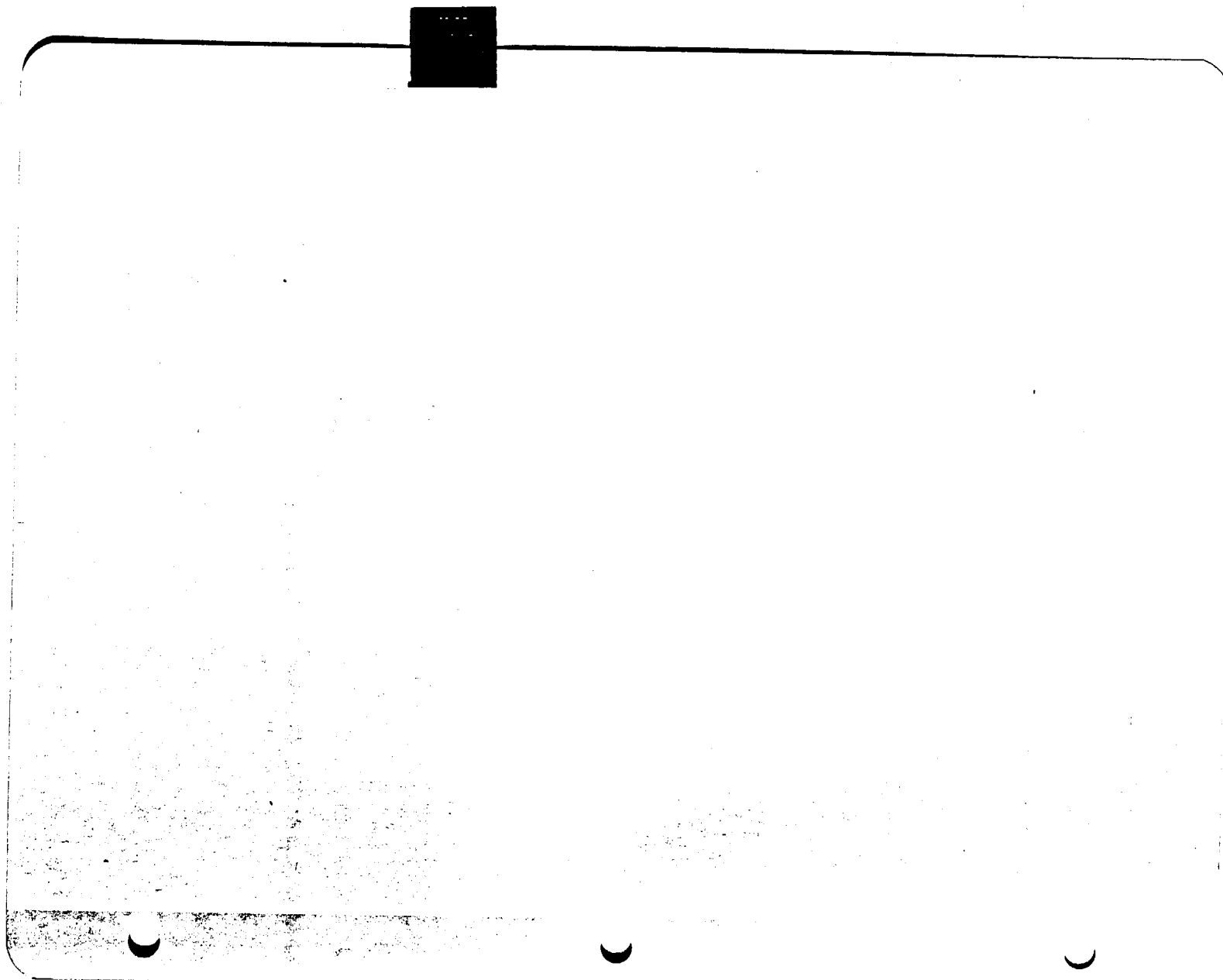
Cigarette tax increase legislation is not expected to be a major issue as the state enjoys a sound fiscal standard.

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 NMACD 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.

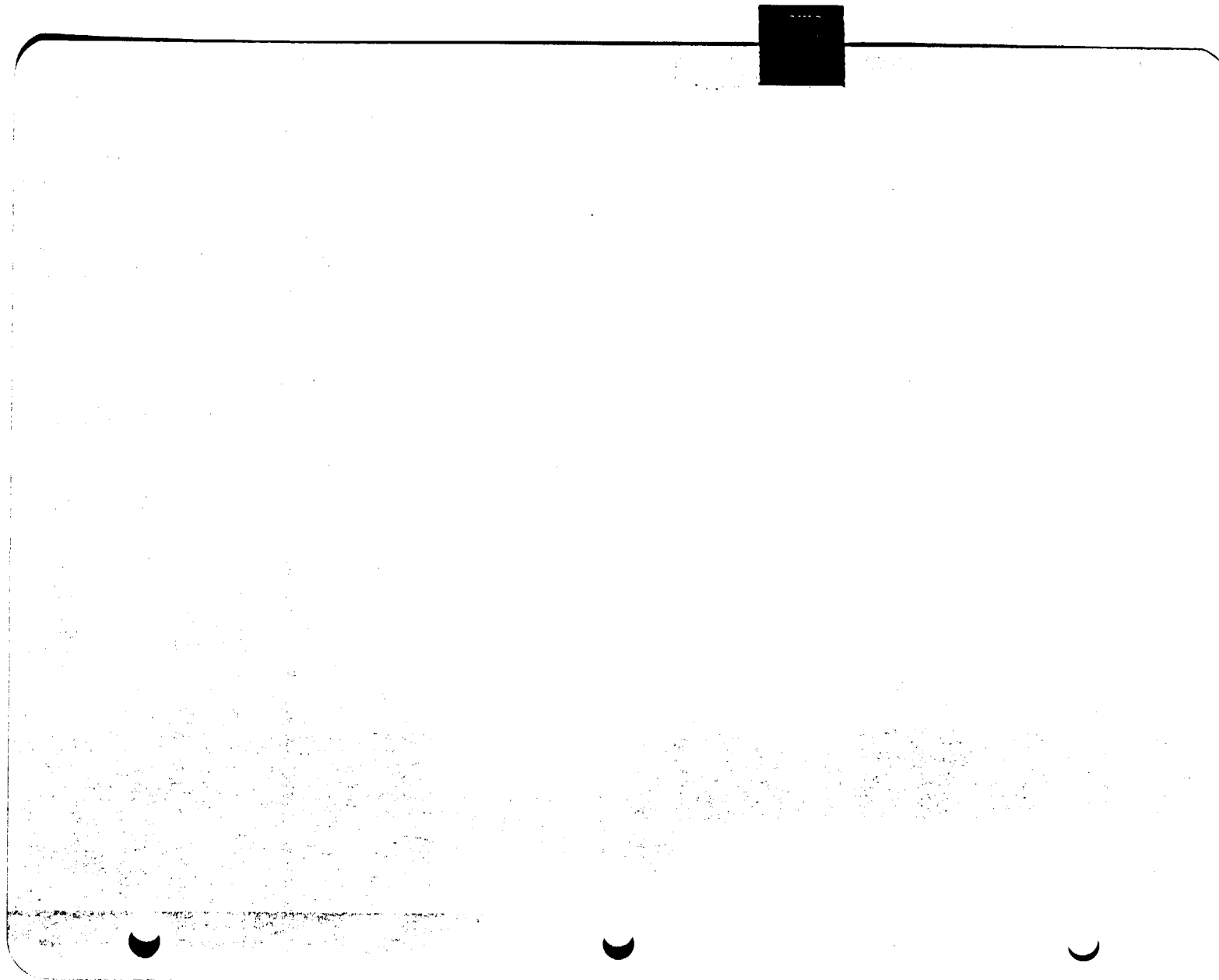
Tax Increase. Due to projected state budget shortfalls, a tax increase looms on the horizon.

