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12-10-02

*City of Alexandria, Virginia*

MEMORANDUM

DATE: DECEMBER 4, 2002  
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL  
FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*  
SUBJECT: CONSIDERATION OF AN ORDINANCE TO INCREASE THE CITY'S TOBACCO TAX

**ISSUE:** Consideration of an ordinance to increase the City's tobacco tax rate from \$0.30 to \$0.50 per pack.

**RECOMMENDATION:** That City Council pass the ordinance on first reading and schedule it for public hearing, second reading, and final passage on Saturday, December 14, 2002, with an effective date as of the date stated in the ordinance.

**BACKGROUND:** The City currently has a \$0.30 tax per pack of cigarettes sold in Alexandria, which has been in effect since July 1996 when it was raised from \$0.25. The City's current rate is equal to that of the City of Fairfax and the Town of Vienna (which increased their rates to \$0.30 per pack after the City increased its rate to \$0.30 per pack). Other Northern Virginia cigarette tax rates vary between \$0.05 and \$0.25. Cities in the Hampton Roads area generally have higher cigarette tax rates, the highest being the City of Chesapeake which recently raised its rate to \$0.50 per pack. Arlington and Fairfax Counties are the only counties in the State permitted to have a cigarette tax, and they have been both capped at \$0.05 per pack for decades. Periodic attempts by these jurisdictions to obtain a state law change allowing them higher rates have failed. The State's rate of \$0.025 per pack is the lowest (i.e. 51st) in the nation compared to the average state cigarette tax of \$0.61 cents per pack. In addition to specific cigarette taxes, most states (including Virginia) also apply their sales taxes to cigarettes. The federal cigarette tax is \$0.39 cents per pack.

The following chart shows the current tax rates for Northern Virginia localities authorized to levy a cigarette tax:

Locality	Tax Rate
Alexandria	.30
Town of Vienna	.30

Fairfax City	.30
City of Falls Church	.25
Town of Leesburg	.25
Town of Purcellville	.20
Herndon	.20
Town of Warrenton	.15
Town of Clifton	.15
Manassas/Manassas Park	.15
Fairfax County/1	.05
Arlington County/1	.05

/1 Both Arlington and Fairfax Counties are limited by State law to a cigarette tax rate of \$0.05 per pack. No other counties in Virginia are authorized to levy a cigarette tax.

Throughout the Commonwealth of Virginia, major cities (except for the City of Richmond which has the tobacco industry as a major employer) rely on the tobacco tax as a source of General Fund revenue (Attachment 1). The following chart identifies the tax rates of the largest cities in Virginia. Since 2001, 13 cities and towns in Virginia have implemented or increased their tobacco tax rate. In the same time period, 19 states have done the same, generating \$2.9 billion in new funds for those states. Whether or not Virginia's low tobacco tax will be raised by the General Assembly during this upcoming session is not clear.

Locality	Tax Rate
Chesapeake	.50
Newport News	.45
Hampton	.40
Portsmouth	.35
Virginia Beach	.32
Norfolk	.30
Roanoke	.27
Richmond	.00

Cigarette sales in the City of Alexandria have remained stable over the past several years, with sales averaging about 5.5 million packs of cigarettes sold in the City annually. The City's share of the number of packs of cigarettes sold throughout Northern Virginia has increased by approximately 5 percent between FY 2000 and FY 2002, while the overall number of packs sold in the region has declined by nearly 7 percent in the same time period. According to the federal government, between 1998 and 2000, cigarette consumption in the United States has declined by 7.5 percent and is expected to continue to decline between 1 and 3 percent per year, assuming price increases similar to those of the past two years. The rising prices, as well as restrictions on where people can smoke and greater knowledge of the health risks, have contributed to lower cigarette consumption.

**DISCUSSION:** An immediate increase in the City's cigarette tax will enable the City to begin collecting funds to be used for funding the FY 2004 City budget. As indicated at the City Council Retreat in October, for FY 2004 the City faces the task of closing a \$10 million gap between projected revenues and projected operating expenditures and City and School capital needs (such as increased capital funding to replace T.C. Williams High School). A cigarette tax increase will help close a part of that gap. At the current cigarette sales volume in the City, a \$0.20 increase in the cigarette tax rate would result in approximately \$1.1 million in new revenue per year with some \$0.5 million being collected for the balance of FY 2003. Enactment of the cigarette tax at this time will then provide some \$1.6 million for FY 2004 budget gap closing purposes.

