

Submitted by: Chair TRAINI AND
Vice-Chair TESCHE,
Tremaine, Whittle,
Jennings

Prepared by: Department of Assembly
For Reading: September 7, 2004

CLERK'S OFFICE

APPROVED

Date: 9-21-04

IMMEDIATE RECONSIDERATION

FAILED 9-21-04

ANCHORAGE, ALASKA

AO No. 2004-131

AN ORDINANCE AMENDING ANCHORAGE MUNICIPAL CODE CHAPTER 12.40 BY INCREASING THE MILL LEVY ON THE EXCISE TAX FOR CIGARETTES BROUGHT INTO THE MUNICIPALITY, TO INCREASE THE EXCISE TAX ON THE WHOLESALE PRICE LEVIED ON OTHER TOBACCO PRODUCTS BROUGHT INTO THE MUNICIPALITY, AND TO PROVIDE ALL REVENUES FROM SUCH TOBACCO EXCISE TAXES SHALL BE UNDER THE MUNICIPAL TAX CAP, THEREBY PROVIDING TAX RELIEF AND REDUCING PROPERTY TAXES.

The Anchorage Assembly ordains that:

Section 1: Anchorage Municipal Code Section 12.40.010 is amended to read:

12.40.010 Tax on cigarettes.

- A. The municipality hereby levies an excise tax of 65 [13] mills, adjusted annually as provided in subsection B of this section, on each cigarette brought into the municipality after September 30, 2004 [DECEMBER 31, 1990]. Cigarettes upon which the tax is imposed are not again subject to the tax when acquired by another person.
- B. The annual Consumer Price Index adjustment shall be based on the August release date of the semiannual report for the municipality from the U.S. Department of Labor statistics and determined to be the percent change to the current year from the average of the first and second half of the prior year, and will be effective January 1 of each year following the August release date. The first such adjustment date shall be January 1, 1992.

Section 2: Anchorage Municipal Code Section 12.40.020 is amended to read:

12.40.020 Tax on other tobacco products.

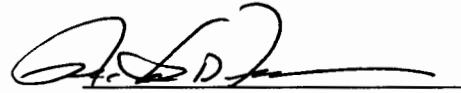
An excise tax of 45 [15] percent of the wholesale price is levied on [OTHER] tobacco products, other than cigarettes, brought into the municipality. The tax is

1 levied effective October 1, 2004 [DECEMBER 31, 1990]. [OTHER] T[t]obacco
2 products upon which this tax is imposed are not again subject to this tax when
3 acquired by another person.
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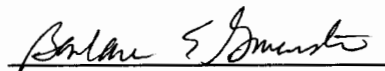
5 **Section 3:** In order to provide relief to the owners of real property within the
6 Municipality of Anchorage who currently bear most of the cost of Municipal government
7 operations, the additional revenues derived under this ordinance shall not be added to the
8 base amount used under Anchorage Municipal Charter Section 14.03, for the purposes of
9 calculating tax increase limitations under the Tax Cap.
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11 **Section 4:** This ordinance shall become effective upon passage.
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13 PASSED AND APPROVED by the Anchorage Assembly this 21st day of
14 September, 2004.
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19 Chair

20 ATTEST:
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24 Municipal Clerk
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MUNICIPALITY OF ANCHORAGE

Summary of Economic Effects -- General Government

AO Number: 2004-131

Title: An Ordinance Amending AMC 12.40 to increase tobacco tax rates associated with cigarettes and other tobacco products (otp) to 65 mill rates and 45 percent, respectively

Sponsor: Chair Traini

Preparing Agency: Finance

Others Impacted:

CHANGES IN EXPENDITURES AND REVENUES:

(In Thousands of Dollars)

	FY04	FY05	FY06	FY07	FY08
Operating Expenditures					
1000 Personal Services					
2000 Non-Labor					
3900 Contributions					
4000 Debt Service					
TOTAL DIRECT COSTS:	\$ -	\$ -	\$ -	\$ -	\$ -
Add: 6000 Charges from Others					
Less: 7000 Charges to Others					
FUNCTION COST:	\$ -	\$ -	\$ -	\$ -	\$ -
REVENUES:	\$ 952	\$ 8,910	\$ 9,177	\$ 9,452	\$ 9,736

CAPITAL:

POSITIONS: FT/PT and Temp

PUBLIC SECTOR ECONOMIC EFFECTS:

