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Municipal Revenue Sources: Analysis of Omaha's Options -- 1987 Update

Center for Public Affairs Research (CPAR)
University of Nebraska at Omaha

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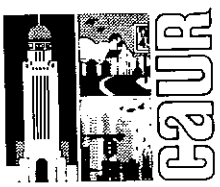

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Introduction

This report updates a study conducted by the Center for Applied Urban Research in 1983.[1] The first section of this report compares the revenue structure of Omaha with the revenue structure of other U.S. municipalities. The comparisons are based on data contained in the U.S. Bureau of the Census publications, *City Government Finances in 1980-81 and 1984-85*. The categories of comparison cities are all U.S. cities, cities with populations between 300,000 and 500,000, and ten cities that are comparable to Omaha in size and central/core city percentage of total metropolitan area population.[2]

The second section of the report utilizes a set of criteria for evaluating revenue sources adapted from the original report. These criteria are applied to seven existing or proposed revenue sources for the city of Omaha: The property tax, an income/earnings tax, an expanded sales tax, a special admissions seat tax at Ak-Sar-Ben, a refuse collection fee, a nonresident wheel tax, and an occupational privilege tax. With the exception of the nonresident wheel tax, these revenue sources were examined in the 1983 report.

Care should be exercised in comparing Omaha's municipal revenue structure with that of other cities. First, it is important to recognize that certain services may be provided by, or shared with, other governmental units (such as, state, county, school district, or special district), and revenues to finance these services may be collected by other governmental units. Second, services are contracted to the private sector in some cities, with user fees paid directly to the contractor. In such cases, revenues are neither required nor collected by city government. Third, some states reserve specific revenue sources for themselves, and these taxes are unavailable to municipalities. Finally, some cities show a high percentage of own-source revenues because they operate large facilities (for example, hospitals and airports) that are financed partly by user fees.

Omaha's Revenue Sources: A Comparison with Other Cities

In this section the pattern of own-source general revenues for Omaha and U.S. cities is discussed. Omaha and comparison cities are examined in relation to all U.S. cities, by population size categories, and by metropolitan population share.

All U.S. Cities

Own-source general revenues are divided into two categories: Taxes and charges and miscellaneous (table 1). Since 1983, the most notable change has

Table 1
Distribution of Own-source General Revenue Sources,
Omaha and All U.S. Cities, 1980-81 and 1984-85

Item	Omaha		All U.S. cities[1]	
	1984-85	1980-81	1984-85	1980-81
	Percent[2]			
General revenue from own sources	100.0	100.0	100.0	100.0
Taxes	72.6	73.1	60.5	63.8
Property	34.9	34.4	29.8	34.2
General sales[3]	28.0	31.1	10.9	10.5
Selective sales	4.5	3.7	6.7	6.4
Income	0	0	8.4	8.4
Other	5.2	3.9	4.7	4.3
Charges and miscellaneous	27.2	26.9	39.5	36.2
Charges	20.1	19.2	21.0	20.9
Interest	5.0	4.4	8.5	7.8
Special assessments	.5	.8	1.5	1.4
Other	1.6	2.5	8.5	6.1

Item	Change in relative percent	
	Omaha, NE	All U.S. cities
	Percent	
General revenue from own sources	0	0
Taxes	-.5	-3.3
Property	.5	-4.4
General sales[3]	-3.1	.4
Selective sales	.7	.3
Income	0	0
Other	-1.3	.4
Charges and miscellaneous	.4	3.3
Charges	.9	.1
Interest	.6	.7
Special assessments	-.3	.1
Other	-.9	2.4

[1] For 1984-85, N=19,185; for 1980-81, N=18,893.

[2] Detail may not add to totals due to rounding.

[3] The decrease in Omaha revenue from the general sales tax is due in part to the sales tax on food being removed in 1983.

Source: Calculated from *City Government Finances in 1984-85*, table 7 (Omaha) and table 1 (all other data); and *City Government Finances in 1980-81*, table 8 (Omaha) and table 3 (all other data).

been in taxes, with property taxes now constituting a smaller share of own-source revenues for all U.S. cities. Omaha, on the other hand, continues to rely heavily on property tax revenues, (34.9 percent for Omaha versus 29.8 percent for all U.S. cities in 1984-85). In fact, while the proportion of own-source revenue for all U.S. cities from property tax declined from 34.2 to 29.8 percent, the proportion of Omaha's own-source revenue derived from the property tax has increased slightly, from 34.4 percent to 34.9 percent.[3] In addition, the proportion of own-source revenue drawn from Omaha's general sales tax continues to exceed the proportion for all U.S. cities (28.0 percent for Omaha versus 10.9 percent for all U.S. cities in 1984-85). Finally, Omaha continues to be less reliant on selective sales and income taxes than all U.S. cities, and Omaha's proportion of revenue from charges and miscellaneous (especially interest income) continues to be less than that for all U.S. cities.[4]

Population Size Category

Table 2 shows how the composition of own-source revenue varies by size of municipality. Compared with other cities with populations of 300,000 to 499,999, Omaha relies more heavily on taxes (72.6 percent versus 54.3 percent in 1984-85). When compared to 1980-81, cities in this size category are now generally less reliant on tax revenues and more dependent on miscellaneous sources of revenue (for example, interest and special assessments), while Omaha continues to derive almost 75 percent of own-source revenues from taxes and less than 10 percent of its revenues from miscellaneous sources.

Closer analysis of the revenue structures of cities with populations of 300,000 to 499,999 shows that Omaha continues to use property and sales taxes more than other U.S. cities; however, Omaha continues to rely much less on miscellaneous revenue sources (such as, interest and special assessments) than other cities in the same population size category (7.1 percent versus 23.2 percent in 1984-85).

Metropolitan Population Share

Table 3 examines the revenue structures of Omaha and ten cities with similar populations and comparable percentages of metropolitan area population. The data indicate that Omaha continues to depend more heavily than any other city on tax revenue (72.6 percent in 1984-85). Moreover, while Omaha and Fresno rely on both property and sales taxes for own-source revenues, the other nine cities tend to depend predominantly on either property or sales taxes, but not both. In 1984-85, Omaha ranked just below the median in its use of charges (20.1 percent); however, its use of revenue from

Table 2
Distribution of Own-source General Revenue Sources,
by Size of Population, Selected Cities, 1980-81 and 1984-85

Item	Omaha	All U.S. cities	Population 500,000+	300,000-499,999	200,000-299,999	<200,000
			Percent[1]			
1984-85:						
General revenue from own sources	100.0	100.0	100.0	100.0	100.0	100.0
Taxes	72.6	60.5	70.3	54.3	52.5	54.6
Property	34.9	29.8	28.7	22.1	26.7	32.3
General and selective sales[2]	32.5	17.6	19.7	21.0	16.2	9.9
Income	0	8.4	16.9	5.9	5.2	2.5
Other	5.2	4.7	5.1	5.3	4.4	4.3
Charges	20.1	21.0	16.6	22.4	24.6	23.8
Miscellaneous	7.1	18.6	13.1	23.2	22.9	21.6
1980-81:						
General revenue from own sources	100.0	100.0	100.0	100.0	100.0	100.0
Taxes	73.1	63.8	71.8	58.0	61.7	58.8
Property	34.4	34.2	32.5	26.2	29.3	37.3
General and selective sales[2]	34.8	16.7	18.6	19.8	19.1	14.6
Income	0	8.5	16.4	6.5	8.1	2.7
Other	3.9	4.4	4.2	5.4	5.1	4.3
Charges	19.2	21.0	17.4	22.3	21.7	23.5
Miscellaneous	7.7	15.2	10.8	19.7	16.6	17.7
Change in relative percent, 1981-85:						
General revenue from own sources	0	0	0	0	0	0
Taxes	-.5	-3.3	-1.5	-3.7	-9.2	-4.2
Property	.5	-4.4	-3.8	-4.1	-2.6	-5.0
General and selective sales[2]	-2.3	.9	1.1	1.2	-2.9	-4.7
Income	0	-.1	.5	-.6	-2.9	-.2
Other	1.3	.3	.9	-.1	-.7	0
Charges	-.9	0	-.8	.1	2.9	.3
Miscellaneous	.6	3.4	2.3	3.5	6.3	3.9

[1] Detail may not add to totals due to rounding.

[2] General and selective sales taxes are combined because data were collected in this form in 1980-81.

Source: Calculated from *City Government Finances in 1984-85*, table 7 (Omaha) and table 3 (all other data). Calculated from *City Government Finances in 1980-81*, table 8 (Omaha) and table 3 (for all other data).

Table 3
Percentage Distribution of Own-source General Revenue,
Selected Cities, 1980-81 and 1984-85

Year/City	Population (thousands)	Taxes					Charges	Misc.
		All	Property	Sales[1]	Income	Other		
		Percent						
1984-85:								
Fresno, CA	267	60.7	23.8	30.4	0	6.5	25.9	13.3
Colorado Springs, CO	248	33.9	6.1	27.1	0	.6	35.3	30.7
Des Moines, IA	191	51.9	46.1	4.5	0	1.3	24.8	23.2
Wichita, KS	285	27.6	18.4	8.1	0	1.0	16.5	55.7
Baton Rouge, LA	366	55.5	13.2	38.3	0	3.9	14.8	29.6
OMAHA, NE	**334**	**72.6**	**34.9**	**32.5**	**0**	**5.1**	**20.1**	**7.2**
Charlotte, NC	331	58.8	46.0	10.3	0	2.3	23.2	17.9
Toledo, OH	344	61.2	6.3	.2	51.6	2.9	26.8	11.9
Oklahoma City, OK	443	47.5	8.7	36.9	0	1.8	35.2	17.2
Tulsa, OK	375	46.1	5.5	39.6	0	.8	17.4	36.4
Austin, TX	397	37.0	20.2	14.4	0	2.4	36.5	26.4
Median		51.9	18.4	27.1	n/a	2.3	24.8	23.2
1980-81:								
Fresno, CA	218	61.7	19.7	36.4	0	5.6	25.1	13.2
Colorado Springs, CO	215	42.9	11.3	30.3	0	1.3	35.5	21.6
Des Moines, IA	191	52.6	47.3	3.8	0	1.5	29.3	18.1
Wichita, KS	279	34.5	27.0	6.0	0	1.5	26.9	38.6
Baton Rouge, LA	346	63.4	16.8	42.5	0	4.1	14.0	22.5
OMAHA, NE	**312**	**73.1**	**34.5**	**34.8**	**0**	**3.8**	**19.2**	**7.7**
Charlotte, NC	314	58.7	55.6	0	0	3.2	21.5	19.8
Toledo, OH	355	60.2	9.3	.4	45.7	4.8	31.4	8.4
Oklahoma City, OK	403	60.6	15.8	43.4	0	1.5	19.1	20.3
Tulsa, OK	361	51.1	5.8	44.1	0	1.2	25.1	23.8
Austin, TX	346	42.7	25.2	16.1	0	1.5	44.2	13.1
Median		58.7	19.7	34.8	n/a	1.5	21.5	19.8
Change in relative percent								
Fresno, CA	49	-1.0	4.1	-6.0	0	0.9	0.8	0.1
Colorado Springs, CO	33	-9.0	-5.2	-3.2	0	-.7	-.2	9.1
Des Moines, IA	0	-.7	-1.2	.7	0	-.2	-4.5	5.1
Wichita, KS	6	-6.9	-8.6	2.1	0	-.5	-10.4	17.1
Baton Rouge, LA	20	-7.9	-3.6	-4.2	0	-.2	.8	7.1
OMAHA, NE	**22**	**-.5**	**0.4**	**-2.3**	**0**	**1.3**	**.9**	**-.5**
Charlotte, NC	17	.1	-9.6	n/a	0	-.9	1.7	-1.9
Toledo, OH	-11	1.0	-3.0	-.2	5.9	-1.9	-4.6	3.5
Oklahoma City, OK	40	-13.1	-7.1	-6.5	0	.3	16.1	-3.1
Tulsa, OK	14	-5.0	-0.3	-4.5	0	-.4	-7.7	12.6
Austin, TX	51	-5.7	-5.0	-1.7	0	.9	-7.7	13.3
Median		-5.0	-3.0	-2.3	n/a	-.2	-.2	5.1

n/a = not aplicable.

[1] Sales tax combines general and selective sales because data were collected in this form in 1980-81.

Source: Calculated from *City Government Finances in 1984-85*, table 5, and *City Government Finances in 1980-81*, table 5.

miscellaneous sources was the lowest of the ten cities (7.2 percent). When changes since 1980-81 are examined, the trend for seven of the ten cities has been to maintain or decrease relative reliance on user charges and to increase reliance on miscellaneous revenue sources. However, in Omaha, the relative proportion of revenue from charges and miscellaneous has remained fairly constant.

Table 4 shows interest revenue as a proportion of own-source revenue. Because data were available only for cities with populations greater than 300,000, tables 4, 5, and 6 provide information only for seven of the eleven cities under consideration. In 1984-85, Omaha continued to derive the smallest proportion of revenue from interest earnings (5 percent versus a high of 20.7 percent for Tulsa and a median of 13.3 percent). It should be noted that the figures in table 4 represent proportions of own-source revenue, not rates of return on investment of city income.

User charges as a proportion of budget expenses for selected services are reported for the seven cities in table 5. The data show that in 1984-85, charges for parks and recreation and sewerage in Omaha covered a substantial proportion of expenditures—higher than the median for the seven cities. The extremely low proportion of sanitation (refuse collection) charges

Table 4
Interest as Proportion of Own-source General Revenue,[1]
Selected Cities, 1980-81 and 1984-85

City	Year		Change in relative
	1984-85	1980-81	percent
		Percent	
Oklahoma City, OK	7.2	13.9	-6.7
Austin, TX	15.8	9.0	6.8
Tulsa, OK	20.7	8.9	11.8
Toledo, OH	6.0	4.5	1.5
OMAHA, NE	5.0	4.4	.6
Charlotte, NC	13.3	n/a	n/a
Baton Rouge, LA	15.2	n/a	n/a
Median	13.3	8.9	1.5

n/a = not applicable.

[1]Note that figures are proportions of own-source revenue derived from interest income, not rates of return on investment.

Source: Calculated from *City Government Finances in 1984-85*, table 7. and *City Government Finances in 1980-81*, table 8.

