



DAILY NEWS CLIPS

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LEVELING THE RYO PLAYING FIELD

By Howard Riell

Convenience Store Decisions

June 11, 2012

In recent years, roll-your-own tobacco machines have surfaced at various retail locations putting convenience stores at a competitive disadvantage on price.

America, and in particular its lawmakers, remains caught in a love-hate relationship with tobacco. That push-pull has resulted in very well-publicized attempts to dissuade Americans from using tobacco, or at least smoking it. A byproduct of this tug-of-war has been across-the-board tax increases on all things tobacco.

In the wake of the 2009 shift in tax rates, pipe tobacco is taxed at a significantly lower rate than roll-your-own (RYO) tobacco or factory-made cigarettes. As entrepreneurs will, many roll-your-own manufacturers have switched to pipe tobacco, as have consumers. Commercial roll-your-own machines have soared in popularity, giving Americans the chance to save money by using them to make RYO cigarettes with pipe tobacco.

As a result, the federal General Accounting Office (GAO) estimates a significant loss in revenue collection. A report by the Centers for Disease Control and Prevention (CDC) contends that the state of Florida, for instance, missed out on \$63 million in tobacco-tax revenue from April 2009 to August 2011 because of a loophole in a federal law that went into effect in 2009. The law made it possible for consumers of RYO cigarettes to pay less in taxes because the type of tobacco they used—pipe tobacco—could be reclassified into a lower tax rate. The tax difference amounted to an estimated \$21.95 per pound. The result, according to CDC, was the state lost more than twice as much tobacco tax revenue than any other state.

Texas was next, with an estimated \$31 million in lost tax revenue. Nationally, the total amount of state and federal tax revenues not collected in this period exceeded \$1.3 billion, according to the CDC report. Eleven states each missed out on at least \$10 million in tax revenues.

Closing the Loophole

NACS is among the groups leading the charge for change. The association is urging its members to call on Congress for support of legislation that would close a de facto tax loophole that is allowing customers to mass-produce their own cartons of cigarettes with the lower-taxed pipe tobacco. The legislation would provide regulatory certainty that is compromised by the use of lower-taxed pipe tobacco in RYO machines.

“We want a level playing field,” said Corey Fitze, director of government relations for NACS.

Jason Miko, a spokesperson for the National Coalition of Associations of 7-Eleven Franchisees, pointed out that in February the group reached out to the Arizona House, which was considering HB 2717, a bill that came to be known by its short title, “Cigarette Manufacturers.” It would essentially level the playing field between convenience stores and others that sell traditional cigarette packages and establishments that offer roll-your-own machines for rent.

7-Eleven store owners in Arizona were sent a legislative action alert by the coalition asking them to contact their elected representatives in the State House and ask them to support the bill.

At the same time, Bruce Maples, chairman of the National Coalition, sent a letter to Arizona House Speaker Andy Tobin asking him to take a leadership role on this issue and see the bill through. The coalition also sent a 7-Eleven franchisee from the Phoenix area to testify to the House committee of jurisdiction the day the bill was due to come up for a vote. “The bill was pulled from the agenda that very day,” Miko said.

In March, Maples and others traveled to Washington, DC for a series of meetings on Capitol Hill to fight for franchisee rights. “Against the backdrop of NACS’ Annual Day on Capitol Hill, the Coalition delegation met with key House and Senate staff members, on both sides of the aisle, to discuss a variety of issues, including the roll-your-own issue,” Miko recounted.

Congresswoman Diane Black has introduced H.R. 4134, a bill that would close the so-called loophole in the Internal Revenue tax code relating to the installation of RYO cigarette manufacturing machines at retail locations. The legislation would apply only to cigarettes manufactured through these machines after the bill is enacted, so it would not retroactively punish retailers who have been utilizing these machines by forcing them to pay taxes on goods they have already sold.

NACS is encouraging members of Congress to support the bill, which would clarify that retailers who permit consumers to use commercial RYO machines to produce cigarettes are classified as “manufacturers” of tobacco products.

