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PLATTE CHAT

City of Omaha needs to look at spending cuts, not tax hikes

*Berk Brown
Platte Institute Editor*

There's no question that the financial situation in Omaha is distressing. This is especially true for a city whose rating for general obligation bonds were lowered late last year to Aa1 by Moody's Investors Service after more than 30 years of maintaining a AAA rating,¹ which is the highest possible rating (Omaha has retained its AAA rating with Standard & Poor's). Like many working-class families enduring the current recession, Omaha finds itself with the pressing need to make some hard decisions.

The City of Omaha Police and Fire Retirement System Pension Task Force, established by former Mayor Mike Fahey to examine ways for the city to replenish approximately \$30 million annually to the pension fund, focused greatly on increasing revenues,² an audacious proposition in a time of recession. The task force recommended a 50-50 solution in which the Police and Fire Unions and the City of Omaha meet in the middle to correct the issue.³ For the city's portion, the task force recommended three methods to enhance revenues:⁴

A.) The City Council approve a six cent property tax increase in September 2009 as a safeguard in case the

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other funding sources (discussed below) do not materialize. If enacted in September 2009, the new property tax rate would become effective January 1, 2011,⁵ if no other revenue enhancements or spending reductions occur before then.

B.) The City ask the state legislature (the "Unicameral") and Omaha citizens to permit the City to increase its sales tax rate. Specifically, the Task Force recommends that in January 2010, the City seek Unicameral approval for a 0.5% increase in the City's sales tax rate.⁶

C.) That in January 2010 the City pursue Unicameral approval to authorize a municipal garbage collection fee. The City currently pays \$15 million each year for garbage collection out of the General Fund. The City is the only municipality in the state that is not permitted to collect a garbage collection fee. The City Finance Director estimates that a \$10 per customer per month garbage collection fee would generate \$15 million annually.⁷

All three recommendations wallop Omaha taxpayers for fiscal decisions made over the last few years. With Nebraska citizens bearing a tax burden ranking in the top quartile in the country,⁸ asking our citizens to pay more tax should be the very last option newly-elected Mayor Jim Suttle and the Omaha City Council should propose. A much better alternative is to reduce spending.

If the City of Omaha were to reduce its spending, according to its 2009 adopted general fund budget,⁹ by six percent, it would have the \$15 million it needs help replenish the fund. This is analogous to an individual having a net pay of \$40,000 a year reducing personal spending by \$200 a month.¹⁰ Cutting six percent may seem overly ambitious, but current spending was reduced by the Fahey administration by approximately this much from last year due to lagging sales tax revenue. Like a business or family facing a serious shortfall, expenditures considered to be necessary in good times become luxuries in hard times; Omaha needs to carefully review all budget items with greater vigor than past years. Other

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options could include, but should not be limited to:

* Reducing fire truck crews from four to three and flatten the bureaucracy by reducing the number of fire captains, or reducing the number of fire stations.

* Assign non-licensed city employees for non-enforcement traffic control and most police clerical functions.

* Through wage negotiations with fire and police employees, reduce benefit programs or increase co-pays for health insurance claims.

* Reduce or eliminate all voluntary contributions the City makes to non-profit groups in Omaha while reexamining alternative uses of revenue from Keno, including the possibility of asking the Unicameral for more control when it comes to utilizing those revenues.

* Privatize or subcontract city services like park maintenance, road repair and snow plowing to reduce expense. Also, the benefit of selling or leasing golf courses currently maintained by the City of Omaha could be examined.

* Continue to examine redundancy in operations between City of Omaha and Douglas County to find more economically efficient practices.

An immediate effort to reduce spending would be the best course of action for our City at this time. But if raising taxes is deemed essential, an effort by the Unicameral to reduce the amount of lost revenue from sales tax exemptions by 10 percent will infuse all cities with extra revenue and will provide the City of Omaha with an estimated \$30 million annually.¹¹ Such a move will not only provide the City of Omaha sufficient revenue to cover the \$15 million per year required to fund the pension shortfall, but it could help reduce city property taxes. From the standpoint of transparency and accountability, reducing sales tax exemptions or giving Omaha the authority to increase sales taxes is

preferable to increasing property taxes.

From our reading of the legislative tea leaves, there is scant chance that the Unicameral will allow Omaha to levy a higher city sales tax or levy a garbage collection fee. Levying an occupational tax or being given authority to increase the local option sales tax in Omaha might be made more palatable if the Unicameral agrees to decrease the state's high marginal income tax rates concurrently. Elimination or reduction of the state income tax would enhance Nebraska's tax competitiveness and reduce the incentive for high income residents to change their place of domicile to states without an income tax, like Wyoming or South Dakota.

The City of Omaha faces significant challenges with its finances. We have full confidence that our elected City representatives will distinguish themselves and make Omaha citizens proud by making the appropriate decisions for the long-term benefit of the City rather than making expedient smoke and mirror decisions which occurs all too frequently at many levels of government these days.

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- 1 <http://tinyurl.com/mdzaut>
 - 2 <http://tinyurl.com/myevh5>
 - 3 Id.
 - 4 Id.
 - 5 Id.
 - 6 Id.
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