


City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 4, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: ORDINANCE TO INCREASE THE CITY'S TOBACCO TAX

ISSUE: Consideration of an ordinance (attached) to increase the City's tobacco tax rate from \$0.70 to \$0.80 per pack.

RECOMMENDATION: That City Council approve the proposed ordinance on first reading on May 12, 2009, and set it for public hearing, second reading and final passage on Saturday, May 16, 2009.

BACKGROUND: As part of its initiative to diversify revenue and to fund in FY 2010 key City services such as "social safety net" programs, Council authorized staff to bring forward certain tax and fee diversification options such as a tobacco tax for active consideration. See Budget Memo #23 "Tax Alternatives" for details. The consideration of a tobacco tax also is consistent with the City's health objectives. The City currently has a \$0.70 tax per pack of cigarettes sold in Alexandria, which has been in effect since July 2005, when the City raised its tax from \$0.50 per pack to \$0.70 per pack.

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

Locality	Tax Rate
Alexandria	.70
Town of Vienna	.75
Fairfax City	.50
City of Falls Church	.75
Town of Leesburg	.50
Town of Purcellville	.50
Herndon	.50
Town of Warrenton	.15
Town of Clifton	.30
Manassas	.50
Fairfax County	.30
Arlington County /1	.30

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

Throughout the Commonwealth of Virginia the major cities have long relied on the tobacco tax as a source of revenue. The following chart identifies the tax rates of the largest cities in Virginia. Counties in Virginia (except Arlington and Fairfax Counties which can levy a \$0.30 tax rate) are prohibited from levying a cigarette tax.

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

DISCUSSION: An increase in the City tobacco tax rate will help to temper to a small degree the dependency on revenue from real property taxes. Based on the current pack sales rate and assuming no change in sales due to the rate increase, a \$0.10 increase in the tax rate would result in approximately \$0.4 million in new revenue in addition to the currently assumed \$2.7 million in FY 2010 revenue. Total FY 2010 tax revenue is now expected to be \$3.1 million.

It is possible 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. As cigarette prices increase there may be a falloff in cigarette usage. Therefore, a higher overall 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 2008, the City collected \$2.7 million in tobacco tax revenues from the sale of cigarettes. The City is projected to collect \$2.8 million in FY 2009. It is expected that an increase of 10 cents in the tax rate will generate an additional \$0.4 million in revenue in a full year of implementation.

ATTACHMENT: Proposed Tobacco Tax Rate Ordinance

STAFF:

Bruce Johnson, Chief Financial Officer
 Laura Triggs, Director of Finance
 Eric Eisinger, Budget Analyst, OMB

Introduction and first reading: 5/12/09
Public hearing: 5/16/09
Second reading and enactment: 5/16/09

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) of Chapter 2 (TAXATION) of Title 3 (FINANCE, TAXATION AND PROCUREMENT) of the Code of the City of Alexandria, Virginia, 1981, as amended.

Summary

The proposed ordinance increases the City's tobacco tax rate from \$0.70 to \$0.80 per pack.

Sponsor

Bruce Johnson, Chief Financial Officer.
Laura Triggs, Director of Finance.

Staff

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Eric Eisinger, Budget Analyst, OMB.
Christina Zechman Brown, Assistant City Attorney.

Authority

Virginia Code Title 58.1, Chapter 38, Article 7.

Estimated Costs of Implementation

None

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

None

ORDINANCE NO. _____

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

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, from and after the effective date of this article an excise tax equivalent to \$0.780 for each package of 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.

Section 2. That this ordinance shall become effective upon the date and at the time of its final passage.

WILLIAM D. EUILLE
Mayor

- Introduction: 5/12/09
- First Reading:
- Publication:
- Public Hearing:
- Second Reading:
- Final Passage: