7-1974


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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


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.
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 applies to many services. 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. 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. Nebraska is one of the few states that allows a sales tax credit against the State Income Tax. 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-licensed centers of 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. 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.

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 11 percent were in submarkets 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 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 vehicle licensed in Nebraska). Of the remaining shoppers, they were visiting relatives and/or friends and stopped to pick up a few food items. In addition, three indicated their major reason for stopping was to check cash, two indicated that they worked or owned a business in Council Bluffs, two indicated they were shopping for items not available in Omaha, two for a pleasure drive and stopped to pick up snacks and/or picnic supplies, six shoppers indicated that they had been under age in Nebraska but could buy beer legally in Iowa and one Interviewer was looking for an item (canning jars) that could not readily be found in Nebraska. Nearly 25 percent of those interviewed were unaware of the tax exemption in Iowa, and none of those interviewed indicated that the tax differential was a reason for their shopping in Council Bluffs.

The number of names and locations of food markets where license plate counts were taken for this survey are conducted July 12-13, 1974.

Conclusion

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 to
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

the current 3.5 percent combined tax rate in Omaha, a one percent 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.

11A recently completed sample survey of faculty and staff at UNO indicates that food expenditures represent 25 percent or more of personal expenditures. The percentage will vary with income level, size of family and place of residence. The reader should note that the tax will be closer to 15 percent after consideration of the Food Sales Tax Credits granted under Nebraska law. This information is based on tax information provided by the Nebraska Department of Revenue, sales tax collections in Douglas County for the first two quarters of 1974, which totalled $230.4 million for the State and $118.9 for the City of Omaha. Based on preliminary data, residents of Douglas County received $245 million in Food Sales Tax Credits—representing less than 10 percent of the sales tax revenue collected in Douglas County.

SOME COMMENTS ON THE PATTERN OF RESIDENTIAL MOBILITY WITHINOMA

Introduction

Changes in the total population of a single areal unit of measurement depend on the relationships 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 second quarters 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 tax categories for general analysis—in-area moves (migration crossing without a boundary) and cross area moves (migration crossing one or more boundaries).

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 neighborhood 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 less movement in the same direction. The basic 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.

Introduction

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 more specific 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 migration 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.

Areas of Future Research

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TABLE 1

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Total Move</th>
<th>Cross-Area Moves</th>
<th>Percent Cross-Area Moves</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Quarter, 1973</td>
<td>1,826</td>
<td>739</td>
<td>41.4%</td>
</tr>
<tr>
<td>Second Quarter, 1973</td>
<td>1,610</td>
<td>627</td>
<td>39.0%</td>
</tr>
<tr>
<td>Third Quarter, 1973</td>
<td>1,098</td>
<td>513</td>
<td>47.0%</td>
</tr>
<tr>
<td>Fourth Quarter, 1973</td>
<td>1,006</td>
<td>554</td>
<td>55.2%</td>
</tr>
</tbody>
</table>

Source: Compiled by CAUR from data in Daily Record.

TABLE 2

<table>
<thead>
<tr>
<th>FROM TO</th>
<th>NorthEast</th>
<th>Northeast</th>
<th>Northcentral</th>
<th>Southcentral</th>
<th>Central</th>
<th>Southwest</th>
<th>Sarpy</th>
</tr>
</thead>
<tbody>
<tr>
<td>NorthEast</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northeast</td>
<td>1,278</td>
<td>215</td>
<td>466</td>
<td>72</td>
<td>135</td>
<td>68</td>
<td>29</td>
</tr>
<tr>
<td>Northcentral</td>
<td>252</td>
<td>173</td>
<td>197</td>
<td>72</td>
<td>79</td>
<td>135</td>
<td>68</td>
</tr>
<tr>
<td>Southcentral</td>
<td>248</td>
<td>132</td>
<td>630</td>
<td>114</td>
<td>306</td>
<td>292</td>
<td>32</td>
</tr>
<tr>
<td>Central</td>
<td>31</td>
<td>114</td>
<td>80</td>
<td>105</td>
<td>41</td>
<td>142</td>
<td>34</td>
</tr>
<tr>
<td>Southwest</td>
<td>23</td>
<td>20</td>
<td>61</td>
<td>12</td>
<td>180</td>
<td>102</td>
<td>19</td>
</tr>
<tr>
<td>Sarpy</td>
<td>15</td>
<td>32</td>
<td>37</td>
<td>43</td>
<td>73</td>
<td>429</td>
<td>19</td>
</tr>
<tr>
<td>Total Move</td>
<td>1,068</td>
<td>1,727</td>
<td>1,477</td>
<td>807</td>
<td>834</td>
<td>1,177</td>
<td>305</td>
</tr>
</tbody>
</table>

Source: Compiled by CAUR from data in Daily Record.
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, ed.s, 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.