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.

December 1986

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OHIO

1987

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, vetos 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 INDUSTRYBrief 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.

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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.

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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.

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 Lyon. 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.

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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.

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.

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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.

December 1986

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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.

December 1986

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TECH.

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.

December 1986

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TEL.

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.

December, 1986

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UTAN

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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ANTI-TOBACCO FORCES

Utah was one of the first states to adopt a so-called "Clean Indoor Air Act" (1976). As a result, anti-smoking forces have had little reason to organize. Recently, however, Salt Lake City's Public Health Director, Dr. Harry Gibbons, has become a very outspoken critic of the existing law and succeeded in adopting a series of amendments in the 1986 legislative session. Gibbons succeeded in gaining support for his activities from the state's health department and elements within the University of Utah. The cancer society, lung association, etc., are supportive but not leading the charge, so far, in Utah.

TOBACCO INDUSTRY

Brief History of Successes and Problems

The state-wide Clean Indoor Air Act was enacted in 1976. There has been little or no enforcement of its provisions.

The cigarette tax is currently 12 cents, well below the national average. In 1986, the "other tobacco products" tax was increased to 35 percent of manufacturers' selling price. No municipal taxes are on the books and there are no local smoking restriction laws.

Major Issues - 1987

A bill to increase Utah's cigarette tax by 8 cents per pack has been pre-filed.

Outlook

Enactment of amendments to the Indoor Clean Air Act must be considered likely.

December 1986

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VT.

VERMONT

PREFACE

Advertising promotion for the state declares: "Vermont - A State of Mind." That may be the best description of New England's least populated state. Vermont is different things to different people. It is the last bastion of the conservative, Yankee, rugged individualist. It is also one of the final outposts of the aging, 1960's counter-culture communists from the affluent suburbs of Boston and New York. It has one of the most active environmental, no-growth, anti-business coalitions in the country, facing one of the fastest-growing resort industries in the Northeast.

In some sections the abject poverty reminds one of news photographs of Appalachia. On the other hand, the conspicuous consumption of "Yuppie" skiers from Boston, New York, and Washington is the fuel for the economic furnace that runs the state.

In one state, some of the most conservative politicians in the area are squared off against the avowed Communist mayor of the city of Burlington. In all of these aspects, it is not so different from what we see in the rest of New England--just more extreme.

There are approximately 800,000 people living in Vermont. It has a 0.3 percent market share and a 17-cent per pack excise tax on cigarettes, compounded by a 4 percent sales tax. Those taxes are collected on approximately 77 million packs of cigarettes, producing state revenues of approximately \$13 million in fiscal year 1985. This represents an increase of 700,000 packs and state revenues of \$400,000 since 1984.

STATE OVERVIEW

Economic Condition

Unlike New Hampshire and Maine, the growth patterns in Vermont are more evenly distributed, particularly in the development of resort facilities. In contrast, industrial growth has focused in Chittendon County in the extreme northern part of the state. This growth has focused on the city of Burlington, but in recent months has begun to spread out into some of the other outlying areas of the county. It is likely that this economic growth will continue throughout the 1980s.

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Following her reelection, Governor Kunin vowed to continue her attempts to bring foreign investment to the state and opened negotiations with trading partners and developers as far away as Osaka, Japan. The biggest single block to continued economic growth may be the lack of skilled and professional labor forces. However, the construction of a bridge tunnel across Lake Champlain, scheduled to begin in 1987, is likely to provide construction jobs and fuel the continued economic growth of the north.

The effect of the economic prosperity on the social and political climates of the state -- and the way in which the people and the legislature respond -- will determine whether the growth continues and at what rate.

Political Situation

Recent Vermont politics send mixed signals. Two years ago, the Reagan landslide swept Democrats out of office across New England and the country. In contrast, in Vermont, for the first time in many years, Democrats gained control of the Executive Office, absolute control of the Senate, and were close enough in the House to elect a Democratic minority speaker.

The lack of a strong Republican candidate assured Democratic incumbent Madeleine Kunin a second term. However, the addition of Burlington Mayor Bernard Sanders as an independent resulted in the election being thrown into the legislature.

The immediate political concern is who will be Speaker of the House. The Democratic/liberal Republican coalition that elected Rep. Ralph Wright as speaker in 1985 and 1986 appears intact for 1987. However, it is always difficult to elect a minority speaker. Following the election of speaker, the goal will be to get through the legislative session with a minimum of difficulty and get on to the business of running for re-election.

Significant State Problems

Primary problems are a result of the phenomenal growth and prosperity and the indication that this growth and prosperity is likely to continue into 1987 and beyond. The concerns relate to the environment and the destruction of the mountain forests for the development of resort condominium complexes. Those resorts -- built primarily to allow city dwellers from Boston, New York, and Washington to enjoy the pristine solitude of the Vermont mountains -- are destroying the very mountains they seek to promote. Further, their development is stretching the state and local infrastructures to their limits.

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These complexes often house in excess of 3,000 or 4,000 people and are equipped with support facilities and entertainment complexes. Volunteer fire departments that satisfied the needs of small, rural communities of 1,000 people are no longer adequate to meet the demands of multiple resort complexes. Similarly strained are the rural water supplies, road systems, and electrical delivery systems. One of the largest legislative concerns will be how much of this growth is enough, what kind of controls can be placed on it, and who should be the arbiter of those controls. In addition to these and other problems associated with overall growth and prosperity, the governor would like to develop some sort of program to relieve property taxes.

There are also those who suggest that the question of smoking in the workplace is a major state problem.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

The tobacco family in Vermont is extremely small, and the members tend to have difficulty coordinating their efforts. There is neither an organized wholesaler nor vending association. Even the New England Convenience Store Association does not reach into the state. There is a strong retail grocery association, but very few retail tobacco outlets.

Over the years, a number of individual wholesalers have been very responsive to requests for legislative action. However, their lack of organization and coordination has required a great deal of personal contact. This contact is difficult and time-consuming, particularly in the middle of a legislative fight. However, our relationship with the Vermont Retail Grocers Association is such that they have lobbied directly on our behalf and given us access to their members wherever and whenever we have needed it.

There is far less acrimony and dissension among the wholesalers in Vermont than in other parts of the region. This allows us to organize and coordinate their activities as required, but we still cannot maintain a consistent level of organization between legislative battles. The burden for that organization must fall primarily on the shoulders of the wholesalers who will benefit from it and not be left to the Tobacco Institute.

Business

Established business organizations are very influential. The Vermont Chamber of Commerce and the Associated Industries of Vermont maintain active and involved legislative committees and full-time lobbyists; and have developed a consistent, credible, and welcomed presence in the Vermont legislature.

