

MUNICIPALITY OF ANCHORAGE
Summary of Economic Effects - General Government

AO Number: 2013-125

Title: AN ORDINANCE OF THE ANCHORAGE ASSEMBLY REPEALING AND RE-ENACTING ANCHORAGE MUNICIPAL CODE CHAPTER 12.40, EXCISE TAX ON CIGARETTES AND OTHER TOBACCO PRODUCTS.

Sponsor: Mayor

Preparing Agency: Department of Finance **Others Impacted:** None

CHANGES IN EXPENDITURES AND REVENUES: (Thousands of Dollars)

ITEM	FY14	FY15	FY16	FY17	FY18
Operating Expenditures					
1000 Personal Services	119	119	119	119	119
2000 Supplies	.5	.5	.5	.5	.5
3000 Other Services					
4000 Debt Service					
5000 Capital Outlay	2.5				
TOTAL DIRECT COSTS:	122	122	122	122	122
6000 IGCs	0	0	0	0	0
FUNCTION COST:	0	0	0	0	0
REVENUES:	1,300	1,300	1,300	1,300	1,300
CAPITAL:	0	0	0	0	0
POSITIONS: FT/PT and Temp.	1 FT	0	0	0	0

PUBLIC SECTOR ECONOMIC EFFECTS:

MOA expects to realize increased collections of new registration/license fees and tobacco taxes attributable to improved enforcement resulting from controls to prevent and/or detect tax evasion schemes, access to records of all merchant businesses that offer cigarettes and other tobacco products (CTP) for sale in the Municipality and requirements of merchant businesses regarding licensing, registration, records preparation, maintenance, retention, and inspection by Treasury.

Tobacco tax revenues in 2013 are on track to exceed the annual budget by just over \$1 million. This unbudgeted increase in tobacco tax is believed to be attributable to a common awareness within the local tobacco sales industry of the 2013 indictment and pending federal case against 8 local merchants for various criminal charges including evasion of MOA tobacco taxes. It appears that many tobacco merchants are being more careful to comply with AMC 12.40. However, several local merchants have complained that some of their competitors are still not in full compliance. This ordinance will provide increased enforcement to ensure that the recent unexpected 5% increase in tobacco tax revenues does not wane in the future. The projected revenue effect for future years is a \$1.3 million increase over the 2013 budgeted amount, which will vary going forward based on the net change in long-term declining consumption and the annual CPI adjustment to the cigarette mill rate. The \$1.3 million includes the

\$247,000 of newly budgeted funds cited in the Mayor's Proposed 2014 General Government Operating Budget; the \$1 million remainder was not included in the 2014 Mayor's Proposed 2014 General Government Operating Budget.

This ordinance increases the complexity and span of Treasury enforcement efforts. Licensing requirements will increase from 22 currently-licensed local merchant businesses to approximately 320 affected local tobacco merchant businesses. Managed oversight is also extended to an estimated 400 merchant businesses outside of the Municipality; these businesses will be required to provide information sufficient to register them as merchants who are eligible for the privilege of acquiring cigarettes and other tobacco products exempt of the tax imposed by AMC chapter 12.40. This represents a 30 fold increase of oversight responsibilities for Treasury Division.

To successfully implement the comprehensive provisions contained in the ordinance, Treasury needs one additional range 12 FTE. Additionally, salary levels for existing tax enforcement personnel were found to be notably less than comparable to similar tobacco tax enforcement personnel at the State Department of Revenue; their pay grade levels do not match the skill set required of the jobs. A one-level salary increase for four existing tax enforcement personnel partially closes the pay gap with the equivalent positions at the SOA and is a necessary cost associated with implementation of this ordinance.

Finance Department will experience an increase of \$108,000 in direct labor costs in 2014 and this cost will be adjusted for tenure and any general pay increases in future years. These cost increases are attributable to adding one new Tax Enforcement Assistant position and a one-level pay upgrade in four existing tax enforcement positions. Supervisory pay remains unchanged by this ordinance. Nearly half of these costs will be covered by new license/registration fees, with the remainder of costs more than offset by increases in budgeted tobacco tax revenue.

PRIVATE SECTOR ECONOMIC EFFECTS:

This ordinance adds significant administrative controls to prevent or detect illicit movement of untaxed tobacco into the Municipality, even in instances when one person owns both a store outside the Municipality and a store inside the Municipality. There will be a greatly reduced chance of a law-abiding local merchant losing sales or market share to a local competitor utilizing a tax evasion scheme.

This ordinance establishes new registration requirements for merchants outside MOA wanting the privilege of purchasing CTP exempt of the tax (approximately 600 merchant businesses) and establishes new licensing requirement for local merchants that offer CTP for retail sales within MOA (approximately 320 entities). The total volume increase in licensed/registered tobacco industry entities will increase from 22 to nearly 720. Treasury will compose a letter alerting state-wide merchants of this opportunity to register and provide the letter template to local licensed distributors, who can then utilize their internal customer list to determine a satisfactory mailing list to use in alerting their merchant customers.

Merchants outside MOA will now be able to acquire tax-exempt CTP from an Anchorage-based tobacco distributor only if the merchant is included on an authorized list regularly updated by Treasury and shared with distributors. To be included on the Treasury list, a merchant will need to demonstrate qualification by completing an application with Treasury and remitting a \$100 processing fee. Newly registered entities will need to apply for renewal of their MOA exempt status each year. This registration process will provide Treasury with the controls necessary to monitor and ensure that purchases of tax-exempt CTP are legitimate.

Improved record-keeping will become a necessity for some local tobacco retailers (e.g., initial implementation costs associated with upgrade of cash register systems and staff training to adequately identify and track cigarettes sold by pack and carton). Some local retailers might need to newly adopt more current and standard business practices (e.g., end-of-day "Z" tapes summarizing key categories of tobacco sales and retention of acquisition and sales records). Per survey of existing local retail stores having adequate cashiering systems, a one-time purchase cost in the range of \$300 may be needed for a modern cashiering system, additional filing/storage capacity, and additional supplies like register tape, to

enable compliance with the recordkeeping requirements in this ordinance. However, these enhancements will have benefits that are not necessarily limited to compliance with this ordinance.

This ordinance streamlines reporting requirements for the newly created Bonded Distributor license and reduces time and labor costs formerly associated with filing monthly Municipal tobacco tax returns, eliminates the former requirement to remit tobacco taxes upon acquisition of CTP, and eliminates the necessity of requesting a refund of tobacco taxes paid. The Bonded Distributor will be required to submit a financial guarantee that, if in the form of a surety bond, may have an annual premium of approximately \$3,000 per year. Such licensee will also benefit from the time value of increased cash retained by the business rather than being on deposit with MOA Treasury, awaiting refund.

Merchants who knowingly violate responsibilities or requirements set forth in AMC Chapter 12.40 may incur significant negative financial consequences. In addition, merchants whose principal place of business is outside of the Municipality may incur a revocation of their privilege to purchase CTP exempt of the tax and local merchants may incur a revocation of their MOA tobacco license, depriving them of the ability to subsequently offer tobacco for sale in the Municipality. However, it is totally within the control of these merchants to avoid such consequences.

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Validated by OMB: _____ Date: _____

Approved by: _____ Date: _____
(Director, Preparing Agency)