It is possible that an increase in the cost of a pack of cigarettes in Alexandria will result in a small decline in the number of packs sold in the City, as some purchases will be made outside of the City. However, even with a \$0.20 increase in the City's cigarette tax, cigarette taxes in Maryland and the District of Columbia will remain higher than in the City and thereby keep the decline in the number of packs sold due to purchasing outside of the City to a minimum.

In addition, in Arlington or Fairfax County where there is a much lower local cigarette tax, a recent comparison of the current price per pack and per carton of premium brand cigarettes revealed little relevance to this local tax differential. For instance, a pack of cigarettes was priced (including all taxes) the same at a nation-wide chain convenience store in Alexandria and in Fairfax County. Cartons of cigarettes at the same two convenience stores were also nearly identical in price. If this holds true for the proposed \$0.20 cigarette tax increase, then retailers may choose (rather than add \$0.20 per pack to the price of cigarettes distributed for sale in Alexandria) to absorb the tax increase, or work the City's tax increase into the overall price charged for cigarettes in their various outlets in Northern Virginia.

If the \$0.20 is added to the current price of these packs, there will be a 6.8 percent increase in the cost of the pack, from \$2.94 to \$3.14, which is still below the average retail price in Virginia (including all taxes) of \$3.20 (Attachment 2). This compares to a national average of \$3.85 and a retail price in New York State (the highest average in the country) of \$5.80 per pack. New York

City recently increased their per pack tax rate from \$0.08 cents to \$1.50, resulting (when added to the State of New York's taxes of \$1.72 per pack) in a \$7.50 per pack cost in New York City.

It is important to note that several reports presented by the Surgeon General, the American Medical Association and the University of Illinois all indicate that higher cigarette prices result in lower overall cigarette consumption, and that youth, minorities and low-income smokers are two to three times more likely to quit or smoke less than other smokers in response to price increases. Over the past 15 years, studies reflect that every 10 percent increase in the price of cigarettes will reduce the total amount of consumption by 4 percent and the consumption by children by 6.5 percent. Recent studies undertaken after the Commonwealth of Massachusetts' cigarette tax increase have confirmed this. In addition to the reductions in smoking, increases in cigarette taxes are widely considered to be an effective tool in preventing youth from ever becoming smokers. Fewer smokers reduce the cost to society (and to governments) of treating the negative health consequences of smoking.

**FISCAL IMPACT:** In each of the past three fiscal years the City has collected approximately \$1.6 million in tobacco tax revenues from sales of approximately 5.5 million packs of cigarettes per year. Assuming no significant change in the volume of packs sold in Alexandria, a 20 cent increase in the tax rate would generate an additional \$1.1 million in revenue in a full year of implementation. For the part of FY 2003 when the tax will be proposed to become effective, some \$0.5 million in additional revenue is likely to be collected. As a result, when combining the FY 2003 and FY 2004 expected revenues from this proposed cigarette tax increase, some \$1.6 million in new revenues can be applied towards closing part of the projected \$10 million capital and operating budget funding gap for FY 2004.

**STAFF:**

Mark Jinks, Assistant City Manager  
Kendel Taylor, Budget Analyst, OMB

**ATTACHMENTS:**

1. Virginia Local Cigarette Tax Rates
2. State Excise and Sales Taxes per Pack of Cigarettes, Total Amounts and State Rankings
3. **Proposed Ordinance**

November, 2002

VIRGINIA  
LOCAL CIGARETTE TAXES  
TAX RATE PER PACK 20'S

<u>JURISDICTION</u>	<u>TAX RATE PER PACK 20'S</u>
Alexandria	.30
Arlington Co.	.05
Bedford City	.20
Blacksburg	.10
Bluefield	.02
Bristol	.04
Cape Charles	.05
Charlottesville	.12
Chesapeake	.50
Chilhowie	.04
Claremont	.045
Clifton	.15
Clifton Forge	.04
Culpepper	.10
Fairfax	.30
Fairfax Co.	.05
Falls Church	.25
Franklin City	.25
Fredericksburg	.05
Grundy	.02
Hampton	.40 (effective 7/1/02)
Herndon	.20
Kilmarnock	.05
Leesburg	.25
Lynchburg	.15
Manassas	.15
Manassas Park	.15
Marion	.02
Mt. Jackson	.05
Newport News	.45
Norfolk	.30
Petersburg	.10
Poquoson City	.10
Portsmouth	.35
Pulaski	.10
Purcellville	.20
Roanoake	.27
Saltville	.05
Smithfield	.25
Suffolk	.30
Vienna	.30 (effective 7/1/02)
VA Beach	.32
Warrenton	.15
Waynesboro	.04
Winchester	.10
Windsor	.25
Woodstock	.05 (effective 10/1/02)
Wytheville	.03

\* Note: This is a general list of state tax rates known to us, but is not considered definitive. Please contact any jurisdiction listed here for their most current rate prior to utilizing this sheet for assessing taxes.