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On a variety of occasions, these two organizations have provided the industry with outstanding legislative and grassroots support. In some instances, particularly tax-related areas, they have not been able to support us because our success might mean failure for their own legislative goals. Nonetheless, at no time has either of these organizations suggested that the legislature focus their tax-increasing attentions on the tobacco industry instead of their members.

In other instances, such as workplace smoking restrictions, they are happy to support our activities and even take the lead in opposing laws to regulate smoking in the workplace. Supporting these two major groups are other organizations like the Vermont Restaurant and Lodging Association and the Vermont Merchants Association. These have far less influence but have been equally supportive in the past. We can expect that support to continue.

Labor

During the Republican-dominated years, the minimal influence of Vermont labor waned further. For the most part, labor was not a force at the legislative level. With the return of the Democratic party, organized labor has enjoyed a small resurgence. However, their chief lobbyist Steve Kimball has been brought into the Kunin Administration.

While he can now act as an inside advocate and spokesman for a labor-oriented administration, he loses the political maneuverability he enjoyed as an external advocate for labor. We do, however, enjoy good relations with the president and current lobbyist for the AFL-CIO. They are extremely interested in the workplace smoking issue, and are likely to support us during the legislative session. On the other hand, the new labor lobbyist has been contacted by the anti-tobacco groups to act as their counsel in 1987.

Fire Groups

As a result of our activities in the area of "self-extinguishing" cigarettes, we became acquainted with the Vermont Volunteer Fire Fighters Association. During the past two years we have continued to maintain our contact with that organization. While they have never been called on to act on the "self-extinguishing" issue or other tobacco-related matters, they have indicated a willingness to maintain an open mind and provide us with assistance where possible.

Institute Resources

We have been able to defend successfully against the anti-tobacco activists by utilizing the resources and manpower of our friends and allies, especially in the hospitality and retail grocery industries.

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However, as our legislative needs increase in Vermont, it is likely that we will have to review continually the need for additional legislative help and the help of other consulting services, such as public relations. As in all of New England, one of our biggest assets in the state is our legislative counsel. His access to both sides of the aisle in both houses and to both ends of the political spectrum has made our overall program the success that it is.

ANTI-TOBACCO FORCES

The anti-tobacco advocates in Vermont cut across all the social, economic, and political strata of the state. The most credible of their number is Dr. Roberta Coffin, the head of the State Department of Public Health. In support of Dr. Coffin are the members of the Vermont Lung Association, Cancer Society, and Heart Association. GASP and ASH organizations also have chapters in Vermont. Activities of these groups are supported by students from the University of Vermont in Burlington's Public Interest Research Group (PIRG) and a scattering of liberal, counter-culturists left over from the sixties.

Our observation of the loosely-knit coalition used to suggest that without the leadership and presence of Dr. Coffin, the remaining members of the coalition would dissolve into a strident and fanatical fringe group. However, their goals are supported by the local press, particularly the Montpelier Times-Argus; and they have engaged a lobbyist for 1987. Therefore, they speak with unwarranted credibility.

TOBACCO INDUSTRY

Brief History of Successes and Problems

When viewed in context, the successes of the tobacco industry in the state of Vermont are enviable. In 1983 the state increased the cigarette excise tax from 12 to 17 cents per pack. The last tax increase prior to that was 14 years earlier. During the 1985 legislative session, the state imposed its sales tax on tobacco products. In 1981 a broad "clean indoor act" was defeated by three votes on the floor of the House. Since then the industry has been successful in keeping all smoking restriction legislation tied up in committee and off the floor. In 1984 we made a timely change in our legislative counsel situation and have been able to continue our success in the two years since the change.

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Our immediate problems have been few, and yet they suggest that our future problems will be more serious. They focus on the inability of the extended tobacco family to work as a cohesive unit on those legislative initiatives affecting it. To a certain extent, the industry family is content to believe that it can organize itself and respond overnight. It does not yet recognize that a strong, standing organization will be essential in the more volatile anti-tobacco climate of the future. Again, some of this ongoing organizational activity must fall upon the shoulders of those who reside in the state, not solely on the shoulders of The Tobacco Institute.

Major Issues - State and Local

During 1987 there is likely to be a single, well-focused attack by the anti-tobacco advocates in the state on the issue of smoking in the workplace. Two separate pieces of carryover legislation received a great deal of attention during the abbreviated 1986 legislative session and were defeated.

The bill in the House was a San Francisco-type workplace ordinance. The other in the Senate was a bill restricting smoking in public buildings. There is some suggestion that the Democratic legislature will be inclined to give the liberal proponents of the anti-tobacco legislation at least a piece of the pie in 1987. Our overall goal is to bring pressure to bear from the organized business and labor communities in combination with our legislative and scientific witness programs to defeat again even the most lenient workplace restriction bills.

During these efforts on smoking restriction legislation, it must be remembered that, as a result of tax reform, Vermont will once again sustain a deficit. There is currently no indication that tobacco tax bills will be pushed by the legislative leadership or the governor during 1987. Nonetheless, the fact that the state needs money means that the possibility of increasing the cigarette excise tax must be a concern to us.

Finally, the large volume of adverse publicity on smokeless tobacco issues has raised some questions about minimum sales age and labelling of smokeless tobacco products in Vermont. It is possible that this type of legislation will become part of the Department of Public Health's legislative agenda for 1987.

To date, local smoking restriction activities in Vermont have surfaced only in Burlington. If the organized anti-tobacco movement should recognize the local level as fertile ground, it is likely to move from the city council in Burlington to other locations. Depending on that response, it may move quickly to the town meeting format on town meeting day in either the spring or fall. An organized effort to place questions of smoking restrictions on the ballot on a town meeting day could have a devastating effect on the industry in Vermont.

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Outlook

The outlook for the tobacco industry and its legislative program in Vermont is not unlike that in the other five New England states. Our supporters are brow-beaten and frustrated. We have brought them to the legislature time and time again to explain the economic impact of a particular legislative action on their industry only to be ignored and in some cases insulted.

Our allies beyond the tobacco industry are generally reluctant participants in our legislative battles and would prefer that we fight them without their support. However, with each succeeding year and each succeeding presentation before the legislature, the industry's credibility, particularly on tobacco tax issues, has grown stronger. In 1987 we will attempt to transfer some of that credibility from the economic issues to the emotional smoking restriction issue.

December 1986

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VIRGINIA

PREFACE

Virginia has a 1986 population of 5.3 million. The state is a mix of urban and rural economies and also has one of the largest ocean ports in the world.

There are several sub-regions of the state: The eastern or Tidewater section, the central or Piedmont section, and the western or Mountain section. The area north and west of Fredericksburg is known as Northern Virginia.

There are four major metropolitan areas in Virginia:

1. The Virginia counties in the Washington D. C. area - population, 1.3 million.
2. The Richmond area, including independent cities of Petersburg, Hopewell and Colonial Heights - population, 875,000.
3. Norfolk/Virginia Beach/Portsmouth/Chesapeake/Suffolk/Newport News/Hampton and environs -- population, 1.25 million.
4. Roanoke area - population 250,000.

Tobacco is grown in the central, and southern areas of Virginia. The state's market share is 2.8 percent.

