

DAILY NEWS CLIPS

April 12, 2012

IT TOOK A LONG TIME, BUT STATE'S BUDGET IS FINALLY BALANCED AGAIN

By Mike Baker and Rachel LaCorte
Associated Press (Washington State)
April 12, 2012

It took more than 200 days and a series of overnight votes that ended an hour after sunrise, but Washington state's budget has been balanced once again.

Lawmakers adjourned their double overtime session Wednesday morning, ending an exhausting day of negotiations that had left some lawmakers and staff members napping in between votes. In the end, the bill to close a roughly half-billion dollar shortfall became somewhat of an afterthought to some larger ideas pitched by Democrats and Republicans alike.

A GOP-led coalition secured some major changes to how the state handles pensions, health care and future budgeting. Democrats, meanwhile, managed to protect the state's social safety net and secured a new stimulus package designed to get people back to work.

All of it came together as a compromise pact, with each piece in flux until the final hours. Lawmakers eventually adjourned at 7:30 a.m.

"This has been one of the more bizarre sessions I've been through," said Democratic Sen. Ed Murray, a leading budget negotiator. "I've never seen such a struggle on the part of all the parties to compromise."

Sen. Joe Zarelli, who led budget talks on the Republican side, said that the ultimate budget was "accomplished in a bipartisan way, sometimes tugging and pulling, but nonetheless, in a bipartisan way."

"It's been a pretty significant experience, and we're better for it," he said.

Lawmakers first got word of their unbalanced budget last September and have been formulating solutions ever since.

Democrats initially considered putting a tax package on the ballot to avoid education cuts, but the improving economy changed the budget outlook and allowed lawmakers to avoid those more draconian spending reductions.

The Legislature first held a special session in December and their regular session in the opening weeks of this year. That wasn't enough, so Gov. Chris Gregoire called them back for a 30-day special session that ended Tuesday.

By midnight, lawmakers still weren't done, so the governor had to call one more special session to finish things off.

The budget deal cuts another \$300 million in spending, largely in the social services sector. It doesn't make any cuts to education and protects programs that provide medical care and assistance to people who are disabled - something Republicans had initially proposed to eliminate.

Negotiators balanced the budget by relying heavily on an accounting maneuver, valued at \$238 million, in which the state would temporarily claim control of local sales taxes before they are redistributed back to jurisdictions at their usual time - roughly a month after they are collected. The budget includes some targeted tax increases, raising \$14.5 million by eliminating a tax deduction for some large banks and \$12 million by changing rules on roll-your-own cigarettes.

Lawmakers planned to leave some \$320 million in reserves.

The major policy proposals that were linked to the final agreement include some substantial changes:

- One will reduce benefits for future state workers who take early retirement, saving the state some \$1.3 billion over 25 years. State workers who retire before age 62 are already penalized with lower pension benefits. Under the new bill, those penalties will increase to as much as a 50 percent reduction for workers retiring at the age of 55.
- Conservative lawmakers also successfully pushed a measure requiring the state to approve a budget projected to remain balanced over a four-year period, instead of just the current two years. Supporters say it will force lawmakers to consider the long-term implications of their decisions so that it's easier to keep spending under control.
- Another measure approved early Tuesday increases transparency in the health insurance system for K-12 school employees. It will make the cost of coverage for a family more equitable with the cost of coverage for an individual.
- Lawmakers also approved a \$1 billion stimulus plan, largely backed by bonds, that supporters believe will help create thousands of jobs. The spending will include construction projections, environmental cleanup and energy efficiency grants.

Gregoire said the compromises made on both sides of the aisle show what is possible when political leaders work together. She said the final package preserves critical programs while setting the state on a more sustainable path.

"Our job isn't done," Gregoire said. "Implementing this supplemental budget won't be easy, but I'm confident we've developed a solution that protects our state's financial future while preserving critical programs that Washingtonians rely on."

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WA LEGISLATURE PASSES STATE BUDGET IN 11TH HOUR

By Greg Allmain

Federal Way Mirror (WA)

April 11, 2012

The Washington State Legislature finally passed a state budget this week, taking negotiations into the eleventh hour to get the job done.

The budget deal passed the Senate with a 44-2 vote, and moved through the House on a 64-34 vote.

With the threat of a third special session looming for state lawmakers, Gov. Christine Gregoire said she was pleased that the elusive common ground on the budget was found.

"I'm pleased the Legislature reached an agreement this morning (April 11) to solve our budget shortfall. The supplemental budget passed preserves critical programs, including education, and sets our state on a more sustainable path," she said.

The \$31.1 billion budget increases taxes with the closing of a loophole for large banks and a roll-your-own cigarette tax. Those two tactics are estimated to raise an additional \$26.5 million for the state in the near future.

Along with that, the state plans to temporarily hold local sales tax collections for a slightly longer period of time than it has in the past. This is anticipated to generate \$238 million for the state. The budget also leaves \$320 million in reserves.