Table 5
Charges as a Proportion of Expenditures, Selected Cities with Populations Over 300,000, 1980-81 and 1984-85

Service/city	Year 1984-85	Year 1980-81	Change in relative percent
		Percent[1]	
Parks and recreation:			
OMAHA, NE	31.3	34.3	-3.0
Oklahoma City, OK	45.6	32.6	13.0
Toledo, OH	20.4	22.3	-1.9
Austin, TX	26.3	17.8	8.5
Tulsa, OK	7.3	15.8	-8.5
Baton Rouge, LA	7.4	n/a	n/a
Charlotte, NC	24.0	n/a	n/a
Median	24.0	22.3	-1.9
Sewerage:			
OMAHA, NE	68.7	96.1	-27.4
Austin, TX	46.9	85.4	-38.5
Tulsa, OK	55.0	82.1	-27.1
Toledo, OH	73.3	42.8	30.5
Oklahoma City, OK	35.0	19.1	15.9
Baton Rouge, LA	0	n/a	n/a
Charlotte, NC	20.3	n/a	n/a
Median	55.0	82.1	-27.1
Sanitation:			
Oklahoma City, OK	60.2	100.2	-40.0
Austin, TX	74.1	94.9	-20.8
Tulsa, OK	101.8	79.9	21.9
Toledo, OH	41.6	49.1	-7.5
OMAHA, NE	.9	.8	.1
Baton Rouge, LA	4.2	n/a	n/a
Charlotte, NC	.8	n/a	n/a
Median	41.6	79.9	-7.5

n/a = not applicable.

[1] May exceed 100 percent if charges are greater than expenditures.

Source: Calculated from *City Government Finances in 1984-85*, table 7, and *City Government Finances in 1980-81*, table 8.

to expenditures in Omaha can be explained easily because the city has financed these services with federal revenue-sharing money. Thus, while Omaha's proportion of own-source revenue derived from charges is a relatively modest 20.1 percent (table 3), charges cover a comparatively high percentage of expenditures for those operations financed by user fees.

Table 6 presents additional information about general and selective sales taxes for the seven cities. The trend has been a decline since 1980-81 in the proportion of own-source revenue covered by the general sales tax. Omaha's relative use of the general sales tax also declined (from 31.1 percent to 28.1 percent of own-source revenue). One possible explanation for the decline in the relative proportion of own-source revenue derived from the general sales

Table 6
General and Selective Sales Taxes as a Proportion of Own-source Revenue, Seleted Cities, 1980-81 and 1984-85

Tax/city	Year		Change in relative
	1984-85	1980-81	percent
		Percent	
General sales:			
Oklahoma City	31.2	37.8	-6.6
Tulsa	35.8	39.4	-3.6
OMAHA[1]	28.1	31.1	-3.0
Austin	11.4	12.3	-.9
Toledo	0	0	0
Baton Rouge	10.3	n/a	n/a
Charlotte	33.5	n/a	n/a
Selective sales:			
Oklahoma City	5.7	5.6	.1
Tulsa	3.9	4.8	-.9
OMAHA	4.5	3.8	.7
Austin	3.0	3.6	-.6
Toledo	.3	.4	-.1
Baton Rouge	0	n/a	n/a
Charlotte	4.7	n/a	n/a

n/a = not applicable.

[1]One possible explanation for the decline in the relative proportion of own-source revenue derived from the general sales tax is that the state dropped the sales tax on food in 1983.

Source: Calculated from *City Government Finances in 1984-85*, table 7, and *City Government Finances in 1980-81*, table 8.

tax is that the state dropped the sales tax on food in 1983. The change since 1980-81 has been marginal for selective sales taxes. Omaha's proportion of own-source revenue from the selective sales tax has increased by only 0.7 percent.[5]

In conclusion, compared with all U.S. cities, cities with populations of 300,000-499,999, and the ten cities of comparable size with similar percentages of metropolitan area population, Omaha continues to rely heavily on both property and sales taxes for own-source revenues. In addition, Omaha's use of miscellaneous revenue sources, such as interest revenues and special assessments, remains comparatively low. Comparisons regarding user charges are difficult because of variations among cities in services and operations financed through user fees. However, Omaha's user fees cover a comparatively high proportion of expenditures for parks and recreation and sewerage.

Analysis of Selected Potential Revenue Sources for Omaha

In this section seven proposed revenue sources (property tax, income/earnings tax, expanded sales tax, refuse collection fee, Ak-Sar-Ben admission fee, nonresident wheel tax, and occupational privilege tax) are examined and evaluated.

Assessment Criteria

Three criteria are used to assess potential sources of revenue: Yield, ease of administration, and equity. These criteria are similar to the productivity, administrative feasibility, and equity criteria used in the 1983 study. However, this report excludes some criteria used in the previous report. For example, the neutrality and investment/economic growth criteria were excluded because findings from other studies about the impact of local revenue policies on growth were contradictory, making these criteria difficult to apply systematically. On the other hand, the political acceptability of a potential revenue source, while an important criterion, is ultimately determined by elected officials.

Revenue yield or productivity is a function of the base and the rate. A tax on income or earnings, for example, has the potential for a high yield even at a low rate, because the base is the total adjusted gross income or earnings. At the other extreme are license and permit fees which yield limited revenues, and their primary function is regulatory.