STATE OVERVIEW

Economic Condition and Outlook

The economy of Virginia is robust, with strong growth occurring in the manufacturing and service sectors. In addition, a growing number of companies are moving their corporate headquarters to the state. The City of Richmond is headquarters for 14 of the Fortune 1000 companies. Particularly strong growth continues to occur in the Washington Metro area, particularly Fairfax County.

The State of Virginia ended the 1984-86 biennium with a budget surplus of \$31.6 million. Other available funds and current projected surplus result in approximately \$42 million more. The revenue flow to state government is clearly healthy.

In the first year of his administration, Governor Gerald L. Baliles convened a Special Session of the General Assembly for the purpose of considering and approving additional highway construction (10-year need estimated at \$5 billion) and passing taxes to raise this revenue. A tax package was approved, and takes effect January 1, 1987. The package is expected to raise approximately \$400 million per year.

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The state expects to receive a windfall of \$187 million in state income taxes as a result of federal income tax reform; however, the Governor has indicated a desire to return most or all of this, in some way, to the taxpayers.

Political Situation

Virginia has a Democratic controlled state legislature, and a Democratic Governor, Lieutenant Governor and Attorney General. The Lieutenant Governor, L. Douglas Wilder, is a black, and the Attorney General, Mary Sue Terry, a woman. Wilder is the highest ranking black elected state official in the country. Virginia's two U.S. Senators are Republicans, while the ten congressional seats are divided evenly between the two parties.

The Virginia General Assembly is comprised of 140 members (40 Senators, 100 Delegates) with a 2 to 1 Democratic majority. The House of Delegates has 64 Democrats, 33 Republicans and 2 Independents. The Republicans lost two seats in the House during the 1985 general election. The Senate has 31 Democrats and 9 Republicans, including a Republican elected in a special election in August to fill the seat of the late Senator Edward E. Willey.

During the summer of 1986, Edward E. Willey, D.-Richmond, the President Pro Tempore of the Senate, passed away. Senator Willey had served in the Senate since the early 1950s, and was the Chairman of the Senate Finance Committee. He was unquestionably the most powerful member of the General Assembly, and was strongly opposed to state or local tobacco taxes. The new Chairman of the Appropriations Committee is Senator Hunter Andrews, D.-Hampton, who is also the Majority Leader. Neither Andrews nor any other Senator appears likely to wield the power once held by Willey. As a result, the Senate may become less predictable. In addition, Willey's sympathetic views of the tobacco industry are probably not as strongly held by the new Senate leadership, in part due to the lack of a strong tobacco farming or manufacturing presence in Senator Andrews' district.

In general, Virginia is a pro-tobacco state. This has been brought about over the years by positive industry campaign and hard work at the grassroots level by industry participants. In addition, the news media in the state is generally more pro-tobacco than in other tobacco-producing states.

Significant State Problems

The most significant state problems are:

- a. Local "fiscal stress," which is a term being applied to the revenue shortfalls of local governments which arise, according to the localities, because of the insufficiency of local tax bases to raise revenue sufficient to fund programs mandated by the state. Some localities are affected severely, according to a recent legislative study; others are hardly affected at all.

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No particular program has been advocated as a solution, but it seems likely that a trend toward delegation of additional taxing powers to municipalities may result.

b. The state prison system needs additional facilities. This will require an expenditure in excess of \$150 million.

Possible sources of funds for the State are:

a. The income tax windfall, estimated at \$187 million, which will accrue to the state, as a result of federal income tax reform. The Governor has indicated that this money will be returned; however, Republicans are attempting to turn this into a partisan issue.

b. A state-operated lottery, which was actively promoted by a number of influential members of both Houses during the 1986 Special Session. Estimates of net revenues from a lottery range from \$70 to \$300 million. The question could go to voters in the form of a referendum.

In addition, tort reform will be considered by the 1987 General Assembly. A legislative subcommittee studying the issue has approved proposed legislation which includes caps on non-economic damages, sanctions for frivolous claims, changes to the exemptions from jury service, structured payments for certain judgments, and other elements.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

Virginia is the second largest cigarette manufacturing state and ranks fourth in the growing of all types of tobacco. Two major cigarette manufacturers are represented with facilities in the state. Philip Morris U.S.A. is headquartered in Richmond. American Tobacco Company is in the process of moving administrative headquarters from New York City to Richmond. In both instances, the corporate headquarters of these companies are located in the New York City area.

The tobacco grower segment of the Virginia economy is relatively large and has been extremely helpful in prior years in combating anti-tobacco legislation.

The wholesale segment of the industry is very active in the state with strong associations at the wholesaler and vendor level. In each instance the association maintains a full-time state lobbyist and works closely with the Institute.

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Business

Virginia, like most southern states, is very business oriented and is also a right-to-work state. The Virginia General Assembly is very cognizant of business problems and sympathetic to legislation that fosters support of business. The Virginia Chamber of Commerce, the Virginia Manufacturers Association and other business groups have been helpful to the tobacco industry in combating anti-tobacco legislation and sentiment.

Labor

Organized labor has comparatively little political influence in the state, although unionization of companies continues to grow. Since Virginia is a right-to-work state there are many facilities with an open shop operation.

Fire Groups

There are several fire groups in the state, but there seems to be little enthusiasm or current need for any strong alliances at this time.

Institute Resources

The major T. I. resources in the state are tobacco growers and allied farm groups, employees of cigarette and other tobacco manufacturers, and the wholesale and retail element.

In addition, there are a number of leaf tobacco companies headquartered in Virginia that provide help when needed in key political situations.

There are a number of supplier companies headquartered in the state, all with Virginia operations that, when called upon, are helpful in combating anti-tobacco legislation at the state and local level.

ANTI-TOBACCO FORCES

Anti-tobacco activity in Virginia is negligible except at the local level in the northern Virginia counties of Fairfax and Arlington; there is currently restriction activity in the City of Winchester. There is little if any anti-tobacco activity in the Virginia General Assembly. Primary anti-tobacco groups in the state are the Virginia affiliates of the Lung, Cancer and Heart Associations.

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TOBACCO INDUSTRY

Brief History of Successes and Problems

Traditionally, there have been more problems with cigarette taxes than restrictive smoking legislation. One of our major problems is the ability of cities and certain counties to tax cigarettes. This ability arises through general taxing power conferred by charters to cities and towns. A 1985 law gave counties the ability to request charter legislation, which, from a tobacco tax standpoint, gives them precisely the same powers as cities and towns. This situation, coupled with a growing legislative perception that past distinctions between cities and counties are no longer valid, is likely to create future problems.

At the state level, there are occasional efforts to increase the state cigarette tax (at 2.5 cents currently the second lowest in the country) as well as to enact legislation enabling counties to tax cigarettes, separate and apart from the county charter phenomenon. Doubling the state tax was proposed, but not seriously considered in the 1986 special session on transportation funding.

During recent sessions, restrictive smoking bills have been introduced, usually aimed at state office buildings. In 1983, a bill was introduced to require a "self-extinguishing" cigarette, but it was soundly defeated in committee.

Major Issues - State and Local

The major tobacco legislative issue in the Virginia General Assembly will continue to be taxes, although restrictive smoking legislation will become more popular as public sentiment for this type law increases across the country.