**STATE EXCISE AND SALES TAXES PER PACK OF CIGARETTES  
TOTAL AMOUNTS & STATE RANKINGS**

States	Average Retail Price Per Pack (with all taxes)	Cigarette Excise Tax Per Pack	Excise Tax Rank (Highest = 1)	State Sales Tax Rate	State Sales Tax Per Pack (cents per pack)	Total State Tax Per Pack (cents per pack)	Total Tax Rank (Highest = 1)
Alabama	\$3.48	\$0.165	45th	4%	\$0.13	\$0.29	42nd
Alaska	\$4.55	\$1.00	10th	0%	\$0.00	\$1.00	16th
Arizona	\$3.91	\$0.58	22nd	5%	\$0.19	\$0.77	22nd
Arkansas	\$3.60	\$0.34	32nd	5.13%	\$0.18	\$0.52	32nd
California	\$4.38	\$0.87	16th	7%	\$0.29	\$1.16	14th
Colorado	\$3.18	\$0.20	39th	0%	\$0.00	\$0.20	48th
<b>Connecticut</b>	\$4.53	\$1.11	9th	6%	\$0.26	\$1.37	8th
Delaware	\$3.29	\$0.24	36th	0%	\$0.00	\$0.24	45th
DC	\$4.05	\$0.65	20th	5.75%	\$0.22	\$0.87	19th
Florida	\$3.65	\$0.339	33rd	6%	\$0.21	\$0.55	29th
Georgia	\$3.31	\$0.12	46th	4%	\$0.12	\$0.24	44th
<b>Hawaii</b>	\$4.65	\$1.20	8th	4%	\$0.18	\$1.38	7th
Idaho	\$3.33	\$0.28	35th	5%	\$0.16	\$0.44	35th
<b>Illinois</b>	\$4.26	\$0.98	14th	6.25%	\$0.25	\$1.23	11th
<b>Indiana</b>	\$3.72	\$0.555	23rd	5%	\$0.18	\$0.73	23rd
Iowa	\$3.48	\$0.36	29th	5%	\$0.17	\$0.53	30th
<b>Kansas</b>	\$3.76	\$0.70	18th	4.9%	\$0.18	\$0.88	18th
Kentucky	\$3.23	\$0.03	50th	6%	\$0.18	\$0.21	47th
<b>Louisiana</b>	\$3.50	\$0.36	29th	4%	\$0.13	\$0.49	33rd
Maine	\$4.25	\$1.00	10th	5%	\$0.20	\$1.20	13th
<b>Maryland</b>	\$4.36	\$1.00	10th	5%	\$0.21	\$1.21	12th
<b>Massachusetts</b>	\$4.32	\$1.51	1st	5%	\$0.21	\$1.72	2nd
<b>Michigan</b>	\$4.68	\$1.25	7th	6%	\$0.26	\$1.51	6th
Minnesota	\$3.83	\$0.48	26th	6.5%	\$0.23	\$0.71	25th
Mississippi	\$3.43	\$0.18	41st	7%	\$0.22	\$0.40	36th
Missouri	\$3.29	\$0.17	43rd	4.23%	\$0.13	\$0.30	41st
Montana	\$3.21	\$0.18	41st	0%	\$0.00	\$0.18	49th
<b>Nebraska</b>	\$3.88	\$0.64	21st	5%	\$0.18	\$0.82	21st
Nevada	\$3.56	\$0.35	31st	6.5%	\$0.22	\$0.57	28th
New Hampshire	\$3.65	\$0.52	25th	0%	\$0.00	\$0.52	31st
<b>New Jersey</b>	\$4.90	\$1.50	2nd	6%	\$0.28	\$1.78	1st
New Mexico	\$3.49	\$0.21	38th	5%	\$0.17	\$0.38	39th
<b>New York</b>	\$5.80	\$1.50	2nd	4%	\$0.22	\$1.72	4th
North Carolina	\$3.15	\$0.05	49th	4%	\$0.12	\$0.17	50th
North Dakota	\$3.68	\$0.44	27th	5%	\$0.18	\$0.62	27th
<b>Ohio</b>	\$3.96	\$0.55	24th	5%	\$0.19	\$0.74	24th
Oklahoma	\$3.40	\$0.23	37th	4.5%	\$0.15	\$0.38	38th
Oregon	\$3.74	\$1.28	6th	0%	\$0.00	\$1.28	9th
<b>Pennsylvania</b>	\$4.25	\$1.00	10th	6%	\$0.24	\$1.24	10th
<b>Rhode Island</b>	\$4.61	\$1.32	5th	7%	\$0.30	\$1.62	5th