The passage of this legislation will help Florida and the rest of the country resolve this economically damaging situation and allow retail businesses nationwide that follow the rules to continue to grow.

Garnering Support

So where is the RYO category going?

“This is a battle that is going to come down to the wire,” Maples said. “It could trail off and die, or it could take off like gangbusters. The price disparity on the tax, where they price it as pipe tobacco versus taxing it as RYO cigarettes, is huge. H.R. 4134 is the bill we want to make sure everybody supports.”

It is of interest to note that several states are also moving forward on their own, Miko said, introducing legislation to address this issue, which in most cases is expected to pass and be signed into law. Lawmakers in Tennessee, for example, recently passed legislation that requires RYO tobacco retailers to pay a cigarette tax and a \$500 yearly licensing fee for each RYO machine used. Under the law, those businesses would have until July 1, 2013 to comply.

Still, the various involved parties are gearing up, once again, for the inevitable legislative clash. An April 17, 2012 legislative action alert by the National Coalition of Associations of 7-Eleven Franchisees told members the following:

“As responsible retailers, we offer cigarettes that are sold with their proper tax assessments; our licensing fees to offer such products are reflected in those prices as well. However, commercial roll-your-own cigarette machines have recently begun to proliferate, allowing customers in establishments with these machines the ability to produce their own cigarettes at a significant cost savings as they do not pay the additional taxes and the commercial establishments are not subject to additional licensing fees,” the alert said. “An individual who buys cigarettes at our stores pays significantly more (due to taxes and our licensing fees) on his carton of cigarettes than an individual who rolls his own at an establishment offering commercial rolling machines.”

The coalition praised Rep. Black of Tennessee and urged retailers to continue contacting their state representatives to drive change. “It is important that we gain sponsors for and pass this legislation that will level the playing field for convenience stores across America,” the alert said.

Retailers Taking Action

In an announcement published by the U.S. Food and Drug Administration, the agency said it intends to issue a “deeming regulation” sometime during the summer of 2012 to cover other tobacco products. The statement by the FDA was included as a part of a solicitation announcement in which the agency is seeking a contractor to identify a list of all tobacco product advertisements in the U.S.

“In short, this announcement means that the FDA plans to issue a proposed regulation covering other tobacco products such as cigars, cigarillos, e-cigarettes, hookahs and possibly smokeless tobacco products,” said Tom Briant, executive director of the National Association of Tobacco Outlets (NATO). “The extent of the proposed regulation is not known at this time, but could have a severe impact on the way tobacco retailers do business.”

The hope is that this tax loophole covering roll-your-own products will also be addressed.

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TRACEY MAKES 11TH HOUR PLEA TO DEFEAT RYO LEGISLATION

By Christine Stuart

CT News Junkie

June 12, 2012

The owner of two roll-your-own smoke shops sent an email to Sen. President Donald Williams Monday begging for a chance to meet with him before the General Assembly decides to levy a manufacturing fee on her cigarette rolling machines.

Tracey Scalzi, who is not a registered lobbyist but spent the last week of the legislative session trying to defeat the legislation, says it could put her and 13 other similar shops out of business before the end of the year.

"I can't comply with the State of Ct to become a Manufacturer," Scalzi writes in her 11th hour email plea to Williams. "I'm involved with a court case brought on by the DRS and they are appealing the case."

Scalzi is referring to the lawsuit the Department of Revenue Services brought against her shops seeking the right to call her a manufacturer so it could impose a \$5,000 licensing fee per machine.

Judge William Bright's Feb. 24 ruling was narrow. It barred Scalzi from offering cartons and packs of cigarettes made in the machines for sale in the stores. It also found that as long as the customers were using the machines without the help of smoke shop staff then the state couldn't call them manufacturers.

That's when the RYO legislation was born. It ended up on the desk of Finance Committee members on its April 3 deadline. The committee passed it 33-17. But the bill was not acted on by the General Assembly before the end of the legislative session.