The primary thrust of local tobacco legislation will also continue to be cigarette taxes, although legislation to restrict smoking in areas such as municipal buildings, restaurants, etc., will undoubtedly be seen also.

Local taxation of cigarettes in Virginia localities often greatly exceeds the state tax of 2.5 cents per package. With the spread of county charters, care must be taken to avoid a backdoor increase in tobacco taxes. The first county charter bill passed by the General Assembly provides some precedent for this, as it was amended to include a provision prohibiting tobacco taxes (Roanoke County, 1986 General Assembly).

Outlook

The two challenges facing the industry in Virginia will be holding the line on cigarette taxes, both state and local, and ensuring that public smoking bills are not enacted.

December 1986

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WASHINGTON

PREFACE

Washington state is the focal point of the northwest economy. With a population just over 4.3 million, the Evergreen State has the most diverse economy, the most fluid population and the least predictable politics of the Northwest states. Washington's market share is 1.5 per cent.

STATE OVERVIEW

Economic Condition and Outlook

Washington's economy is still in a state of transition from agriculture and aerospace to a more balanced economy, which now includes computer technology, foreign trade and expanding tourism. Because of the growth of these new industries, the state's population is undergoing change from a traditionally blue collar population to one of more diversity with an increasing percentage of highly educated and trained employees.

As examples, the state will soon be the location of three new foreign-owned electronic businesses, will be the headquarters of the largest domestic producer of computer software, is at the forefront of the nation's nuclear industry, and is improving its position as a gateway to Pacific Rim trade. On the other hand, the state's agricultural economy continues to suffer with the timber industry in deep doldrums and farming and ranching suffering the same problems as the rest of the nation's farmers.

This rather schizophrenic economy and the fact that Washington is one of the few states without an income tax, make the state's fiscal picture extremely difficult to forecast, and revenue receipts subject to intensive cyclical changes.

Political Overview

As there was no gubernatorial election in 1986, the most important activity took place in the legislative elections.

In the state House of Representatives, there will be 61 Democrats and 36 Republicans in the 1987 legislative session. This compares to 53 Democrats and 45 Republicans in the 1986 session. One seat in District 6-Spokane, is still undecided.

In the Washington state Senate, there will be 25 Democrats and 23 Republicans. District 15-Yakima, is still undecided.

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In the U.S. Senate and Congressional elections, former Carter administration official Brock Adams, a Democrat, defeated incumbent Republican Senator Slade Gorton. All other Congressional incumbents were reelected.

Significant State Problems

The state's revenue picture is uncertain. To avoid the cycles of funding the state has faced in the past, the Governor has recommended an increase in revenue sources.

Also of concern to the state's residents is the water quality in Puget Sound and several eastern Washington aquifers. In addition, state employees have not received a raise in several years and feel the Governor promised them one for 1986. A five percent state employee raise would cost approximately \$105 million. Other costly issues being discussed are a state-funded basic health care plan, low income housing and school funding.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

Washington has no tobacco farmers, a declining wholesaler membership, only a small number of vendors and relatively few tobacco company employees. Of those within the traditional tobacco family, the wholesale distributors and the vendors have been increasingly effective in their efforts. Member company personnel have been helpful in the past and continue to improve the quality of their political efforts.

Business

Washington's one major business organization, the Association of Washington Business, has been ambivalent to our issues in the past. Recently, however, we've begun to receive more interest from them, particularly on the issue of workplace restrictions and cigarette taxes.

We have enjoyed excellent cooperation from the Restaurant Association of the State of Washington (RASW), the Washington Lodging Association, some segments of convenience store associations and limited assistance from the Washington Food Dealers Association.

Labor

Organized labor has been a difficult coalition to build, largely due to a very entrenched labor leadership. Changes are beginning to take place in the labor movement in Washington.

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We have recently received excellent cooperation from the Bakery, Confectionary and Tobacco Workers Local in Tacoma (there are three other BC&T locals in the state that have not yet "come aboard"), and from the Technical Engineers in Seattle (city employees).

We have heard some grumbles about the tobacco industry being "anti-union." However, we appear to be making inroads on the blue collar employees with workplace restriction and tax issues.

Additionally, new inroads with labor have been initiated due to recent action by the City of Seattle with regard to city smoking regulations and changes in working conditions. These actions were supplemented by the filing of an Unfair Labor Practices complaint by the city's largest labor union.

ANTI-TOBACCO FORCES

The major anti-tobacco organization in Washington is Fresh Air for Non-Smokers (FANS). This group has grown, with the assistance of local lung associations, to five chapters throughout the state. It is an extremely vocal group which is becoming increasingly effective at creating an image of a large, populist organization. FANS is also learning from past defeats, and becoming more effective politically. FANS has several officials on its local boards of directors.

TOBACCO INDUSTRY

Brief History

Since 1975, Washington has had smoking restrictions in the form of Board of Health regulations in the Washington Administrative Code. Last year the legislature passed the Washington Clean Indoor Air Act. The net effect of this act codified the existing regulations, relaxed to requirements that applied to restaurants and imposed penalties for violations.

Traditionally, cigarette excise taxes have been relatively high, compared to neighbor states.

Outlook: Major Issues - State and Local

The tobacco industry was hit hard during the last session of the Washington legislature. An 8-cent tax increase, earmarked for pollution clean up of Puget Sound, was passed by the legislature. The industry faces more problems during the next session, not the least of which is the workplace smoking issue on the state level, and several local smoking restrictions in Seattle and surrounding King County. Several anti-industry groups have announced plans to introduce workplace smoking legislation on a city-by-city basis in order to "hog tie" the tobacco industry.

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Recently, a measure to regulate smoking in the workplace in the City of Seattle was passed by the Seattle City Council. This measure was met with a protest and the subsequent filing of an Unfair Labor Practices complaint by the Seattle labor community. Additionally, a similar measure of comparable scope was approved in the King County Council.

It is expected that 1987 will be an extremely busy year in the state legislature with regard to smoking restrictions and other anti-industry measures.

December 1986

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WEST VIRGINIA

PREFACE

West Virginia's population is just under 2 million. The state's problem of high unemployment is compounded by recent flooding disasters. Unemployment will be a major issue considered by the General Assembly when it convenes in January.

The state's market share is just less than 1 percent.

STATE OVERVIEW

Economic Condition and Outlook

West Virginia continues to face the problem of a declining population, attributable mainly to unemployment. The coal industry, the state's primary employer, is in the throes of a deep depression, and that condition will not improve in the near future.

Adding to the burden is the decline in manufacturing. The governor and the legislative leaders are seeking avenues to improve conditions, but it is a situation which will require time and much effort. Politics, it appears, will be relegated to the background as solutions are sought.

A major factor in the unemployment situation is that West Virginia does not have defense contracts. There has been considerable complaint registered with Washington authorities regarding the situation but there has been little, if any, action channeling business to West Virginia.

Even though West Virginia has improved its unemployment picture slightly - the state has been in last position for an extended period - the treasury is being drained at the rate of \$60 million a year by the state's debt to the federal government. This certainly compounds the situation for the state's employers.

Political Situation

The political picture has not changed much from the 1985 and 1986 legislative sessions. The House membership stands at 78 Democrats and 22 Republicans. In the Senate the score is 27 Democrats and 7 Republicans. The primary issue is whether the House is to be in the hands of conservatives or liberals.