The lead budget writer for the Senate Democrats, Ed Murray, said it was a tough fight that ultimately achieved the desired outcome.

"Months ago we began our work on this budget, we faced the prospect of making deep cuts to all state services," he said. "Today, we passed a budget that held the line on education. We passed a budget that preserved services that keep the most vulnerable Washingtonians safe and healthy. We protected family planning, food assistance and other services that had been targeted for cuts or outright elimination."

"It's taken longer than I would have liked to reach this point," he added.

From the Republican side, Sen. Joseph Zarelli said from his perspective, a number of reforms he and his side held to, along with passing the budget, were a victory.

"Our coalition stood firm on a set of breakthrough reforms and a supplemental budget that should aid our state's financial outlook for decades to come," he said. "It's safe to figure none of these reforms would have made it through the Legislature if our bipartisan coalition had not taken the lead on the budget process in the Senate, and we would not have had a bipartisan coalition without the three

Democratic senators who were rock-solid in their commitment to reforms that would make a difference. They proved ideas were stronger than affiliations."

Gregoire said the budgetary fight shouldn't overshadow accomplishments from the Legislature's regular session.

"Washington state became the 7th in the nation to pass a marriage equality bill, we made great strides in education reform, and we took action to improve our state's competitiveness in the global aerospace industry," she said.

"Our job isn't done. Implementing this supplemental budget won't be easy, but I'm confident we've developed a solution that protects our state's financial future while preserving critical programs that Washingtonians rely on."

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MORNING NEWS HEADLINES: TAXING HOOKAH IN OHIO

By Amanda Rabinowitz
WKSU Radio (Kent, OH)
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The American Lung Association wants Ohioans to hike taxes on all tobacco products – not just cigarettes – to cut back on tobacco use. Ohio now tacks a \$1.25 onto each pack of cigarettes and a nearly 20 percent tax on tobacco products like cigars.

The American Lung Association of Ohio's Shelly Kiser, says raises taxes on things like hookah and roll-your-own tobacco makes sense because those products are becoming more popular with young people. Kiser says raising taxes could help Ohio create new tobacco prevention programs.

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LOCAL POLITICAL PARTIES FEUD WITH LAWMAKERS OVER TOBACCO TAX FUNDS, PLAN TOWN HALL

By Andy Brownfield
Associated Press (Alabama)
April 11, 2012

Officials in an Alabama county are feuding with their state legislative delegation over potential changes to how the money from a tobacco tax is used, claiming a pair of lawmakers is redirecting funds from water and economic development authorities for other purposes.

Legislation currently before the state Senate would take some of the proceeds —about \$54,000 — from the tobacco tax that are currently going to those local governing bodies and create a grant program. That program would allow the lawmakers to award money to local community service agencies.

The leaders of the Randolph County Democratic and Republican Parties are holding a town hall meeting on Thursday and have invited Sen. Gerald Dial, R-Lineville, and Rep. Richard Laird, D-Roanoke, to explain their legislation. In a news release, the parties said the legislation would "create a slush fund and unusual powers" for the lawmakers.

"That's just it — that's up to their discretion and there's no language specifying how they have to give out the money," said Randolph Republican Party Chairman Todd Freeman. "They don't have to give it to anybody; they can hold it; they can give it to whoever they want to."

Dial said a similar grant program was cut in 2010, with that money going to the water and economic development authorities. He said the legislation would re-establish the program.

"We established the grant program for agencies who desperately need this money, expect this money, and got it in the past but are excluded now," he said. "It's obvious there's a few politically-motivated individuals in Randolph County who want to stir the water on this."

Dial said it was "absurd" that the local officials were opposed to senior centers and school receiving extra money.

Both Dial and Laird say that the Legislature is in session on Thursday so they could not commit to attending the town hall.

The state of Alabama has its own community service grant program, but the budget was more than halved for the current fiscal year.

"We budget just like the county commission and the state," Laird said. "Periodically we redo those budgets — when the state grant program was cut, we had to redo the tobacco tax."

Laird said the grants go to help fund local Boys & Girls' Clubs; school projects, bands and football teams; senior centers; and school supplies for teachers.

GOP chairman Freeman said the county isn't just worried about the lack of oversight in how the legislators spend the grant money, but also what the revenue cut will mean for water and economic development in Randolph.

"You take \$50,000, \$60,000 away a year, that's water lines feeding dozens of families, at least," Freeman said. "On the economic development side, we're trying to entice businesses to come in, and that kind of cuffs our hands on that."

Freeman said he hopes the lawmakers will attend the town hall meeting.

"(If they don't show) they don't want to listen to what the people of their districts want," Freeman said. "They don't want to hear out concerns. That's basically what it is."