Scalzi whose unconventional lobbying methods are detailed here added in her email to Williams that she's the sole provider for her two children and doesn't know what she will do if she has to close her doors.

"I worked really hard to start this business and have loans and leases out and also have worked really hard to build my credit up after my divorce," she wrote. "If I knew this business was going to cause so much controversy I wouldn't have started it."

Adam Joseph, a spokesman for Williams, said it's "unlikely" she'll get a chance to make her plea in person when she comes to the Capitol today for special session. But that doesn't mean she won't try.

RYO Filling Machines, the company Scalzi pays royalties to every time a customer makes what amounts to about 200 cigarettes, hired Anthony (Tony) F. Troy, a former attorney general of the state of Virginia and a senior partner in Troutman Sanders, LLP to represent her store in court. Scalzi argues she couldn't afford that type of representation on her own.

But the retention of the law firm, who is not involved in Scalzi's lobbying efforts at the Capitol, has some lawmakers scratching their heads.

"I was wondering who was bankrolling this," Rep. Lonnie Reed, D-Branford, told the Branford Eagle last week. "And who was orchestrating it because this was a very sophisticated plan of attack. I knew it was bigger than Tracy Scalzi. This is somebody beyond her who created this approach. It is way too skillful."

Scalzi objected to Reed's characterization of her effort to defeat the bill. She argued Monday that if the fee is imposed it will put the stores out of business and the state won't collect any of the revenue it anticipates.

However, Sen. Eileen Daily, co-chairwoman of the Finance Committee, has said levying the fee on stores like Scalzi's is a matter of fairness.

She suggested that the RYO businesses still have a wide enough profit margin to absorb the additional expense or pass it along to their customers, who are still saving about \$30 per carton by using these machines.

"Many people in our state are paying the cigarette tax as we have levied it," she said. "They still have a big number between what we hear they're selling for and what a carton of cigarettes is selling for. So they have the ability to recoup this expense."

"I won my court case. I am not a manufacturer," she told the Branford Eagle last week.

"This bill should not be voted on next week because of these other [corruption] allegations ...They are losing sight of the issue. This bill if it becomes law will bankrupt us and put us out of business."

The roll-your-own legislation is part of a federal investigation which involved an undercover FBI agent posing as a prospective investor in one of these smoke shops. The undercover agent asked a man later identified as a union leader set up straw donors to make illegal donations to House Speaker Chris Donovan's campaign in order to defeat the legislation. Donovan's campaign finance director was arrested in the sting and two campaign aides were fired. At least one of them has been identified as the former campaign manager and a co-conspirator.

At the moment there's no evidence to suggest Donovan was aware of the RYO issue because it was a piece of legislation that was supposed to start in the Senate. The Senate never addressed it during the regular legislative session which ended May 9 and it was always Gov. Dannel P. Malloy's intention to make sure it was part of the budget implementation language the General Assembly will vote on today.

Donovan has handed over his leadership role for the special session to House Majority Leader Brendan Sharkey.

As part of the federal undercover investigation \$5,000 in donations also made their way to Republican PACS headed by House Minority Leader Lawrence Cafero. The donations were promptly returned once Cafero learned of their existence from federal investigators. According to Cafero the feds told him during an interview in their Meriden offices that he was not the target of the investigation.

However, the investigation isn't going to change Cafero's position on the RYO legislation, which he opposed on both on a "procedural and philosophical level" before the federal investigation dominated the headlines.

“A whole bunch of business people went out and rented space. They hired people and bought equipment in reliance on the law. Now we’re changing the law just like that,” Cafero said. “These people will be out of business and they’ll probably be out of business by October.”

The original legislation would have given the smoke shops a moratorium for a year, but the legislation the General Assembly will debate today imposes the new fee on Oct. 1.

“Why in God’s name are we doing this now?” Cafero said.

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CONN. TO DEBATE TAX ON CIGARETTE STORES

By The Associated Press

The Boston Globe (MA)

June 12, 2012

Connecticut lawmakers will return to the state Capitol Tuesday to finish work on a couple of remaining budget-related bills that touch on everything from minimum staffing levels for state troopers to state financial assistance for an expanded number of businesses.