It is uncertain how the tobacco industry will be affected by the 1986 election. Some supporters were defeated or declined to run for reelection. However, two legislators, a Senator and a Delegate, who sponsored anti-tobacco legislation in the 1986 session, were defeated.

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Significant State Problems

The state generally, and the Charleston area specifically, has been hurt immeasurably by the treatment accorded the chemical industry. Many jobs have been terminated and others are in danger as consideration is given to consolidation and the possibility of sales to other manufacturers.

The latest to feel the effects of this weakened economy is the glass industry. Glass plants are either suspending operations or going on a reduced work schedule due to the lack of demand for products. The steel industry also is feeling the effects of the slowed economy.

West Virginia, like many other states, is attempting to attract new industry by offering special concessions in the area of taxation and financing. Results of this effort are unknown; only time will provide the answers.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

West Virginia grows burley tobacco. Growing is centered in six counties; therefore, it is not considered a major farm crop. However, tobacco is considered one of the state's prime cash crops. About 1,700 acres are devoted to and production involves approximately 4,000 farms. The tobacco crop carries a value of about \$5 million annually. The state also has a cigar manufacturer and a chewing tobacco factory in Wheeling.

Gus Douglass, Agriculture Commissioner, and William Gillespie, Assistant Commissioner, are actively engaged in the promotion of tobacco farming in the state. They are responsible for several experimental projects in the state and have contributed political support at both the state and federal level in combating anti-tobacco legislation. The agriculture department has engaged a tobacco specialist to assist the state's growers.

Business

The tobacco industry has been able to build a strong force in West Virginia through The Tobacco Institute and various tobacco-oriented groups.

In the forefront are the West Virginia Wholesalers Association, John Hodges, Executive Director; the West Virginia Retailers Association with Paul McKown as president; and the West Virginia Tobacco Growers Association represented by Mr. and Mrs. Virgil Edwards. Virgil is one of the state's most progressive growers.

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Other helpful business associations: the West Virginia Chamber of Commerce; West Virginia Restaurant Association; West Virginia Retail Grocers Association; the West Virginia Grange, and the West Virginia Hotel and Motel Association.

There have been occasions when Institute representatives have been able to recruit assistance from these groups in legislative battles.

Labor

The West Virginia AFL/CIO has testified in opposition to anti-tobacco legislation and has been an effective ally in opposing the regulation of smoking.

Institute Resources

The decision of The Institute to curtail the West Virginia Tobacco Council program had some impact on the total program in 1986, particularly among the growers. The Council's "News Letter" was the primary source of information to many growers as well as others interested in the preservation of the industry. The void was partially filled by some legislative bulletins but the complaint was not enough "pre-warning" as to what was happening nationwide to provide a guideline.

The honoraria program initiated in 1985 generated some "severe criticism" in the Charleston press, but the assistance generated certainly far outstripped the drawback.

ANTI-TOBACCO FORCES

The West Virginia Lung Association still maintains its position as the most forceful anti-tobacco group. It has been persistent in efforts to secure passage of a clean indoor air act. It engaged a full-time lobbyist for the 1986 session.

The heart association also has been an active supporter of anti-tobacco legislation. The cancer society has not been as active as the others. During the 1986 session hospital representatives became involved, as well as some other loosely organized groups and several individuals.

The Charleston press has become even more anti-tobacco, if possible, in editorial positions and news stories.

TOBACCO INDUSTRY

Brief History of Successes and Problems

The 1986 legislative session witnessed a decrease in the number of restrictive smoking bills introduced. There were only two bills - one in the Senate and one in the House of Delegates.

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Even though only two smoking bills were introduced, the industry faced new problems - the emergence of smokeless tobacco legislation. Five bills - three in the House and two in the Senate - were offered. The Senate passed a smokeless tobacco bill in 1986, but we prevailed in the House.

A review of restrictive smoking legislation in West Virginia, shows that the first bill was proposed in 1975. From 1975 through 1986 thirty-eight bills were offered, but none passed. In 1979 and again in 1980 five different bills were presented.

Major Issues - State and Local

One of our main concerns is that the anti-smoking forces will change their strategy and push for segmented legislation, covering only certain areas such as hospitals or restaurants instead of all-encompassing clean indoor air legislation. This strategy will dilute our allies and make it tougher for us to kill the legislation.

Outlook

It is certain that anti-tobacco legislation will be an issue in 1987. All indications point to restrictive smoking bills as well as smokeless tobacco legislation. Presently, it appears there is more attention directed at smokeless tobacco than at restrictions on smoking, but this status is subject to change.

It is a certainty that the tobacco industry will be facing increased pressures in 1987. Blue Cross/Blue Shield has been running full page ads in the newspapers attacking smokeless tobacco in particular. The West Virginia State Medical Association intends to become increasingly involved in disease prevention efforts. The State Superintendent was directed to provide recommendations to the State Board of Education as to school policy. Furthermore, it is anticipated that the Hospital Association will be more organized and more forceful.

It is doubtful, at this time, that there will be any effort by the administration to increase the cigarette tax.

There is no indication that taxes will be increased even though revenue was \$27 million short of estimates through October. The administration is hoping that some of the shortfall will be overcome through the tax amnesty program now in effect. Too, the prediction is that the economy will improve during the remainder of the present fiscal year.

Tort reform, which was one of the most controversial issues of the 1986 legislative sessions, may be a key issue again in 1987.

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The tax reappraisal program will draw considerable attention in 1987 since the question of implementation is being carefully scrutinized by various segments of business.

There are no discussions relative to possible legislation in the areas of advertising and sampling.

It will require dedication on the part of all to retain the status quo of the tobacco industry in West Virginia in 1987. High on the priority list are additions to the tobacco industry's coalition.

December 1986

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WISCONSIN

PREFACE

From the state that produced the progressive political ideology of "fighting Bob LaFollette," and quite ironically, the state that also produced the "Red Scare" manipulator, Senator Joseph McCarthy, Wisconsin can distinguish itself as a type of political metronome.

Wisconsin is a melting pot of German and Scandinavian immigrants. They formed the basis of Wisconsin's progressive tradition. Since statehood in 1848, this same ethnic constituency strongly opposed slavery, insisted upon free quality education for its children, elected socialist mayors in the City of Milwaukee, and, although as the nation's leading producer of dairy products, progressed from an agrarian to an industrial society in a remarkably short period of time.

Wisconsin has a population of 4.7 million and a market share of 1.8 per cent.

Wisconsin's industry combines agricultural, heavy industry and tourism which would, on paper, indicate a very healthy economy. In reality, many sectors of the industrial economy are migrating to the sunbelt for better tax treatment. Wisconsin's constitution insists on a balanced state budget and that budget is carried successfully due to a very high state income tax base.

STATE OVERVIEW

Economic Condition and Outlook

Wisconsin's economic health is deceptive. A state which prided itself in a strong work ethic and hospitable people, is losing its economic base for several reasons: (1) since 1972, increased energy costs have encouraged industrial leaders to look for more temperate climates when planning new construction; (2) a tax policy that tends to dissuade upper echelon executives from locating their established businesses in the state and (3) the inability of Wisconsin to exit from the old industrial age, epitomized by rusting factories and empty breweries, causing Wisconsin, the "jewel of the snow belt" to be renamed "the cog of the rust belt."