Ease of administration refers to the costs and technical difficulties of tax collection. The more complex the system, of course, the more difficult it can be to administer. For example, a tax on the earnings of persons working in Omaha would be relatively easy to administer, because employers already

withhold social security payments from employee paychecks, and a city earnings tax could be piggy-backed onto that system. A nonresident wheel tax, on the other hand, would require a new administrative structure and a new reporting system for Omaha employers.

Equity (fairness) has both horizontal and vertical dimensions. A revenue source is equitable from a horizontal perspective when persons who receive the same income, or are otherwise similarly situated, bear equal tax burdens. Vertical equity requires those with greater means to bear a larger share of the tax burden. Thus far, Omaha's own-source revenues have been compared with other cities. However, a city's revenue structure affects how the burden falls on various income groups (table 7). The four cities listed in table 7 are comparable with Omaha in size of population and central/core city percentage of total metropolitan area population.

Table 7 indicates that for all income levels the overall tax burden in Omaha is less than in Des Moines, about the same as in Charlotte, and greater than in Wichita and Oklahoma City. However, as shown in figure 1, the overall tax structures of Omaha and Wichita are regressive for incomes under $35,000, because the relative tax burden is greater for the lower income levels. The overall tax structures of Des Moines and Oklahoma City are progressive. Charlotte's tax structure is generally progressive, the tax burden as a percentage of income decreasing slightly from family incomes of $20,000 to $35,000, then increasing for family incomes of $50,000, $75,000, and $100,000.

Property Tax

Omaha relies heavily on the property tax. However, according to several of the evaluation criteria, such heavy use of the property tax may no longer be desirable. First, the yield is relatively fixed, that is, it would take a major restructuring of the tax base to significantly increase the tax yield (such as, annexation, substantial improvements on land within the existing base, or a periodic reassessment of property within the existing base). As shown in table 8, the assessed value of all property in Omaha was about $8.6 billion in July 1987. In 1983, the total assessment was about $6.0 billion. (Approximately 50 percent of this increase was due to the county reevaluation, according to the city Finance Department. The remainder of this increase was due to a combination of annexation and normal growth in city property tax valuation.)

Income/Earnings Tax

An income tax is a desirable source of revenue according to several criteria, however, its major drawback may be that it would require state

Table 7
Estimated Burden of Major Taxes for a Family of Four,
Selected Cities, 1986

Family income/city	Tax				Total	Total tax as percentage of income
	Income	Property	Sales	Auto		
	Dollars					Percent
$20,000 (estimated):						
Des Moines, IA	$384	$1,051	$298	$216	$1,949	9.7
OMAHA, NE	252	750	326	286	1,614	8.1
Charlotte, NC	471	477	389	201	1,538	7.7
Wichita, KS	195	444	395	278	1,312	6.6
Oklahoma City, OK	147	519	439	171	1,276	6.2
$35,000 (estimated):						
Des Moines, IA	928	1,877	419	245	3,469	9.9
OMAHA, NE	577	1,249	456	332	2,614	7.5
Charlotte, NC	1,134	795	520	223	2,672	7.6
Wichita, KS	521	739	546	350	2,156	6.2
Oklahoma City, OK	651	865	598	197	2,311	6.6
$50,000 (estimated):						
Des Moines, IA	1,440	2,762	542	432	5,136	10.4
OMAHA, NE	951	1,785	586	600	3,922	7.8
Charlotte, NC	1,885	1,136	647	390	4,058	8.1
Wichita, KS	895	1,056	698	678	3,327	6.7
Oklahoma City, OK	1,221	1,235	754	343	3,553	7.1
$75,000 (estimated):						
Des Moines, IA	2,475	4,238	667	532	7,912	10.5
OMAHA, NE	1,873	2,677	719	804	6,073	8.1
Charlotte, NC	3,250	1,704	772	498	6,224	8.3
Wichita, KS	1,821	1,585	851	968	5,225	7.0
Oklahoma City, OK	2,200	1,853	911	495	5,459	7.3
$100,000 (estimated):						
Des Moines, IA	3,649	5,418	837	581	10,485	10.5
OMAHA, NE	3,087	3,391	897	878	8,253	8.3
Charlotte, NC	4,724	2,159	935	542	8,360	8.4
Wichita, KS	2,593	2,007	1,056	1,057	6,713	6.7
Oklahoma City, OK	3,249	2,347	1,118	537	7,251	7.3

Source: *A Comparison of Selected Tax Rates in the District of Columbia with Those in the Fifty States*, Department of Finance and Revenue, District of Columbia, 1986.