But the big focus of the special legislative session is a proposal to impose new state taxes on roll-your-own cigarette stores. The proposal is estimated to generate \$3.4 million in state tax revenue and affect 15 to 20 shops.

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SPECIAL SESSION TUESDAY EXPECTED TO BE A MARATHON

By Christopher Keating and Jon Lender

The Hartford Courant (CT)

June 11, 2012

Bring your pajamas.

Lawmakers are preparing for a marathon session Tuesday as they tackle more than 100 items in two bills that cover nearly 600 pages. Many issues were left hanging when this year's regular session adjourned May 9, but some of them are returning in this special session.

The bills are expected to include the elimination of the state's 13-year-old law that requires a minimum of 1,248 state troopers, and a roll-your-own-cigarette proposal that would add taxes and fees on the product. Both of those issues have been subject to rulings in Connecticut courts, and the Democratic-

controlled legislature is planning to change the law after judges ruled against the administration of Gov. Dannel P. Malloy in both instances.

The special session has gained extra attention statewide because House Speaker Christopher Donovan stepped aside from all negotiations on the roll-your-own-cigarette issue after his campaign finance director, Robert Braddock Jr., was arrested in an FBI sting operation regarding campaign contributions. Donovan turned over the negotiating duties to House Majority Leader J. Brendan Sharkey, and Donovan will not preside over the House chamber Tuesday.

House Republican leader Larry Cafero of Norwalk predicted that it will be a very long day. As the leader of his 52-member caucus, Cafero plays a huge role in setting the strategy of whether the Republicans will pepper Democrats with questions — thus extending the debate for many hours. He said in jest that people should bring their pajamas for a session that will last well into the night.

The entirety of "Senate Bill 1" — the Senate Democrats' job initiative to kick-start the state's sluggish economy — will be rolled into a budget-implementation bill. The Senate approved the bipartisan jobs bill in late April, but the matter was never debated in the state House of Representatives in a tit-for-tat clash as the Senate never debated Donovan's bill to raise the minimum wage. Both bills failed.

The minimum wage bill, however, is not included in Tuesday's bills, according to sources in both the House and Senate.

The Democratic-written jobs bill gained Republican support on a measure to help small businesses with up to 100 employees. The previous bill last fall had targeted companies with up to 50 employees. The vote was 32-2 with two Republicans — Sens. Rob Kane of Watertown and Joseph Markley of Southington — voting against the bill.

The move to expand the number of employees would extend the Small Business Express Program to an additional 3,600 companies, which senators hailed as a sharp expansion of the program. Those companies would be eligible for loans for which they were ineligible in the past.

Adam Joseph, a Senate Democratic spokesman, said the bipartisan effort in the Senate was important at a time when the state's unemployment rate is still too high.

"There's \$10 million for veteran job placement in that bill. ... It's placing returning combat vets in jobs," Joseph said. "It will defray the training costs. It makes it easier for companies to hire folks by reimbursing those wages — so you can train the folks and hire them. These are folks that have fought overseas for us. ... From our perspective, anything we can do to help job creation is priority 1, 2 and 3."

Cafero said the legislature is going far beyond the narrowly drawn boundaries of the special session because at least 40 percent of the items being discussed Tuesday "are stretches to say they would implement the budget" that takes effect July 1.

"It's spun out of control," Cafero said. "That's what happens when you have one-party government."

He added: "The Democrats broke their word about sticking to the specific call for the session and have crammed in every conceivable special-interest item left over from the regular session and every pet project for themselves."

Noting that the legislature passed 344 bills during this year's regular session, Cafero said the Democrats are trying to approve pieces of more than 100 bills in one day.

While the final versions have not been released publicly, a working draft of the budget implementation bill is 408 pages, and a separate bill is about 190 pages.

Malloy's senior adviser, Roy Occhiogrosso, said it was not unusual for the legislature to change the law regarding cases that are disputed in court, such as the state police staffing and the "roll your own" bill.