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The outlook remains vague. The outgoing Democratic administration of Governor Earl and the Democratic legislature became very testy and defensive concerning Wisconsin's economic climate. The Lieutenant Governor, James Flynn, was named as a special emissary to attract business to the state. This particular function has failed miserably due, not only to the perceived ineptitude of the Lieutenant Governor, but more dramatically to the impression that Wisconsin is a bad place to do business. Several options have been suggested; however, none have received widespread approval from the industrial and legislative communities. The normally progressive Wisconsin attitude refuses to come to terms with its mortgage on the past.

Political Situation: Current and Outlook

Incumbent Democratic Governor Anthony Earl was defeated by Republican Assembly Minority Leader Tommy Thompson. This situation is an improvement for the tobacco industry in the state of Wisconsin. Additionally, Governor elect Thompson is a close friend of TI legislative counsel James W. Wimmer, Jr.

Regarding state legislative races, Democrats widened their lead in the State Assembly by a margin of 54-45, although two recounts involving victorious Democrats are still pending.

In the State Senate, Democrats widened their lead by picking up an extra seat and temporarily holding a 20-11 majority. However, two seats presently held by Republicans will become vacant when State Senator Scott McCallum assumes the office of Lt. Governor and State Senator Don Hanaway assumes the office of Attorney General. Those seats will be the subject of a call for a special election sometime this winter or spring.

Regarding races for the U. S. Senate and House of Representatives, incumbent Senator Robert Kasten defeated Democratic challenger Ed Garvey by a margin of 52-48 percent. All other members of Congress in the nine Wisconsin congressional districts were reelected.

With regard to the legislature's 1987 session, it is still too early to tell how much of an impact the election of Tommy Thompson will have on tobacco issues. It is important to note however, that the previously introduced product liability bill, a cigarette tax increase and an expansion of the present Clean Indoor Air Act will all receive legislative attention during the 1987 session.

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Significant State Problems

Wisconsin faces some troubling problems during the second half of the decade:

A perceived anti-industry environment, retarding the influx of business to the state.

A perceived anti-industry environment which encourages existing businesses to move elsewhere.

The expensive and overdue repair of the state's transportation system, i.e., roads, bridges and harbors. These problems could have an effect on Wisconsin's ability to lure new business.

Antiquated and overburdened sewer systems in metropolitan areas such as Milwaukee pose a statewide impact with regard to determining a funding source.

The increasing problems of hazardous waste and the costs involved with rectification of dump sites.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

The presence of the tobacco industry in Wisconsin is demonstrated on several levels, the first being growers. The Northern Wisconsin Cooperative Tobacco Pool and the Wisconsin Cooperative Tobacco Growers Association represent the tobacco farm segment in Wisconsin. The vast majority of this tobacco is used for smokeless products with the remainder being used for cigar wrapper. Twenty million pounds of Wisconsin tobacco are produced yearly, with the average acreage being five acres.

Both groups have been extremely helpful with legislative agendas. However, it is well known that at times the priorities of the manufacturers and that of the growers may diverge. At any rate, the growers provide an excellent broad-based farm coalition.

Another important tobacco segment in Wisconsin is the Wisconsin Association of Tobacco and Candy Distributors. This wholesaler group provides a statewide grassroots legislative network and a very impressive State Capitol legislative presence. This group has reorganized and has reemphasized its commitment to The Tobacco Institute in its legislative program and issues commitment.

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Business

The Wisconsin business community and the tobacco industry are becoming more familiar with each other through acquisitions. Most notable of those business connections are Philip Morris' acquisition of Miller Brewing and its more recent acquisition of General Foods. Any "investment" made by a member company in the state should be used to the fullest advantage in our general legislative mission. Any time a member company invests in a state, that investment is noted by the legislature.

Conversely, many legislators see this diversification by our member companies as a move away from tobacco manufacturing. This has been an increasingly frequent comment in Wisconsin.

Labor

With severe problems at auto manufacturing plants such as American Motors in Kenosha and the uncertainties faced by workers in heavy industry plants in Milwaukee, labor in Wisconsin is in a state of flux. It is safe to say that those unions traditionally allied on most tobacco issues are the unions representing workers in the most beleaguered industries. In short, they have far more serious problems with their own contracts and jobs and are less and less willing to "stick their neck out" for industry issues.

One of the strongest unions, the State Employees Union, has a tendency to maintain an aloof posture when approached on tobacco industry issues. It is interesting to note that a state employee, Mr. Richard Rossie, was slated to lose his job due to his desire to smoke his pipe at his desk in the face of rather overzealous demands by his supervisors. Mr. Rossie requested help from our industry, and, a Circuit Court decision protecting his right to smoke without fear of dismissal, is now in the State Supreme Court.

Institute Resources

The most valuable resource provided by The Tobacco Institute in Wisconsin has been the securing of the best possible lobbyists to represent our industry in the legislature and the continuing support of TI to the wholesaler association.

ANTI-TOBACCO FORCES

The most prevalent of the anti-industry forces, and the most visibly active, is the Wisconsin chapter of the American Lung Association. The Lung Association retains legislative counsel and is active on many anti-industry legislative measures, including product liability and tax increases.

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Other informed anti-tobacco forces have consistently attempted to regulate personal habits in the private and public workplace. Officious state employee supervisors, as well as bored middle level, underworked private sector managers, have "taken to the streets" in an attempt to regulate smoking.

TOBACCO INDUSTRY

Successes and Problems - History

With the aggressive activity of neighboring state Minnesota, and the similarities in the two populations, there has been a significant transmigration of anti-industry legislation.

The most glaring of those issues has been Wisconsin's Clean Indoor Air Act. The new law was first introduced in a manner of severity consistent with the language found in the Minnesota law. After three legislative sessions, this measure was introduced, debated and finally passed, barely recognizable from its original form. The law is nothing more than "a sign and courtesy law" with no real enforcement mechanism and no penalty to the smoker.

The successes of the industry in Wisconsin have been numerous. However, these defeated sampling ordinances, court victories on behalf of smokers and defeats of tax measures all point to the fact that Wisconsin, with its intensely active legislature, will continue to test our abilities to contain the increasing stream of anti-industry measures.

Major Issues - State and Local

The following issues continue to demand attention:

Product Liability. The biggest and potentially the most dangerous crisis the industry faces. In 1986, SB 320, legislation to place strict liability on the tobacco industry, was introduced but was stalled in committee. It will most assuredly be reintroduced in the 1987 session.

Tax Increase. Always the scapegoat for "revenue enhancement." The major concern at this point would be the earmarking of the tobacco tax for a specific segregated fund.

Restrictions. Now that the legislature has seen the results of its work in the present "Clean Indoor Air Act," there are increasing calls for remedial legislation to clean up the problems embodied in the Act.

Sampling Bans. Due to the defeat of local sampling ban proposals in Milwaukee, several Milwaukee legislators have indicated their desire to promote a statewide sampling ban.

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Advertising Restrictions. A favorite target for Lung Association operatives due to the strong sympathies of Senator Fred Risser and Representative Jeff Neubauer. Both legislators have 100-percent pro-lung association voting records and represent constituencies with vehement anti-smoking sentiment.