States	Average Retail Price Per Pack (with all taxes)	Cigarette Excise Tax Per Pack	Excise Tax Rank (Highest = 1)	State Sales Tax Rate	State Sales Tax Per Pack (cents per pack)	Total State Tax Per Pack (cents per pack)	Total Tax Rank (Highest = 1)
South Carolina	\$3.30	\$0.07	48th	5%	\$0.16	\$0.23	46th
South Dakota	\$3.53	\$0.33	34th	4%	\$0.14	\$0.47	34th
<b>Tennessee</b>	\$3.38	\$0.20	39th	6%	\$0.19	\$0.39	37th
Texas	\$3.60	\$0.41	28th	6.25%	\$0.21	\$0.62	26th
<b>Utah</b>	\$3.83	\$0.695	19th	4.75%	\$0.17	\$0.87	20th
<b>Vermont</b>	\$4.37	\$0.93	15th	5%	\$0.21	\$1.14	15th
Virginia	\$3.20	\$0.025	51st	4.5%	\$0.14	\$0.16	51st
<b>Washington</b>	\$4.98	\$1.425	4th	6.5%	\$0.30	\$1.73	3rd
West Virginia	\$3.25	\$0.17	43rd	6%	\$0.18	\$0.35	40th
Wisconsin	\$4.16	\$0.77	17th	5%	\$0.20	\$0.97	17th
Wyoming	\$3.35	\$0.12	46th	4%	\$0.13	\$0.25	43rd
<b>Average</b>	<b>\$3.85</b>	<b>\$0.60</b>	--	<b>4.6%</b>	<b>\$0.17</b>	<b>\$0.77</b>	--

States that have initiated new cigarette increases in 2002 are in **bold type**. Sales tax amount per pack based on state sales tax percentage and average price of a pack of cigarettes in each state. In the vast majority of all states, the sales tax percentage is applied to the total retail price of a pack of cigarettes, including all applicable federal and state cigarette excise taxes. But Colorado's state sales tax does not apply to cigarettes at all; and Alabama, Georgia, and Missouri do not apply their state sales tax to that portion of retail cigarette prices that represents the state's cigarette excise tax.

Federal cigarette tax is 39 cents per pack (there is no federal sales tax). The average prices of a pack of cigarettes, including federal and state excise and sales taxes, is approximately \$3.70. Since the beginning of 1998, the major cigarette companies have increased the prices they charge by more than \$1.20 per pack.

Sources: Orzechowski & Walker, *Tax Burden on Tobacco*, 2002; media reports; Economic Research Service, U.S. Department of Agriculture, *Tobacco Briefing Room Website*, <http://www.ers.usda.gov/Briefing/tobacco>. State tax rates are those set by law to be in effect by the end of calendar year 2002.

**For additional information on state cigarette taxes and the many benefits from increasing them, see the Campaign's website at <http://tobaccofreekids.org/reports/prices>.**