"It's called democracy," Occhiogrosso said. "It happens all the time. It's our form of government."

'Roll-Your-Own' Tax

The implementation legislation will include a provision to increase fees and taxes on roll-your-own tobacco shops, a small but growing group of retailers that fall outside the normal taxes imposed on major tobacco companies and their products.

The roll-your-own bill died a quiet death on May 9, when the regular legislative session concluded without any House or Senate vote being taken on it. But now it is being revived in the special session, after it has attracted heavy attention after the May 30 arrest of Braddock.

Braddock was charged after an FBI sting with conspiring to hide the true source of \$20,000 in political donations in April and May, mostly to Donovan, which purportedly originated with an investor in a roll-your-own shop who wanted to kill the roll-your-own tax proposal, but in reality was an FBI agent posing as such an investor.

Donovan has denied any knowledge of the alleged improprieties but says he is staying away from handling the legislation.

State Revenue Services Commissioner Kevin Sullivan has said that the legislature's failure to enact a roll-your-own bill would cost Connecticut about \$3.4 million in revenue.

One of the roll-your-own shop owners, Tracey Scalzi, has argued strenuously against the bill – both at the state Capitol at the end of the regular legislative session, and in e-mails to legislators and other officials since then. She said it would put her two shops – one in Norwalk, the other in Orange – out of business.

Scalzi said she won a court ruling in February that threw out state officials' claims that roll-your-own shops are manufacturers and should be taxed as such – and she also said lawmakers now appear to be turning their backs on proposed compromises that would have delayed the effective date by a year so she and other retailers could adjust.

About 140 people at the 15 existing shops would lose their jobs, Scalzi said. In a June 5 email to all members of the House, she wrote that the "bill was underhandedly slipped into the finance committee by the [Department of Revenue Services], with no public hearing ... to undermine the ruling" that she had won in court in February.

Democratic legislative leaders say that the plan, even before Braddock's arrest, was to deal with the roll-your-own tax issue in the implementation legislation instead of trying to beat the clock to May 9 adjournment. That was because the proposal from the Department of Revenue services was quickly loaded down with Republican amendments that would have taken too long to debate during the final weeks of the session, said top Democratic leaders in the Senate, where the bill originated.

Senate Majority Leader Martin Looney said Monday that the roll-your-own tax language would be about the same as approved April 3 by the finance committee, except that its effective date would be Oct. 1 instead of July 1. Asked about Scalzi's arguments, he said leaders believe that the smoke shops are taking advantage of a roll-your-own tobacco exemption that was intended for small-scale use by individuals.

Republican legislators such as Senate Minority Leader John McKinney of Fairfield have opposed the proposal because it arrived suddenly and without a public hearing, adding that it is another burdensome tax on small businesses that the state ought to be helping.

Meanwhile, House Republicans probably will be watched more closely on the issue because their caucus is the only one of the four in the legislature known to have received contributions for its political action committees that apparently originated from the FBI sting.

Cafero said on June 1 that his caucus's PACs were returning five \$1,000 contributions to their donors — whom he has been unwilling to identify — because they were "of questionable origin." But he and other Republicans have not explained what arrangements led up to the contributions, who was involved, or what was said.

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ROLL-YOUR-OWN SHOPS WILL FACE NEW STATE FEE, BUT GET 3 MONTHS TO PREPARE

By Keith M. Phaneuf
The Connecticut Mirror
June 11, 2012

Connecticut's so-called "roll-your-own" cigarette industry, which became embroiled two weeks ago in a congressional campaign scandal, won't avoid a stiff new state fee, but will have an extra three months to prepare for it.

That's according to draft legislation that the General Assembly is expected to adopt Tuesday in a special session that also is expected to address economic development, state police staffing levels, energy issues and the distribution of surplus state property.

House Majority Leader J. Brendan Sharkey, D-Hamden, said that despite the political and legal issues swirling around "roll-your-own" operations and House Speaker Christopher G. Donovan's campaign for Congress, state legislative leaders negotiations centered on a fairly uncomplicated question of legal equity.