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<http://www.therepublic.com/view/story/54eef0c8981e456498b0d5aad7e5f2a2/AL--Tobacco-Tax-Feud/>

WHY ALTRIA COULD PLUMMET THIS YEAR

Seeking Alpha (NY-Based International Market Tracking News)

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It's no secret how tumultuous tobacco stocks can be. With legislation always coming through or pending that seeks to limit the industry's ability to grow, big companies like Altria Group (MO) are always looking for new ways to cash in. The truth is, that in such a tumultuous market, only the strong will survive. Unfortunately for Altria, it seems like it may be in the downside of the battle.

Competitors Phillip Morris International (PM) and Lorillard (LO) are not only bigger, but they have been more profitable so far in 2012, a trend continuing on from last year. Altria, meanwhile, has seen a drop in its sales volume. This drop has slid the company behind its two larger competitors and into a category with other competitor Reynolds American (RAI) as a less attractive big tobacco stock option.

It's not a good position to be in. The tobacco company continues to profit but its longevity is in question now more than ever. Just last month, the Center for Disease Control and Prevention unveiled a \$54 million plan to attack the tobacco industry. The campaign is another in the long list of shock-and-awe marketing done to try to prevent smoking and tobacco use. This time around, however, will feature the first ever television advertisements put on by the CDC.

The clamping down by the CDC, and other American regulatory institutes, has led some investors to go with Phillip Morris International. Other governments have certainly been more lenient in the past with regulations, and while a few are beginning to tighten up, the international tobacco trade is still booming.

In America, the big tobacco companies continue to fight. Altria, for instance, spent about \$11million on lobbying last year, mostly aimed to root out its fight against the maker of a roll-your-own cigarette machine. At this point, the lobbying price tag is almost as normal as any business expense as government initiatives have the capability to shape business as much as anything else. That just comes with the industry.

However, unlike these other companies, Altria has diversified a bit beyond tobacco. It still makes its large share of profit in the tobacco industry, including its ownership of UST, a manufacturer of moist, smokeless tobacco. But it also the largest shareholder of SABMiller, one of the world's largest beer and bottling companies. Rounding out the alcohol side of business, the company also owns Ste. Michelle Wine Estates, an award-winning vineyard in Washington.

And it's these diversification products that I see Altria ultimately relying on to find a boon in profits. Cigarettes will continue to bring in cash, there's no question about that. Even with Altria sliding off from its one-time domination of the tobacco market, it'll still take part in the industry's success. It's just going to be less than it would like.

So we enter these other ventures. SABMiller has proved to be a solid investment. The company bottles internationally for Coca-Cola (KO), Miller Genuine Draft and several lines of Italy's Peroni beer. Last year, the brewing giant took over Foster's brands in Australia, adding a new network of beer drinkers to market toward. Foster's was recently upgraded by Standards & Poor's, with a new rating reflecting SAB's ability to handle the brewery's output properly, and strong economic incentive to do so.

SAB has had a major competitor in the world's largest bottling outfit - Anheuser-Busch InBev (BUD) - but even that rivalry could soon come to a close. Rumors have been swirling recently for a MegaBrew company, which involves AB InBev's takeover of SAB. The move would be made possible if Burger King's public offering provides enough cash for InBev investors involved with both companies.

Of course, Altria stands to make quite a bit of cash if this deal should happen, but it'll stand to lose out on some profits in the long run from its bottling company. As I mentioned, with cigarette profits declining, Altria needs to ensure it can keep cash flow coming in permanently, in areas outside of tobacco.

Even its stake in UST, formerly the U.S. Tobacco Company, is at risk. Despite the rise in sales for smokeless tobacco, mostly in the U.S. and Scandinavia, the industry faces the same risks as cigarettes do. Experts have predicted a continuation in the nearly 7% annual rise in smokeless tobacco sales at least through 2012. So that's a good sign. But it, once again, begs the question of how long it can continue.

The tobacco industry has made so many people rich that it's hard to not buy. Even 2012 has presented enough opportunity for investors to cash in on international cigarette sales and smokeless tobacco profits. But the U.S. government is cracking down harder than ever on cigarette sales, marketing and corporate taxation. And it's only a matter of time before foreign countries begin to do the same. China, a long-held beacon of smokers' rights, announced a smoking ban last year in restaurants, and the regulation will only become tighter.

I'm nervous to suggest anything negative about the tobacco industry's earnings. For so many years now, it has fought off government initiatives to shut down its product lines or force the giants to spend millions in lobbying fees. What will be the tipping point? Well, I don't know. Realistically, tobacco companies have the possibility to turn large profits well through 2012. Foreign markets are still booming and companies like Altria have enough cash and experience to handle what may come.

But how long will it last? I don't think too much longer. And Altria's slow sales have started to prove that this may be the spiraling down of the whole venture. The company has been wise, so far, to diversify smartly with SAB, UST and others. But it'll need to show more initiative in profiting from outside the tobacco industry to stay afloat for the longer term. And with the MegaBrew possibility lurking, it'll have the cash to buy something terrific. That move may be the one that determines the kind of year it's going to be for Altria investors and speculative buyers.

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