*National Center for Tobacco-Free Kids, October 10, 2002 | Eric Lindblom*

**Related Campaign Factsheets (Available at <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18>)**

- ***Raising State Tobacco Taxes Always Increases State Revenues and Always Reduces Tobacco Use***
- ***Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (and the Cigarette Companies Know It)***
- ***State Cigarette Tax Increases Benefit Lower-Income Residents***
- ***State Cigarette Tax Rates and Projected Benefits from Increasing Them (Table)***
- ***Pregnancy-Related Benefits & Cost Savings from Raising Cigarette Taxes (Table of State Data)***
- ***Voters Across the Country Support Significant Increases in State Tobacco Taxes***
- ***State Cigarette Tax Rates: Date of Last Increase And Related Data (Table)***
- ***State Cigarette Excise Tax Rates & Rankings (Table)***
- ***State Excise Tax Rates for Non-Cigarette Tobacco Products***
- ***Taxation of Smokeless Tobacco: Percentage of Price vs. Net Weight [from the American Lung Association]***
- ***Benefits From Increasing Smokeless Tobacco Tax Rates [with guidance on setting smokeless tax rates]***
- ***State Cigarette Tax Increases Will Not Hurt U.S. Tobacco Growers or Cigarette Factory Workers***
- ***Effect of State Tobacco-Tax Increases on MSA and Phase II Payments to the States***

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12-10-02

Introduction and first reading:	12/10/2002
Public hearing:	12/14/2002
Second reading and enactment:	12/14/2002

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, as amended.

Summary

The proposed ordinance increases the cigarette tax levied by the city from \$0.30 per package to \$0.50 per package.

Sponsor

Office of Management and Budget

Staff

Kendel Taylor, Budget Analyst  
Steven L. Rosenberg, Senior Assistant City Attorney

Authority

§ 58.1-3830, Code of Virginia, 1950, as amended

Estimated Costs of Implementation

None

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

None

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12-10-02

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, 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 is, amended and reordained to read as follows:

Sec. 3-2-102            Levy and rate.

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 ~~\$0.300~~.50 for each package containing 20 cigarettes and ~~1525~~ 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 be effective upon the date and at the time of its final passage; provided, that the Northern Virginia Cigarette Board shall not be required to collect the increased tax until it shall have notified persons liable for the tax of such increase in accordance with the rules and regulations promulgated by the board.

KERRY J. DONLEY  
Mayor

Introduction:            12/10/2002  
First Reading:           12/10/2002  
Publication:  
Public Hearing:  
Second Reading:  
Final Passage:

N.B. Underlining is not part of the ordinance but denotes language that is new or amended. Strike-outs or dashes are not part of the ordinance, but denote material that is being deleted.

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12-10-02

- CITY SEAL -

Public Hearing will be held by the City Council of the City of Alexandria, Virginia, in the Council Chamber, City Hall, City of Alexandria, Virginia, on Saturday, December 14, 2002, at 9:30 a.m., or as soon thereafter as may be heard on the hereinafter described ordinances.

TITLE OF ORDINANCE

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, as amended. The proposed ordinance increases the cigarette tax levied by the city from \$0.30 per package to \$0.50 per package.

\* \* \* \* \*

TITLE OF ORDINANCE

AN ORDINANCE to amend and reordain Article D (RETIREMENT AND INSURANCE), Chapter 5 (OFFICERS AND EMPLOYEES), Title 2 (GENERAL GOVERNMENT) of The Code of the City of Alexandria, Virginia, 1981, as amended. The proposed ordinance amends the provisions of the City Code which authorize and establish retirement and other insurance plans for city employees, to permit the administration of pension and disability plans by a board comprised of representatives of the City and of plan participants appointed by city council, if allowed under the plans' governing documents. In addition, the proposed ordinance makes technical changes to the general authorization language in the City Code to conform to actions and practices authorized by the city council over time in appropriating funds for employee retirement and insurance plans and related purposes.

\* \* \* \* \*

TITLE OF ORDINANCE

AN ORDINANCE to vacate a portion of the public street right-of-way of Mill Road and Roberts Lane, in the City of Alexandria, Virginia. The proposed ordinance vacates a portion of Mill Road and Roberts Lane to WMATA and the Hoffman Family, LLC, in exchange for land dedicated for the realignment of Mill Road, in the Eisenhower Valley.

\* \* \* \* \*

THE PUBLIC IS ADVISED THAT AMENDMENTS OR ADDITIONS MAY BE MADE TO PROPOSED ORDINANCES WITHOUT FURTHER PUBLICATION. IT IS RECOMMENDED THAT PERSONS INTERESTED IN ANY OF THESE ORDINANCES OBTAIN FREE FULL-TEXT COPIES FROM THE CITY CLERK AT CITY HALL. BEVERLY I. JETT, CMC, CITY CLERK

To be published in the:

Northern Virginia Journal on Thursday, December 12, 2002  
Alexandria Gazette Packet on Thursday, December 12, 2002