"This was not, in any way, an uncomfortable conversation to have," Sharkey said, referring to preparations for a measure that would define businesses that own or make available cigarette-rolling machines as tobacco manufacturers. More than a dozen smoke shops that make rolling machines available for patrons' use would have to pay the same annual licensing fee, \$5,250, charged to cigarette manufacturers.

The FBI arrested the finance director of Donovan's congressional campaign two weeks ago, accusing him of accepting illegal contributions meant to push the speaker to kill the tobacco legislation.

No evidence has surfaced that Donovan was aware of the effort or did anything to stop the bill. In fact, the measure was a Senate bill that never reached the House when the regular 2012 legislative session ended in early May.

Even before the arrest, Democratic leaders were preparing to include the tax measure in the budget implementer bill.

Donovan recused himself from negotiations over the scope of the special session but has said he intends to vote Tuesday for whatever bills are produced by the negotiations.

Though smoke shops argued they don't fit the description of manufacturers, some asked that if any fee is imposed, it be delayed until July 2013. Both Gov. Dannel P. Malloy's administration and the legislature's Finance, Revenue and Bonding Committee had suggested instituting the new obligation July 1, 2012.

"It is a bit of a compromise to give folks more time," Sharkey said.

Rep. Patricia Widlitz, D-Guilford, co-chairwoman of the finance committee, said lawmakers tried to balance the smoke shops' concerns with the administration's argument that the state must close a legal loophole that could prove costly.

"I think (imposing the new fee) a year out is too much time," Widlitz said. "We are already seeing more of these roll-your-own shops pop up. We're addressing a fairness issue here but also recognizing these shops are small businesses who may need a little more time to plan."

The legislation at issue grew out of a dispute between the Department of Revenue Services and a smoke shop retail outlet based in southwestern Connecticut.

After a Superior Court judge ruled earlier this year that DRS couldn't classify Tracey's Smoke Shop of Norwalk as a tobacco manufacturer merely because it owned and rented cigarette-rolling machines, based on current definitions under law, the administration crafted legislation to change them.

The owner of Tracey's Smoke Shop, Tracey Scalzi, was at the Capitol on several occasions during the final weeks of the regular legislative session lobbying against the proposed definition change, arguing it would unfairly harm many small businesses. Scalzi could not be reached immediately for comment Monday afternoon.

Both the administration and some legislators have said they fear that not classifying roll-your-own shops as manufacturers could threaten a crucial source of state revenue.

Connecticut has received more than \$100 million annually from major tobacco manufacturers for nearly a decade-and-a half since it settled a lawsuit against five major firms in 1998. And some officials argue not closing the loophole could prompt cigarette manufacturers to sue Connecticut in hopes of ending their financial obligations to the state.

The roll-your-own measure is one of several issues expected to be addressed Tuesday as lawmakers gather primarily to approve policy legislation needed to implement the new state budget.

Though a jobs promotion bill crafted by the Senate stalled in the House during the regular session, leaders of both Democratic-controlled chambers confirmed Monday that the language would be adopted Tuesday.

"This really was a broadly supported consensus bill," Senate Majority Leader Martin M. Looney, D-New Haven, said, predicting it would have passed in the House during the regular session, had House leaders called it for a vote.

Highlights of the jobs measure include:

- Expanding the existing state Small Business Express Program to provide loans and grants to an estimated 3,600 additional businesses. Currently limited to firms with 50 or fewer workers, the program would be expanded to assist businesses with as many as 100 employees.
- Launching a new program to subsidize a business' cost of hiring unemployed veterans for the first 180 days of the job.
- Creating new "Connecticut Made" and "Connecticut Treasurers" programs to promote products made here as well as the state's cultural, education and historic attractions.
- And allowing the state Department of Economic and Community Development to give preference for loans, tax incentives and other assistance to companies that relocate jobs from overseas to Connecticut.

