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REVIEW OF APPLIED URBAN RESEARCH

CENTER FOR APPLIED URBAN RESEARCH

COLLEGE OF PUBLIC AFFAIRS AND COMMUNITY SERVICE

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UNIVERSITY OF NEBRASKA AT OMAHA

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OMAHA-COUNCIL BLUFFS BORDER TAX ISSUE

Introduction

Recently governmental administrators and politicians of Omaha have voiced concern over the sales losses that might result because of Iowa's exemption of food purchases from the retail sales tax—a measure which took effect July 1, 1974.¹

Generally, it is felt that a sales tax rate differential between two border cities will influence sales as favorable rate differentials are reduced or unfavorable rate differentials are created or widened. However, the magnitude of the problem will depend on many factors, e.g., location of major shopping facilities, distance, convenience, amount of purchases, size of tax rate differential and so forth. It would generally be expected that the problem would be greatest when the area's principal shopping center is across the state line in the lower tax area and the tax rate differential is large.

To make informed decisions there must be some idea of the sales tax loss that might be expected from the food tax rate differential that now exists (3.5 percent). Ultimately, the need

for sales tax revenue must be weighed against its loss while considering objections to other revenue sources.²

It is the purpose of this study to determine what immediate effect, if any, tax exemption of food in Iowa is having on consumer buying habits—i.e., to determine if consumers are influenced by the tax rate differential between Omaha and Council Bluffs.

Previous Empirical Studies

A few studies have attempted to answer the border tax question, and they have not been unanimous in their conclusions. An early study of the effects of the Illinois and Iowa sales taxes in encouraging persons to buy outside the state, based on analysis of sales and sales tax collections in border and non-border counties, suggest that the tax resulted in some business loss in Illinois border counties but without evidence of loss in Iowa

¹See: "Omahans: Tax End in Bluffs Can Hurt", July 1, 1974, and "Sales Taxes Also Worry Mrs. Abbott", July 6, 1974, *World Herald*.

²In a recent survey by the Center for Applied Urban Research, retail sales tax as a local revenue producer was preferred to the property tax. See: "Taxes and State Financing of Local Schools: A Survey of Public Opinion", *Review of Applied Urban Research*, May, 1974, p. 11.

counties. Even in Illinois, the loss was of minor significance relative to total retail sales.³ In another study a sales tax of one percent in Denver, Colorado created an initial loss of sales, but retail trade patterns eventually returned to approximately the pre-tax situation, with only a minimum ultimate loss of sales in evidence.⁴ A study of retail sales in three border towns of Washington State showed that residents attempted to avoid the 3-1/3 percent sales tax rate (the rate in 1958, the year of the study) by shopping in neighboring Idaho and Oregon (non-tax states in 1958) with the result that a significant volume of sales was lost to nearby communities.⁵ A more recent study estimates retail sales loss from tax rate differentials from 2 to 11 percent for every one percent increase in the level of the city tax relative to the sales tax in the surrounding area.⁶

Current Sales Tax Law in Iowa and Nebraska

Iowa imposes a three percent sales tax on gross receipts of all tangible personal property. The tax also applies to many services.⁷ The sales tax excludes food for human consumption (however, the law does not exempt meals purchased in restaurants from the sales tax). In Nebraska a sales tax is levied on all gross receipts. The state levies a 2.5 percent tax and the City of Omaha levies a one percent tax.⁸ As in Iowa, prescription drugs in Nebraska are exempt from the retail sales tax. Unlike Iowa, Nebraska exempts most services from the retail sales tax. As of July 1974, Iowa is one of eighteen sales tax states that exempts all, or almost all, food from the sales tax.⁹ Nebraska is one of the few states that allows a sales tax credit against the State Income Tax.¹⁰ Exemption of food and the sales tax credit are the two general approaches used by state governments to reduce the absolute burden on the lowest income groups.

Study Design

A total of 2,767 automobiles were counted on July 12th and 13th in 34 of the major food shopping centers in Omaha and Council Bluffs. For this study the City of Omaha was divided into six subareas. First, Omaha was divided into a north and south component by Dodge Street. Then, 42nd and 72nd Streets were used to divide east, central and west Omaha.