Hiring Discrimination. As mentioned previously, groups of office supervisors have taken it upon themselves to enforce smoking restrictions under pain of dismissal. This "smoke czar" approach is spreading like a Wisconsin flu in January.

OTP Tax. Already too high, but easy target.

Ventilation Standards. Legislation is in the drafting stage. However, this type of anti-tobacco effort may be attempted in Administrative Rules promulgation processes.

Outlook

Generally, the tobacco industry has fared well in the state of Wisconsin. Taking into account a 358-day legislative session, active anti-industry efforts and an administration committed to a smoke-free society by the year 2000, the legislative task in Wisconsin is critical to the industry nationwide. A review of those issues previously outlined, would give top priority to product liability, smoking restrictions, taxation and advertising restrictions. Of those issues, it is the opinion of legislative counsel that with hard work and a unified coalition effort between wholesalers, growers and other business groups, the industry may be able to ward off any major legislative problems during 1987.

The variables that could ultimately bode ill for the industry: (1) inordinately low tax receipts prompting calls for tax increases; (2) a major defeat regarding a product liability suit would most certainly enhance the momentum of tobacco product liability bills; and (3) a Supreme Court ruling on the constitutionality of dismissing workers for smoking at their stations could invite remedial legislation in the area of smoking restrictions.

As in any legislative effort, those variables must be weighed and controlled. It is our goal to do just that.

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WYOMING

PREFACE

Despite its large size, nearly 100,000 square miles, Wyoming's population of only 511,000 is the nation's smallest. Wyoming's share of the national cigarette market is 0.2 percent. Its eastern portion is characterized by extensive plains, herds of antelope and huge ranches. Its west is dominated by the Rocky Mountains, five national forests, and in its northwest corner, Yellowstone National Park.

Wyoming is rural, conservative, and Republican. Wyoming's U.S. Senators and its single "Congressman-at-Large" are all Republicans. The G.O.P. has strong majorities in both the state Senate (19 to 11) and the state House (44 to 20). This political makeup reflects the nature of Wyoming's people: conservative, suspicious of intrusive government regulation, yet having a sense of environmental responsibility.

STATE OVERVIEW

Economic Condition and Outlook

Wyoming has been slower than many other states to recover from the recession of the early eighties. It has a considerable unemployment problem directly related to the petroleum industry's downturn. Consistent with this, the state's population has dwindled by 20,000 over the last two years.

Wyoming's farmers and ranchers suffer the same problems as their counterparts in other states with major agricultural industries. Low prices on their products, coupled with a high cost of doing business, result in a serious situation. But even with these economic problems, it should not be said that Wyoming's outlook is dismal. With its enormous natural resources and talented political leadership, Wyoming will probably just "ride out" tough times and prosper again in the near future.

Political Situation

For the most part, the results of the 1986 elections in Wyoming were predictable. The state legislature remains firmly in Republican hands; the popular and talented Congressman Dick Cheney was re-elected by a large margin; and the U.S. Senate delegation did not change, as neither Senator's term of office was up.

Newly-elected Governor Mike Sullivan appears almost as a token Democrat in Wyoming state government. Sullivan will serve a four-year term, but will probably not have much impact, as Wyoming is a "weak governor" state.

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Significant State Problems

Despite the state's economic woes, the Wyoming state budget is in reasonably good condition. This fact is owed to the good judgement of state officials who, during good economic times, placed many millions of dollars in trust funds. Inasmuch as these funds provide the state with a good source of revenue from which to draw, legislators are not expected to approve any major tax increases. Even if times grow leaner, cutting back some state programs would probably be viewed as preferable to tax increases. A bill to increase cigarette taxes in 1987 may be seen as the 8 cents per pack rate in Wyoming is far lower than neighboring states' taxes.

Cautious optimism will most likely be the prevailing attitude in the 1987 Wyoming legislature. Trust funds aside, the state loses \$15 million each time the price of crude oil falls by \$1.00. If continued over a long period of time, this trend in the oil industry could be disastrous for Wyoming.

RESOURCES: STRENGTHS AND WEAKNESSES

Tobacco Segments

The Wyoming Candy, Tobacco and Coin Vendors Association has been a dependable ally of The Tobacco Institute for many years. As should be expected, this group has a very small membership and, as a result, is somewhat limited in what it can do in the way of grassroots political action. But, "man-for-man" they are as valuable to TI as larger organizations in other states.

TI member company personnel in Wyoming are also in short supply, but are closely attuned to the needs of the tobacco industry and serve as excellent TAN Activists. Member company personnel are especially helpful as components of TI's awareness system in Wyoming.

Business

Business-related organizations helpful to The Tobacco Institute include the Wyoming Retail Association and the Colorado/Wyoming Restaurant Association. Both of these groups have demonstrated a particular interest in smoking restriction legislation and a willingness to work with TI in defeating such proposals.

Labor and Fire Groups

Neither labor unions nor firefighter organizations are very active politically in Wyoming. The Institute has not had occasion to work in Wyoming with groups in these two categories.

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ANTI-TOBACCO FORCES

Affiliates of the American Cancer Society and American Lung Association are the most active anti-smoking groups in Wyoming, though neither has organized to the point of being an effective lobby in the state capitol. There is a GASP group based in Cheyenne, but it is unorganized and ineffective. The Colorado GASP group made its presence known in Wyoming in 1985, joining with the Cancer Society and Lung Association in Cheyenne to push for a restrictive smoking ordinance in that city. The ordinance was amended to apply to city-owned facilities only.

A local anti-smoking group in Laramie successfully pushed through a smoking restriction ordinance in late 1986, but the measure was very weak. Nevertheless, this minor success will probably encourage similar efforts in other Wyoming cities.

TOBACCO INDUSTRY

Brief History of Successes and Problems

The tobacco industry has enjoyed good success in preventing the escalation of tobacco taxes in Wyoming. The state's cigarette tax was increased from 4 to 8 cents per pack in 1967, and has remained at that rate for eighteen years. Wyoming's cigarette tax is lower than any neighboring state and lower than any other state west of the Mississippi River.

Smoking restriction legislation surfaced in Wyoming during the 1985 and 1986 sessions. Bills to restrict smoking in public buildings and health care facilities were introduced. Both failed.

The recently passed smoking ordinance in Laramie is the only workplace law in the state.

Major Issues: State and Local

The single issue in Wyoming that could affect the tobacco industry in 1987 is the state's fiscal condition. Should Wyoming's financial position worsen considerably, an increase in the state's cigarette tax might be seriously considered.

Outlook

In 1987 it is very likely that a bill will be introduced to increase the Wyoming cigarette tax. If for no other reason, a tax increase will be proposed because the state could do so and still be "competitive" with all neighboring states. Defeating such a measure may present a significant challenge.

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Smoking restriction legislation also will almost certainly be introduced during the 1987 Wyoming legislative session. Bills of this sort have enjoyed little support in the past; and the 1987 version will probably not progress far. A more serious threat in 1987 will be local smoking restriction legislation. Even with the limited success anti-smokers recently achieved in Laramie, they will doubtlessly be encouraged to begin pushing for similar laws in other Wyoming cities. Casper and Cheyenne are likely targets.

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