The jobs legislation had stalled, in part, because a minimum wage hike sought by Donovan did not have support in the Senate. The proposed increase, from \$8.25 to \$8.50 in January and then to \$8.75 in January 2014, will not be taken up in the special session, leaders said.

Looney added that no decision has been reached yet about whether to revise a campaign finance disclosure bill that has raised some concerns with Malloy. "The issues have not yet been resolved," Looney said.

Early drafts of the proposed budget implementation bills contain dozens of provisions and House Minority Leader Lawrence F. Cafero, R-Norwalk, charged that majority Democrats loaded the bills with "special interest items and pet projects."

"This is what we have with one-party rule," Cafero said Monday. "The Democrats broke their word about sticking to the specific call for the session and have crammed in every conceivable special interest item left over from the regular session and every pet project for themselves. There is no rational reasoning for this process except that they write the rules."

Among some of the other items Cafero cited include proposals to expand the scope of the Capital Region Development Authority to oversee state sports, change retirement benefits for judges and to create a new Housing Department. Drafts of two bills released Monday total nearly 600 pages.

"If these items are so important they should have been taken up during the regular session or addressed as separate bills in a special session dedicated for different purposes," Cafero added. "We are supposed to be implementing the budget. This is not a straightforward or transparent of doing the peoples' business."

But Looney responded that "the bulk of what we were doing is tied pretty closely to the budget."

And Sharkey noted that one of the key bills outside of the budget scope enjoys strong bipartisan support, referring to an omnibus measure transferring small bits of vacant surplus state properties to numerous communities, in both Democratic and Republican districts.

"I don't imagine I'm going to hear any Republicans complaining about that," Sharkey said.

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DONOVAN NEEDS TO PROVIDE ANSWERS

Editorial by The Day (CT)

June 12, 2012

Connecticut House Speaker Christopher Donovan, a candidate for the Democratic congressional nomination in the 5th District, needs to answer questions about alleged corruption in his campaign for Congress.

Mr. Donovan says that federal investigators have urged him not to comment about the ongoing investigation. But Mr. Donovan can only interfere with the investigation if he knows something, and so far he has invoked the know-nothing defense. The Speaker contends if those on his staff did anything illegal, he was unaware. That in itself is an indictment.

The other reason a politician clams up when his campaign is under investigation is the danger of saying something incriminating. As a candidate for high office, such an excuse will certainly not do. Mr. Donovan at least needs to answer every question he can. His contention that answering any question about the matter could hinder the investigation is a self-serving stretch.

The FBI alleges that the Donovan campaign accepted multiple maximum contribution checks of \$2,500 from several pass-through donors, knowing that they were intended to hide the true source of \$20,000 in political contributions. The FBI affidavit reports that one source was ostensibly a "roll-your-own"

tobacco shop hoping to use the accumulated donations to gain the speaker's influence in killing a proposed new state cigarette tax on such products. In reality, the big donor was an undercover FBI agent pretending to represent a smoke shop.

The FBI affidavit alleges that two co-conspirators helped put together the donations and conceal from federal election authorities the true source of two groups of \$10,000 payments. Citing sources, the Hartford Courant has identified those alleged co-conspirators as Paul Rogers, a former employee of a Waterbury smoke shop, and Ray Soucy, a Department of Corrections supervisor, labor union activist and Donovan supporter.

The Courant reports a third co-conspirator named in the affidavit is Joseph Nassi, who allegedly packaged the series of contributions used to mask the true donor. Before joining the Donovan for Congress campaign, Mr. Nassi was on the state payroll, receiving an \$110,000 salary as chief policy counsel in the House speaker's office. He left that job to become Mr. Donovan's campaign manager.

Under arrest in the scandal is Robert Braddock Jr., the Donovan campaign finance director. The FBI alleges he conspired to hide the source of the \$20,000 in political contributions.

The existence of an FBI sting strongly suggests investigators had serious suspicions about the integrity of the Donovan campaign. The FBI is not in the business of randomly undertaking sting operations targeting campaigns. Investigators, we conclude, suspected corruption.