³L. Maliet, "Illinois Retailers Occupation Tax and Iowa Retail Sales and Use Taxes", (Ph.D. Dissertation, University of Illinois, 1955).

⁴City and County of Denver, *Financing Municipal Government in Denver*, Denver, 1955, p. 111.

⁵Harry E. McAllister, "The Border Tax Problem in Washington", *National Tax Journal*, Vol. 14, (December, 1961), p. 374.

⁶John L. Mikesell, "Central Cities and Sales Tax Rate Differentials: The Border City Problem", *National Tax Journal*, Vol. 23, (June, 1970), pp. 206-213.

⁷Such services as carpentry, dry cleaning, barber and beauty service, automobile repair, investment counseling, and appliance repair are subject to the Iowa Sales Tax.

⁸*All States Tax Reporter*, Commerce Clearinghouse.

⁹In addition to Iowa, California, Connecticut, Florida, Indiana, Kentucky, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Texas, Vermont, and Wisconsin exempt food consumption from the retail sales tax. Louisiana and North Dakota have partial food exemptions.

¹⁰While a sales tax exemption of food mitigates the regressive impact of the tax, Nebraska achieves a similar result without sacrificing as much revenue. This technique maximizes tax yields while minimizing the burden which the tax imposes on low income families. Other states that use the sales tax credit tax-rebate method are Colorado, Hawaii, Idaho, Massachusetts, New Mexico and Vermont.

Council Bluffs was not divided into different subareas, but several shopping centers were surveyed.

In addition to the automobile count, 27 interviews were conducted with individuals driving automobiles licensed in Douglas County, Nebraska who were shopping in Council Bluffs, Iowa.

Findings

The results of the license plate survey are presented in Tables 1 and 2. The data indicates that there has been little immediate impact on sales as a result of the tax rate differential on food between Omaha and Council Bluffs. Specifically, of the 2,144 automobiles counted in Omaha, nine out of ten were licensed in Douglas County. An estimated 2.5 percent of the vehicles counted in Omaha were licensed in Iowa. The percentage of Iowa vehicles counted in shopping centers in Omaha did not vary significantly by subarea, with one exception--northeast Omaha, where the percentage of Iowa vehicles was 5.5 percent of the total count. This is largely attributed to the influence of Carter Lake residents, i.e., residents of Iowa that are, in effect, "locked in" to shop on the Nebraska side of the Missouri River.

Of the 623 automobiles counted in Iowa shopping centers an estimated seven percent (45) were from counties in Nebraska with six percent (39) from Douglas County. As was the case in Omaha, nine out of ten automobiles counted in Council Bluffs shopping centers were licensed in Iowa.

To determine if consumers were influenced by the tax rate differential on food between Omaha and Council Bluffs, 27 of the 39 shoppers in Council Bluffs, driving a Douglas County licensed vehicle, were interviewed. In each case the question was asked, "Is there a specific reason why you are shopping in Council Bluffs?" A follow-up question was asked of each shopper: "Did the lifting of the sales tax on food have any bearing on your shopping here today?"

Of the 27 shoppers interviewed (driving automobiles licensed in Nebraska), nine stated that they lived in Council Bluffs (the driver had not licensed the vehicle in Iowa or was using a borrowed automobile licensed in Nebraska), and seven stated that they were visiting relatives and/or friends and stopped to pick up

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TABLE 1
LICENSE PLATE COUNTS AT FOOD STORES
BY SUBAREAS OF OMAHA, NEBRASKA*

