EXHIBIT NO. 1

26 4-26-05 ~~19 4-12-05~~

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 1, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: CONSIDERATION OF AN ORDINANCE TO INCREASE THE CITY'S TOBACCO TAX

ISSUE: Consideration of an ordinance (Attached) to increase the City's tobacco tax rate from $0.50 to $0.70 per pack.

RECOMMENDATION: That City Council pass the proposed ordinance on first reading, schedule it for public hearing on April 26, and second reading and final passage on May 2, 2005.

BACKGROUND: As part of its initiative to lower the City's real estate tax rate by at least 8 cents, Council authorized staff to bring forward certain tax and fee diversification options such as the tobacco tax for active consideration. This consideration of a tobacco tax increase also is consistent with the City's health objectives. The City currently has a $0.50 tax per pack of cigarettes sold in Alexandria, which has been in effect since December 2003, when the City raised its tax from $0.30 per pack to $0.50 per pack. Many other Northern Virginia and Tidewater area jurisdictions soon followed with similar actions. The City's current rate is equal to that of the Cities of Falls Church, Fairfax, Manassas, and the Town of Vienna, with all other rates lower in the Northern Virginia region. Jurisdictions in the Hampton Roads area have the highest tax rates in the State, the highest being Hampton and Newport News at $0.65 per pack. Arlington and Fairfax Counties are the only counties in Virginia permitted to have a cigarette tax and currently have levies of $0.20. Arlington plans to increase to $0.30 in July, which is their State capped rate.

The following chart shows the tax rates for all of the jurisdictional members of the Northern Virginia Cigarette Tax Board:

Locality	**Tax Rate**
Alexandria	.50
Town of Vienna	.30
Fairfax City	.50

City of Falls Church	.50
Town of Leesburg	.50
Town of Purcellville	.30
Herndon	.35
Town of Warrenton	.15
Town of Clifton	.20
Manassas	.50
Fairfax County	.20
Arlington County/1	.20

/1 Arlington County is not a member of the Northern Virginia Cigarette Tax Board and handles their own tax collection.

Throughout the Commonwealth of Virginia the major cities are relying on the tobacco tax as a source of revenue. The following chart identifies the tax rates of the largest cities in Virginia.

Locality	**Tax Rate**
Chesapeake	.50
Newport News	.65
Hampton	.65
Portsmouth	.50
Virginia Beach	.50
Norfolk	.55
Roanoke	.27
Richmond	.00

The Commonwealth of Virginia will be raising its tobacco tax from $0.20 per pack to $0.30 per pack on July 1, 2005.

DISCUSSION: An increase in the City tobacco tax rate will help to alleviate the dependency on revenue from real property taxes. Based on the current pack sales rate and assuming a 6 percent decline in sales due to the rate increase, a $0.20 increase in the tax rate would result in

approximately $0.8 million in new revenue in addition to the $2.4 million for total annual tobacco tax revenue of $3.2 million.

It is to be expected that an increase in the cost of a pack of cigarettes in Alexandria will result in a decline in the number of packs sold in the City. Although there is some expectation that a higher tax in Alexandria may result in some individuals going outside the City to purchase cigarettes in Arlington or Fairfax County where there is a lower tax, or to Prince William County where there is no tax, a comparison of the current price per pack and per carton of premium brand cigarettes, conducted in December 2003 prior to the last increase, revealed little relevance. A pack of cigarettes was priced the same at a nation-wide chain convenience store in either Alexandria or Fairfax County. Cartons of cigarettes at the same two convenience stores were also nearly identical in price. However, as overall cigarette prices increase there begins to be a falloff in cigarette usage. Therefore, a higher cigarette tax also brings a health benefit to those who choose to quit (or not start) smoking, as well as a social and economic benefit to society as a whole.

FISCAL IMPACT: In FY 2004 the City collected $2.4 million in tobacco tax revenues from sales of cigarettes. The same amount is projected for FY 2005 and FY 2006. A 20 cent increase in the tax rate would generate an additional $0.8 million in revenue in a full year of implementation.

ATTACHMENT: Proposed Tobacco Tax Rate Ordinance

STAFF:
Mark Jinks, Assistant City Manager
Bruce Johnson, Budget Director
Kendel Taylor, Budget Analyst, OMB

Introduction and first reading:	4/12/05
Public hearing:	4/26/05
Second reading and enactment:	5/02/05

INFORMATION ON PROPOSED ORDINANCE

Title

AN ORDINANCE to amend and reordain Section 3-2-102 (LEVY AND RATE), of Article I (TAX ON SALE OF CIGARETTES), Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of The Code of the City of Alexandria, Virginia, 1981.

Summary

The proposed ordinance increases the City's tax on cigarettes from $0.50 to $0.70 per pack.

Sponsor

Staff

Mark Jinks, Assistant City Manager
Daniel A. Neckel, Director of Finance
Bruce Johnson, Director of Management and Budget
Ignacio B. Pessoa, City Attorney

Authority

§2.02, Alexandria City Charter

Estimated Costs of Implementation

Attachments in Addition to Proposed Ordinance and its Attachments (if any)

None

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EXHIBIT NO. 3

ORDINANCE NO. _____

AN ORDINANCE to amend and reordain Section 3-2-102 (LEVY AND RATE), of Article I (TAX ON SALE OF CIGARETTES), Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of The Code of the City of Alexandria, Virginia, 1981.

THE CITY COUNCIL OF ALEXANDRIA HEREBY ORDAINS:

Section 1. That Section 3-2-102 of The Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same hereby is, amended and reordained to read as follows:

Sec. 3-2-102 Levy and rate.

(a) In addition to all other taxes of every kind now or hereinafter imposed by law, there is hereby levied and imposed by the city, upon every person who sells or uses cigarettes within the city, an excise tax equivalent to ~~$0.50~~ $0.70 for each package containing 20 cigarettes and ~~25~~ 35 mills for each cigarette contained in packages of fewer or more than 20 cigarettes, sold or used within the city. The tax shall be paid and collected in the manner and at the time hereinafter prescribed; provided, that the tax payable for each cigarette or cigarette package sold or used within the city shall be paid but once. The tax hereby levied shall not apply to free distribution of sample cigarettes in packages containing five or fewer cigarettes.

Section 2. That this ordinance shall become effective July 1, 2005.

WILLIAM D. EUILLE
Mayor

Introduction: 4/12/05
First Reading: 4/12/05
Publication:
Public Hearing:
Second Reading:
Final Passage:

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