Figure 1

Tax Rates as a Percentage of Income, Selected Cities, 1987

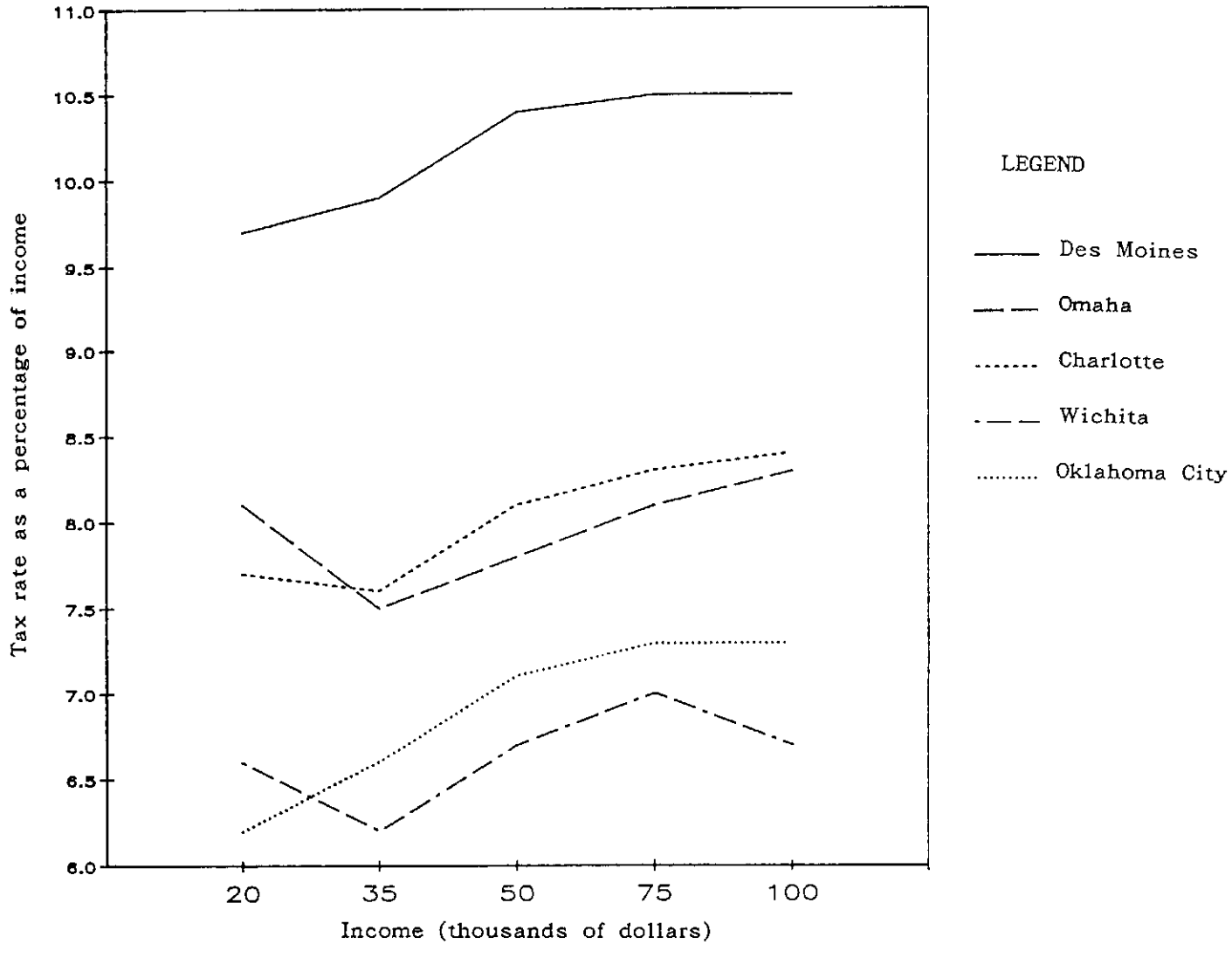

Table 8
City of Omaha Assessed Valuation of Property, July 1987

Item	Assessed value
	Dollars
Real estate	$6,814,990,345
Personal property	747,854,850
Motor vehicles	758,326,115
Public utilities and railroads	328,537,810
Total assessed value	$8,649,709,120

Source: Douglas County Assessor's Office.

legislative approval. Income taxes are productive, and produce a high yield at a relatively low rate. As shown in table 9, for example, increasing the city's share of federal income tax liability by only a fraction of a percentage point would result in millions of additional revenue dollars. The income tax is relatively easier to administer than some other sources of revenue. For example, using the administrative piggy-back, the state collects and remits to the city local income tax revenue, calculated as a percentage of state tax liability. Finally, according to the equity criterion, the personal income tax can be an equitable source of revenue, because the tax burden can be structured to increase with income.

Table 9
Estimated Revenue from Income Tax
Based on Federal Tax Liability, 1985

Federal tax liability	Omaha's percentage of federal tax liability	Estimated revenue
	Percent	Dollars
$522,959,528	1.0	$ 5,222,000
	1.5	7,844,000
	2.0	10,459,000
	2.5	13,074,000

[1]Federal tax liability determined according to the proportion of Omaha's population in Douglas County (83.2 percent).

Source: Nebraska Department of Revenue, based on 1985 individual income statistics, by county.