State & County	Northeast		Southeast		North Central		South Central		Northwest		Southwest		Total Omaha	
	No.	Percent	No.	Percent	No.	Percent	No.	Percent	No.	Percent	No.	Percent	No.	Percent
NEBRASKA	282	91.9	324	97.5	610	96.5	160	94.7	355	95.2	314	94.9	2,045	95.4
Douglas	272	88.6	246	74.1	570	90.2	157	92.9	341	91.4	290	87.6	1,876	87.5
Sarpy	5	1.6	74	22.3	12	1.9	3	1.8	3	0.8	16	4.8	113	5.3
Washington	3	1.0	1	0.3	8	1.3	0	0.0	2	0.5	0	0.0	14	0.7
Dodge	1	0.3	0	0.0	0	0.0	0	0.0	0	0.0	4	1.2	5	0.2
Cass	0	0.0	0	0.0	2	0.3	0	0.0	2	0.5	1	0.3	5	0.2
Saunders	0	0.0	0	0.0	2	0.3	0	0.0	1	0.3	1	0.3	4	0.2
Platte	0	0.0	0	0.0	5	0.8	0	0.0	0	0.0	0	0.0	5	0.2
Others	1	0.3	3	0.9	11	1.7	0	0.0	6	1.6	2	0.6	23	1.1
IOWA	17	5.5	7	2.1	13	2.1	2	1.2	7	1.9	8	2.4	54	2.5
OTHER STATES	8	2.6	1	0.3	9	1.4	7	4.1	11	2.9	9	2.7	45	2.1
TOTAL	307	100.0	332	100.0	632	100.0	169	100.0	373	100.0	331	100.0	2,144	100.0

*Survey conducted July 12-13, 1974.

TABLE 2
LICENSE PLATE COUNTS AT FOOD STORES
IN COUNCIL BLUFFS, IOWA*

State & County	Number	Percent
IOWA	568	91.2
NEBRASKA	45	7.2
Douglas	39	6.2
Sarpy	3	0.5
Cass	1	0.2
Hall	2	0.3
OTHER STATES	10	1.6
TOTAL	623	100.0

*Survey conducted July 12-13, 1974.

a few food items. In addition, three indicated their major reason for stopping was to cash checks, two indicated that they worked or owned a business in Council Bluffs, two indicated they were from South Omaha and it was convenient, two were out for a pleasure drive and stopped to pick up snacks and/or picnic supplies, one shopper indicated that he was under age in Nebraska but could buy beer legally in Iowa and one interviewee was looking for an item (canning jars) that could not readily be found in Omaha. Nearly 25 percent of those interviewed were unaware of the food tax exemption in Iowa, and none of those interviewed indicated that the tax differential was a reason for their shopping in Council Bluffs.

Table 3 lists the names and locations of food markets where license plate counts were taken for this survey.

Conclusions

The findings of this study indicate that the tax-free shopping markets in Council Bluffs have not yet had a significant effect on the taxable retail sales in Omaha. Factors that appear

TABLE 3
NAMES & LOCATIONS OF FOOD MARKETS
WHERE LICENSE PLATE COUNTS WERE TAKEN

Metropolitan Subarea	Name of Food Market	Location
Omaha Subarea	Northeast	Bakers 2404 Fort Street
		Safeway 7419 North 30th Street
		Safeway 3030 Ames Avenue
Southeast	Hinky Dinky 2905 North 16th Street	
	Hinky Dinky 30th & Weber Streets	
	I.G.A. 6300 South Railroad Ave.	
	Safeway 3535 Harrison	
Northcentral	Safeway 1826 Vinton	
	Hinky Dinky 36th & Q Streets	
	Hinky Dinky 2305 L Street	
	Bakers 72nd & Blondo Streets	
Southcentral	Bakers 5018 Ames Avenue	
	Hinky Dinky North Saddle Creek Road	
	Hinky Dinky 59th & Ames Avenue	
	Hinky Dinky 72nd & Dodge Streets	
Northwest	Louis Market 57th & Military	
	Safeway 1516 North 47th Street	
	Safeway 5150 Center Street	
	Shavers 1420 South 60th Street	
Southwest	Hinky Dinky 50th & Center Streets	
	A & P Store 50th & L Streets	
	Food City 90th & Lake Streets	
	Hinky Dinky 90th & Maple Streets	
Council Bluffs	A & P Store Ames Ave. & Military Ave.	
	Food City 120th & West Center Rd.	
	Bakers 132nd & West Center Rd.	
	Safeway 120th & West Center Rd.	
Council Bluffs	Hinky Dinky 132nd & West Center Rd.	
	Safeway 8th & Broadway	
	Safeway 25th & Broadway	
	Rog & Scotty's Super-Valu 34th & Broadway	
Council Bluffs	Hinky Dinky 28th & Broadway	
	Mortensen Super Market 810 - 16th Avenue	
Council Bluffs	Jim & Dean's 4010 South 4th	

to account for this include: the relative scarcity of major shopping centers in Council Bluffs, inconvenience and costs of travel, and unawareness by many of the tax rate differential.