Mr. Donovan has dismissed Mr. Braddock, Mr. Nassi and Sara Waterfall, who worked in the campaign's finance office.

The contention that this skullduggery was going on in his campaign and Mr. Donovan had no hint something was amiss stretches credibility. The \$2,500 in checks arrived in April and again in May. Those familiar with congressional campaigns say such donations get the attention of the candidate, with a personal thank you and often a phone call or a meeting. This is particularly true in a tough primary campaign, which the speaker now faces.

Does Mr. Donovan normally contact such large donors? Did he try to contact these individuals? Was he successful? What was the conversation? Did these donations raise any red flags? What steps had Mr. Donovan taken to send the message to the leaders of his campaign organization to play within the rules?

These and related questions deserve answers.

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RI SENATE PASSES \$8.1 BILLION BUDGET

By David Klepper, Associated Press

The Boston Globe (MA)

June 12, 2012

The Rhode Island Senate endorsed an \$8.1 billion state budget Monday that would impose new taxes on taxi fares and pet grooming while increasing spending on education and services for the disabled.

The Senate voted 30-7 for the spending plan for the fiscal year beginning July 1. It now heads to Gov. Lincoln Chafee, who is expected to sign it into law. The House approved the budget last week.

Supporters of the budget praised its investments in education and services for the developmentally disabled. They noted that it avoids some tax hikes that Chafee first proposed, such as an increase in the state's meals tax.

"While it's been said this budget is far from perfect, it's a budget that's bold," said Senate Finance Committee Chairman Daniel DaPonte, D-East Providence. "What we have here is a responsible budget. One that looks to the future."

Pet groomers and taxi cab owners mounted last-minute efforts to derail the new sales taxes. The budget also would place the 7 percent sales tax on items of clothing that cost \$250 or more. More than a dozen pet groomers stood outside the Senate chambers before Monday's debate to urge lawmakers to reject the tax.

"They promised when we voted them in that they would support small businesses, but they have stabbed us in the back," said Anne DuPere, owner of a pet grooming business in Tiverton.

One lawmaker who voted against the budget said she couldn't support the new sales taxes, which would raise about \$10 million a year.

"Somebody has to speak out against the taxes on new businesses," said Sen. Bethany Moura, R-Cumberland.

Lawmakers did not include Chafee's proposal to raise the state's tax on restaurant meals from 8 to 10 percent. The budget also would eliminate a sightseeing tour sales tax approved last year. Senate Majority Leader Dominick Ruggerio, D-North Providence, said lawmakers could repeal the new taxes if state revenue projections continue to improve.

"No one really wants to put a tax on pet grooming or taxi cabs," he said. "But we'll have to take a look at this next year."

The proposal also would restore nearly \$10 million in state and federal funding for services for the developmentally disabled. Lawmakers cut \$24 million in state and federal funds for the services last year.

Local schools would receive \$31 million more than they're getting in this year's budget. Some \$11 million of the new money would go to underfunded districts around the state. Several lawmakers said schools were the biggest winner in the budget.

"If our people are not educated and prepared for the challenges of the future then we will not get the jobs here in Rhode Island," said Sen. Paul Jabour, D-Providence.

The budget proposal also would authorize a toll on the Sakonnet River Bridge. Critics warned it could hurt tourism and burden residents in the East Bay.

"Make no mistake about it: a toll is a barrier," said Sen. Walter Felag, D-Warren. "A toll is something that says `don't come in here.'"

Cigarette taxes would rise by 4 cents to \$3.50 per pack under the proposal. Rhode Island has one of the highest tobacco tax rates in the nation; the national average is \$1.46 per pack.

The budget would place referendums on the November ballot, asking voters to approve several state building projects including \$94 million in new facilities and renovations at the state veterans' home, \$25 million for affordable housing projects and \$50 million to renovate buildings at Rhode Island College.

The spending plan also would give \$2.6 million to municipal retirees in financially troubled Central Falls to make up for deep pension cuts imposed by a state-appointed receiver.

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