Currently cigarettes are taxed, according to Municipal Code provisions, at 15 mills per cigarette (i.e., \$0.015 per cigarette or \$0.30 per pack). Other tobacco products (OTP) are taxed at 15% of the wholesale price. The attached ordinance proposes to raise the tax on cigarettes from 15 mills to 65 mills and to raise the tax on OTP from 15% to 45%. Using baseline historical information, and assuming a 35% elasticity (i.e., negative demand/consumption) effect, cigarette tax revenues are projected to increase from approximately \$4,500,000/year to \$12,675,000/year and OTP tax revenues are projected to increase from approximately \$500,000/year to \$975,000/year. The total annual revenue increase from this proposed ordinance is then \$8,650,000. Given the following: (1) effective date of 10/1/04; (2) historical seasonal effect leading to softer revenues in 4th quarter of each year; and (3) anticipated accumulation of product prior to 10/1/04 effective date... the 2004 revenue projection above reflects an adjusted pro-ration. The outyear projections assume a 3% annual CPI escalator as provided in Municipal Code. Note: all increased tobacco tax revenues are designated in the Ordinance to fall within the Tax Cap; hence, property taxes will be offset dollar-for-dollar by additional tobacco tax revenues collected.

This estimate assumes a 35% elasticity effect based on Municipal and State increases combined. This elasticity effect was extrapolated by referring to comparable events involving both MOA and SOA raising tobacco taxes in the mid-1990's.

PRIVATE SECTOR ECONOMIC EFFECTS:

This increase will impose an additional tax burden on 31 businesses currently licensed by the Municipality of Anchorage to import cigarettes and other tobacco products into the Municipality for resale. Such an increase in these businesses' cost of sales will undoubtedly be passed on to users of tobacco, thereby increasing the consumers' cost of cigarettes by \$1.00 per pack. In addition, with the wholesale tax rate for other tobacco products (OTP) increasing an additional 30%, the price paid by consumers will likely effectively increase 12% (assuming a 100% markup between the wholesale and retail price).

Since the proposed Ordinance designates all additional tobacco tax revenues to fall within the Tax Cap, property tax relief will be dollar-for-dollar based on additional tobacco tax revenues collected. Using an Areawide assessed valuation of \$21,281,342,021, the estimated increase in revenues of \$8,650,000 would provide approximately \$81 in property tax relief on a \$200,000 home.

Prepared by: Daniel Moore

Telephone: 343-4092

Agency Concurrence: Jeffrey E. Sinz
Department Director

Date: 9/7/2004

OMB Concurrence: Diana Pearcy
OMB Director

Date: 9/7/2004



MUNICIPALITY OF ANCHORAGE
ASSEMBLY MEMORANDUM

NO. AM 632-2004

Meeting Date: September 7, 2004

From: Chair Traini and Vice Chair Tesche
Subject: **AN ORDINANCE TO INCREASE THE MILL LEVY ON THE EXCISE TAX
ON CIGARETTES AND OTHER TOBACCO PRODUCTS**

AO 2004-131 is being introduced as part of the 2004 Fair Tax Reform Package to propose an increase in the mill levy for cigarettes and other tobacco products. This increase will provide an estimated \$8,650,000 in revenues which would result in property tax relief in the amount of \$81 on a \$200,000 home.

Your approval of AO 2004-131 is requested.

Respectfully submitted: Dick Traini, Chair
 Allan Tesche, Vice Chair

**Municipality of Anchorage
MUNICIPAL CLERK'S OFFICE
AGENDA DOCUMENT CONTROL SHEET**

AO 2004-131

1	SUBJECT OF AGENDA DOCUMENT	DATE PREPARED 09/07/04
	AMENDING AMC 12.40 - INCREASING THE MILL LEVY ON THE	INDICATE DOCUMENTS ATTACHED AO/SEE/AM
	EXCISE TAX FOR CIGARETTES BROUGHT INTO THE MUNICIPALITY ...	
2	DEPARTMENT NAME Assembly	DIRECTOR'S NAME Dick Traini
3	THE PERSON THE DOCUMENT WAS ACTUALLY PREPARED BY Elvi Gray-Jackson	HIS/HER PHONE NUMBER X4751
4	COORDINATED WITH AND REVIEWED BY	INITIALS DATE
	Mayor	
	Heritage Land Bank	
	Merrill Field Airport	
	Municipal Light & Power	
	Port of Anchorage	
	Solid Waste Services	
	Water & Wastewater Utility	
	Municipal Manager	
	Cultural & Recreational Services	
	Employee Relations	
	Finance, Chief Fiscal Officer	
	Fire	
	Health & Human Services	
	Office of Management and Budget	
	Management Information Services	
	Police	
	Planning, Development & Public Works	
	Development Services	
	Facility Management	
	Planning	
	Project Management & Engineering	
	Street Maintenance	
	Traffic	
	Public Transportation Department	
	Purchasing	
	Municipal Attorney	
	Municipal Clerk	
	Other	
5	SPECIAL INSTRUCTIONS/COMMENTS	
	LAID ON THE TABLE ITEM - INTRODUCTION	
	09/07/04: REFERRED TO THE ASSEMBLY PUBLIC SAFETY COMMITTEE	
6	ASSEMBLY MEETING DATE 09/07/04	7 PUBLIC HEARING DATE REQUESTED 09/21/04