Given the empirical evidence of this study, there is no immediate reason to seek sales tax exemption on food purchases in Nebraska. Food exemption would cause an estimated loss in sales tax revenue of up to 25 percent,¹¹ which would mean that with

¹¹A recently completed sample survey of faculty and staff at UNO indicates that food expenditures represent 23.2 percent of total expenditures. The percentage will vary with income level, size of family and place of residence. The reader should note that the net loss will be closer to 15 percent after taking into consideration the Food Sales Tax Credits granted against Nebraska Income Taxes. Based on information provided by the Nebraska Department of Revenue, sales tax collections in Douglas County in 1972 totaled \$29.8 million for the State and \$11.8 for the City of Omaha. Based on preliminary data, residents of Douglas County received \$2.5 million in Food Sales Tax Credits--representing less than 10 percent of the sales tax revenue collected in Douglas County.

R. Todd

SOME COMMENTS ON THE PATTERN OF RESIDENTIAL MOBILITY WITHIN OMAHA

Introduction

Changes in the total population of a single areal unit of measurement depend on the relationship of positive factors such as births and in-migrants to the negative factors of deaths and out-migrants. One needs only the basic knowledge of four components in order to estimate or monitor population changes. When this one areal unit of measurement (i.e. Omaha), however, is subdivided for smaller-area analysis (i.e. into six subareas), the problem of analyzing change becomes much more complex. First, the basic component data of vital statistics and external migration may be unavailable for small-area units. And secondly, another dimension must be considered--that of residential movement within the city. This intra-urban migration, often the primary element in the population dynamics of small areas, is the focus of this study.

Data Aggregation

Data on address changes of households within a city are often obtainable from public utility company records. In Omaha one such list is published by the Daily Record. The reporting area includes all of urban Douglas County and a small portion of Sarpy County. The Center for Applied Urban Research has compiled these data from the "Removals" section of the Daily Record for all of 1973 and the first half of 1974. Individual records for the six quarterly periods have been grouped into six subareas with cross-boundaries of 42nd, 72nd, and Dodge Streets. The resulting "from-move" and "to-move" pairs were separated into two categories for general analysis--in-area moves (migration without crossing a boundary) and cross area moves (migration crossing one or more boundaries).

the current 3.5 percent combined tax rate in Omaha, a one percentage point increase in the sales tax would be required to obtain more or less equivalent revenue. The Center will follow-up with another survey in six to nine months to determine if "time" coupled with the tax rate differential is a major factor in changing consumer buying patterns in Omaha and Council Bluffs.

Assumptions and Data Limitations

Use of this migration file requires a brief comment on assumptions and some problems in the use of the data. First, one must assume that there has been consistency in reporting procedures throughout the study period. A second assumption is that cross-area moves are generally of greater distance than in-area moves. While the extreme case of a one-block cross-area move and a 100-block in-area move may be cited, the distance assumption postulated holds true in most cases.

Several other limitations of these data need to be stated. One is the incidence of "convenience moves" such as moving to a more desirable apartment in the same structure of within a block radius. While these moves tend to exaggerate the number of in-area moves, they are a relatively small portion of the file and remain fairly constant throughout the study period. Another limitation is that the data are not scaled toward density or rate of movement based on total populations in the subareas, but rather are absolute numbers of recorded moves. Furthermore, the Sarpy County data are only fragmentary and do not confirm the rapid growth of this county's population.

Overall Pattern of Movement

According to the data, there appears to be a slowdown in the rate of residence change within the city along with a trend toward longer moves. These conclusions are largely based on observations of the individual data records but may be supported by the data in Table 1. There is a significant reduction in the number of moves in the first two quarters of 1974 compared to the same period in 1973. In fact, there is nearly a 40 percent reduction in the number of moves between the third and fourth

quarters of 1973. Seasonal variation may account for part of this change, but the lower totals have continued into 1974 and appear to reflect changing conditions in the housing market.

Residential migration in Omaha has been characterized by short-distance movements to better neighborhoods of slightly higher socio-economic status. The data in Table 1 tends to support the contention that residential movement during the first half of 1974 is of greater distance than a year earlier. The increase in the relative frequency of cross-area moves from the first quarter of 1973 to the second quarter of 1974 is a positive indicator of changes in the type of movement.