An earnings tax on individuals working and earning salaries and wages in Omaha would be a productive source of revenue for the city, because of the large salary and wage base. In 1987, about $4.5 billion in salaries and wages were paid to people employed in Omaha (table 10). Moreover, earnings, like income, are an elastic revenue base, expanding with improved economic conditions. Moreover, an earnings tax would be relatively simple to administer, because employers could withhold local taxes from employee paychecks, along with social security taxes, and remit to the city on a regular basis.

Table 10
Estimated Revenue from Tax on Salaries and Wages, Omaha, 1986

Estimated salaries and wages[1]	Potential tax rate	Tax yield
	Percent	Dollars
$4,473,923,000	0.1	$ 4,474,000
	0.5	22,370,000
	1.0	44,740,000

[1]Estimated salaries and wages paid in Douglas County in 1986 (from unpublished data, Regional Economic Information, Bureau of Economic Analysis, U.S. Department of Commerce), multiplied by 92 percent (the proportion of Douglas County employees who work in Omaha) (unpublished data, U.S. Bureau of the Census, *Place of Work Destinations: 1980*).

The equity of an earnings tax would depend on the rate structure and how the base were defined. For example, an earnings tax would be regressive if it taxed every employee a flat amount or capped tax payments at a certain salary level. Even if the nominal tax structure were equitable, the effective tax structure may be regressive, because salaries and wages constitute a much smaller percentage of adjusted gross income for those making $50,000 or more annually. A tax on earnings alone would unfairly burden those individuals whose adjusted gross incomes are primarily dependent on wages.[6] In addition, an earnings tax on taxable income would unfairly burden employees who do not take deductions and exemptions.

Expanded Sales Tax

An expanded sales tax would require the state legislature to broaden coverage statewide or permit Omaha to expand its coverage by increasing the city sales tax rate. One way to broaden statewide coverage would be a sales tax on services; however, since 1983, two bills to broaden coverage in this

manner have been defeated by the state legislature. Recently, Florida repealed its sales tax on services, leaving only four states using this source of revenue (Iowa, New Mexico, Hawaii, and South Dakota).

The potential yield from a sales tax on services is substantial, an estimated $48.3 million to $58.5 million statewide. Approximately 45 percent of service industries' sales in Nebraska are located in Omaha. Thus, an estimated $21.7 million to $26.3 million in state revenue would be collected in Omaha from a sales tax on services, reflecting $620 million to $751 million in local sales of services (table 11). Assuming a city sales tax rate of 1.5 percent, $9.3 million to $11.2 million would be returned to the city. A sales tax on services would be easy for the city to administer, of course, because the state would collect and remit this amount to the city.

Table 11
Estimated Revenue Generated by a Sales Tax on Services, Omaha, 1987

Estimated state revenue from services taxed[1]	Estimated service sales volume in Omaha	Percentage of service sales in Omaha[2]	Estimated state revenue collected in Omaha[3]	Omaha revenue[3]
Low:				
$48.3 million	620 million	45	$21.7 million	$ 9.3 million
High:				
$58.5 million	751 million	45	$26.3 million	$11.2 million

[1] Assumes a state sales tax rate of 3.5 percent on nonmedical services. Calculations are based on estimates from the Legislative Fiscal Office as to the amount of state general fund revenue that would be generated if LB 12 (of the 1983 legislative session) were to be introduced in the 1987 session.

[2] Source: *1982 Census of Service Industries: Nebraska.*

[3] Assumes a state sales tax rate of 3.5 percent and a city of Omaha sales tax rate of 1.5 percent.

Ak-Sar-Ben Admission Fee

The previous study examined three methods of taxing Ak-Sar-Ban as an additional source of revenue (a special admissions tax, a city pari-mutuel tax, and a share of the breakage or the difference between the exact proportionate share of the pari-mutuel pool and the payoff of bets at the lowest dime-

interval). In this study, the anticipated yield from a special admissions tax was updated. Table 12 shows that a $0.25 admission fee would have produced about $216,000 in revenue in 1987 (attendance was 864,855). Because attendance has been declining in recent years, the base of a special admissions tax is unlikely to expand in the near future. However, such a fee would be easy to administer (that is, it could be collected at the time of purchase, as with ticket fees at Rosenblatt Stadium, the Orpheum Theater, and the Civic Auditorium). Moreover, such a fee would be exported to nonresidents attending Ak-Sar-Ben. Finally, a $0.25 fee would be so minimal that equity would not be a significant issue.

Table 12
Estimated Revenue from AK-SAR-BEN Admission Fee, 1986-88

Year	Fee	Attendance[1]	Estimated revenue
		Number	
1986	$.25	993,192	$248,300
1987	.25	864,855	216,000
1988	.25	860,000	215,000

[1] Data obtained from telephone conversation with AK-SAR-BEN official Tim Schmad.