Time Period	Total Moves	Cross-Area Moves	Percent Cross-Area Moves
First Quarter, 1973	1,555	726	46.7
Second Quarter, 1973	1,650	827	50.1
Third Quarter, 1973	1,732	861	49.7
Fourth Quarter, 1973	1,069	513	48.0
First Quarter, 1974	1,006	506	50.3
Second Quarter, 1974	1,125	621	55.2

Source: Compiled by CAUR from data in *Daily Record*.

Subarea Mobility

Table 2 depicts the total intra-urban mobility between subareas in Omaha. From this table it is possible to identify the intensity and direction of major migration streams within the community. Some tentative conclusions on subarea mobility in Omaha are:

1) There is a continuous flow of residents toward the western parts of the city. As shown on the table, the flows from the Northeast to Northcentral and from the Northcentral to the Northwest far outnumber the reverse movements. The same may be said about the southern areas. For example, 306 Northcentral to Northwest moves were recorded with only 61 occurring in the opposite direction.

FROM	TO	Northeast	Southeast	Northcentral	Southcentral	Northwest	Southwest	Sarpy County	Total From Moves
Northeast		1,378	215	455	72	135	68	28	2,351
Southeast		252	1,173	197	221	79	191	80	2,193
Northcentral		248	132	630	114	306	202	32	1,664
Southcentral		31	114	80	193	41	140	34	633
Northwest		23	20	61	12	180	102	10	408
Southwest		15	32	37	43	73	427	19	646
Sarpy County		3	41	17	12	20	47	102	242
Total To Moves		1,950	1,727	1,477	667	834	1,177	305	8,137

Source: Compiled by CAUR from data in *Daily Record*.

2) North and south movement across Dodge Street is of minor significance in Omaha. Northern residents tend to move within areas north of Dodge, and, similarly, southern residents move within southern areas.

3) There appears to be little visible evidence to support the argument that suburban residents are returning to the inner city. According to Table 2, there were only 90 moves (or 1.1 percent of the total sample) from the Northwest and Southwest into the two easternmost areas. In fact, most moves to the Northeast have been to locations near the northern urban fringe.

Areas of Future Research

The above observations on current migration trends in the community must stand the test of more rigorous investigation. Three areas of research using primary data from the public utilities, could yield fruitful results.

First, an inquiry could be made into the types of moves. It is apparent that residential migration is affected by many social and economic factors. For example, rental movement is considerably different from owner movement. Moreover, there are different types of moves (i.e. rental house to owner house, apartment to owner house, apartment to apartment) that require different migration inputs. In addition, there are moves of convenience, moves within the local neighborhood, and extra-neighborhood moves which may be analyzed.

Second, a very promising avenue of research, free from the geographical bias imposed by predetermined area configurations, is vector analysis of intra-urban migration using distance and direction measurements. Third, research could be focused on a permanent sample of dwelling units to study these units and their residents for changes. From this "chain analysis" one could then determine not only household migration patterns but also residence characteristics vital to the understanding of the total urban community.

J. Zipay

L. Manchester

SENIOR RESEARCH FELLOW

The Center for Applied Urban Research is pleased to announce that Dr. Murray Frost will join the staff on August 1 for a one year period as Senior Research Fellow. He comes to the Center from a position with General Research Corporation of Santa Barbara, California.

Dr. Frost received his Ph.D. degree from Michigan State University in Political Science. He has six years of teaching experience primarily at California State University at Los Angeles, and the University of California at Santa Barbara.

Dr. Frost, as a consultant and member of the staff of General Research Corporation has contributed several articles on

issues in local environmental management. His work on this subject appear in the 1974 Municipal Year Book, Urban Data Service Report and Public Management. Dr. Frost has also co-authored a number of articles on urban transportation policy. He has presented papers on this subject to the American Society of Mechanical Engineers which have been published in Urban Engineering and Transportation, eds., D. Baumann and D. Wilson, (New York, 1969) and Systems Analysis of Urban Transportation, General Research Corporation (released by the Department of Housing and Urban Development, 1958).

Dr. Frost is 37 years old, married and has three children. He succeeds Dr. Peter Pflaum as CAUR's Senior Research Fellow.

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