Refuse Collection Fee

The refuse collection fee is a user charge that is becoming more prevalent. According to the *1987 Municipal Yearbook* survey of user charges, 48 percent of reporting jurisdictions have refuse collection fees. In the past, Omaha was one of the few cities using federal revenue-sharing money to finance this service. Now, another funding mechanism will be necessary. Table 13 shows that a $60 collection fee per year per household would produce about $5.6 million. The administrative cost of this fee would be minimal if it were added to the Metropolitan Utilities District bill; however, legislative approval would be required to collect the fee in this manner.

Equity considerations are important in evaluating this fee. Such a revenue source would be regressive, requiring low-income residents to pay a higher proportion of their incomes in fees than high-income residents. One way to alleviate this problem, at the cost of some administrative complexity, would be to have a sliding scale or some other mechanism based on ability to pay.

Table 13
Estimated Revenue Generated by a Residential Refuse Collection Fee, 1987

Number of occupied single residential units[1]	Potential annual fee	Estimated revenue
92,831	$48.00	$4,455,000
	60.00	5,570,000
	72.00	6,683,000
	84.00	7,797,000
	96.00	8,911,000

[1]These numbers are based upon the Metropolitan Utilities District accounting department's December 1987 residential count used in determining the sewer use count for single residential units within the city limits of Omaha.

Nonresident Wheel Tax

A nonresident wheel tax would levy a fee on those who work in Omaha but reside outside the city's corporate limits. According to the Metropolitan Area Planning Agency, 70,000 employees would be affected by such a tax. Table 14 shows, the estimated yield from the tax would be $1.26 million, based on an annual fee of $18. The major disadvantage is the difficulty of administration. First, Omaha employers would have to maintain records on resident versus nonresident workers, and possibly collect the fee. Second, such a tax would be difficult to enforce. Either employers or the police would be responsible for identifying automobiles and enforcing the law.

Table 14
Estimated Revenue Generated by a Nonresident Wheel Tax, 1987

Number of nonresidents working in Omaha[1]	Annual fee	Estimated yield
61,600	$18.00	$1,108,000
	16.00	985,000
	13.00	800,000
	10.00	616,000
	8.00	492,000

[1]The Metropolitan Area Planning Association estimates the number of nonresidents who work in Omaha at 70,000. Approximately 12 percent or 8,400 of these nonresident employees do not drive to work.

Occupational Privilege Tax

An occupational privilege tax charges every employee a monthly fee for the privilege of working in the city. In addition, an occupational privilege tax can be levied on employers, based on the number of employees. Estimating an Omaha workforce of 187,255 (121,941 residents and 65,314 nonresidents) and 133,700 employees of taxable employers, (government employers, tax-exempt employers, and self-employed individuals are excluded) a $24 annual tax per employee would yield about $7.7 million (table 15). A flat-rate tax, such as a $24 annual tax per employee is a regressive tax. One way to make such a tax more equitable is to exempt employees earning less than a certain amount per month.[7]

Table 15
Estimated Revenue Generated by an Occupational Privilege Tax

Type of individual	Quantity of individuals	Yield from $24.00 annual tax
	Number	
Omaha residents	121,941[1]	$2,926,000
Nonresidents of Omaha	65,314[2]	1,567,000
Omaha employers	133,700	3,209,000
Total		$7,702,000

[1]Based on estimates using *1980 Census of the Population* and *Place of Work Destinations: 1980*.

[2]The tax yield from Omaha employers is based on the number of employees working for taxable employers (that is, government employers, tax exempt organizations, and self-employed individuals are excluded). These employees constitute approximately 28.6 percent of all employees. Based on *1980 Census of Population* and *1980 County Business Patterns*.

Endnotes

[1]Murray Frost, *Municipal Revenue Sources: Analyses of Omaha's Options* (Omaha, NE: Center for Applied Urban Research, 1983).

[2]The 1983 study compared Omaha with the 25 next larger cities and the 25 next smaller cities. This study included only cities of similar size with comparable shares of total metropolitan population. A city with a suburban

area outside its jurisdiction may utilize different revenue sources than a city with liberal annexation powers. For example, cities with substantial numbers of employees who commute to and from suburban jurisdictions may rely on an occupational privilege tax. On the other hand, cities with a large share of total metropolitan population are also more likely to have a large share of employees residing within city limits, and, therefore, they can make better use of an individual income tax. Overall proportions of own-source revenues derived from various sources are likely based in part on this factor.

[3]According to the city of Omaha Finance Department, property taxes increased at a cumulative rate of 11.7 percent, while sales tax receipts increased at a cumulative rate of 22 percent from 1984 to 1987.

[4]Selective sales tax is defined by the Bureau of Census as the occupation taxes that the city of Omaha collects from Omaha Public Power District, local telephone companies, and cable television

[5]According to the city of Omaha Finance Department, property taxes increased at a cumulative rate of 11.7 percent, while sales tax receipts increased at a cumulative rate of 22 percent from 1984 to 1987.

[6]Murray Frost, *op.cit.*, p. 83.

[7]See discussion about Denver occupational privilege tax in Murray Frost, *op.cit.*, p. 73-77.