2004 Kosmont-Rose Cost of Doing Business Survey

Executive Summary

Introduction

The Kosmont Companies and the Rose Institute of State and Local Government at Claremont McKenna College present the 2004 Kosmont-Rose Institute Cost of Doing Business Survey. The Survey, in its tenth year of publication and its second year as the Kosmont-Rose Institute Cost of Doing Business Survey, contains a vast amount of data about fees, taxes, costs, and incentives that affect business in over 300 communities nationwide. It is especially useful to businesses contemplating a move. The 2004 Survey has many new added features to make it an even stronger tool for the business community and policymakers.

The Rose Institute added 81 cities to the 2004 edition of the Survey; it has 314 cities in all 50 states and the District of Columbia. The Survey examines 214 cities in California, and 100 cities out of state. In addition to the expanded state listings, a new rankings scale and formula to determine the cities’ cost of doing business creates greater differentiation among cities. State income tax and sales tax have been added to the formula, and there are 5 rankings in the 2004 Survey’s scale. Finally, the formula has been updated to more accurately reflect contemporary costs of doing business.
CHART 1: KOSMONT-ROSE INSTITUTE COST OF DOING BUSINESS RATING  
Major US Cities (250,000 + Population)

<table>
<thead>
<tr>
<th>City</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>BALTIMORE</td>
<td>$$$$$</td>
</tr>
<tr>
<td>BOSTON</td>
<td>$$</td>
</tr>
<tr>
<td>CHICAGO</td>
<td>$$</td>
</tr>
<tr>
<td>CINCINNATI</td>
<td>$$$</td>
</tr>
<tr>
<td>COLUMBUS</td>
<td>$$</td>
</tr>
<tr>
<td>INDIANAPOLIS</td>
<td>$$</td>
</tr>
<tr>
<td>KANSAS CITY</td>
<td>$</td>
</tr>
<tr>
<td>LOS ANGELES</td>
<td>$</td>
</tr>
<tr>
<td>MINNEAPOLIS</td>
<td>$</td>
</tr>
<tr>
<td>NASHVILLE-DAVIDSON</td>
<td>$$$</td>
</tr>
<tr>
<td>NEW YORK</td>
<td>$$$$</td>
</tr>
<tr>
<td>NEWARK</td>
<td>$$</td>
</tr>
<tr>
<td>OAKLAND</td>
<td>$$</td>
</tr>
<tr>
<td>PHILADELPHIA</td>
<td>$$</td>
</tr>
<tr>
<td>SAN FRANCISCO</td>
<td>$$</td>
</tr>
<tr>
<td>TUCSON</td>
<td>$$</td>
</tr>
<tr>
<td>WASHINGTON, D.C.</td>
<td>$$</td>
</tr>
<tr>
<td>FRESNO</td>
<td>$$$$</td>
</tr>
<tr>
<td>LONG BEACH</td>
<td>$$</td>
</tr>
<tr>
<td>MIAMI</td>
<td>$$</td>
</tr>
<tr>
<td>PHOENIX</td>
<td>$$</td>
</tr>
<tr>
<td>RIVERSIDE</td>
<td>$$</td>
</tr>
<tr>
<td>SACRAMENTO</td>
<td>$$</td>
</tr>
<tr>
<td>SANTA ANA</td>
<td>$$</td>
</tr>
<tr>
<td>PORTLAND</td>
<td>$$</td>
</tr>
<tr>
<td>SAN DIEGO</td>
<td>$$</td>
</tr>
<tr>
<td>OKLAHOMA CITY</td>
<td>$$</td>
</tr>
<tr>
<td>SEATTLE</td>
<td>$$</td>
</tr>
<tr>
<td>ALBUQUERQUE, ANCHORAGE</td>
<td></td>
</tr>
<tr>
<td>ARLINGTON, AURORA</td>
<td></td>
</tr>
<tr>
<td>CHARLOTTE, COLORADO SPRINGS,</td>
<td></td>
</tr>
<tr>
<td>CORPUS CHRISTI, DALLAS,</td>
<td></td>
</tr>
<tr>
<td>DENVER, EL PASO</td>
<td></td>
</tr>
<tr>
<td>HONOLULU, HOUSTON</td>
<td></td>
</tr>
<tr>
<td>LAS VEGAS, MESA</td>
<td></td>
</tr>
</tbody>
</table>

Assumptions and Notes

1. The Cost Ratings provide a consistent means to compare costs in communities based on several local tax rates. The Survey uses a quantitative comparison using weightings set by Kosmont Companies and the Rose Institute, rather than detailed economic analysis of the relative impact of such factors. The ratings analyze six locally and state-imposed costs and weigh them with parity adjustments:
   - Business Taxes
   - Telephone Taxes
   - Sales Taxes
   - Electric Taxes
   - Property Taxes
   - State Income Taxes

2. A community with no business or utility taxes can earn a high cost rating if it has exceptionally high property taxes or state income taxes. Likewise, a community with high business taxes might earn a low cost rating if utility taxes are low or absent and property taxes are unremarkable. Ratings of $ and $$ both indicate relatively low cost locations. Ratings of $$ represent moderate cost locations. Ratings of $$$$ and $$$$$ represent higher cost locations. However, these ratings will not be applicable to all firms, and each company should calculate how various tax rates in a community will affect its own particular operations.
Chart 1 on the preceding page provides a selection of major US cities in each rating category. Chart 2 outlines the highest-cost major cities in the 2004 Survey. The Survey defines a major city as a metropolis with over 250,000 residents. Although the Survey’s most expensive major cities are from various regions of the United States, each city has similar tax characteristics. Philadelphia, New York, and Newark are the only most expensive major cities that do not have higher than average utility taxes. Ten of the cities outlined in Chart 2 have higher than average business taxes.

The new additional tax criteria that the 2004 Survey accounted for (state income tax and sales tax) affected the most expensive cities’ rankings. In particular, state income tax played a significant factor in the final rankings. Fourteen of the most expensive cities, with the exception of Nashville-Davidson, had higher than average state income taxes.

All the cities in Chart 2 are among the top 40 most expensive cities in which to do business in the entire Survey, regardless of population size. Also, thirteen of the fifteen cities rank in the top-20 highest cities to conduct business according to the Survey.
Chart 3 outlines the tax averages for the 314 cities that the 2004 Survey examined. The averages provide a consistent basis to compare cities’ tax structures and to determine how specific taxes affected their rankings. However, it is important to note that each of the 6 taxes factors into a city’s overall cost ranking. For example, a city with low property and utility taxes can receive a high cost rating if it has extraordinarily high business taxes or state income taxes.

Exceptionally high or low individual tax rates can influence a city’s overall ranking. For example, although Philadelphia has no electric or telephone taxes, its property tax is almost double the Survey’s average, and the city has the Survey’s highest business tax.
Chart 4 displays the 2004 Survey’s lowest-cost major US cities. Again, the Survey defines a major city as a community with over 250,000 citizens. Five of the fifteen least expensive cities are in Texas. Texas has a low cost of doing business because there is no state-imposed income tax. Also, the five Texas cities that are among the Survey’s least expensive major US cities have no business tax.

Each of the other major US cities in Chart 4, with the exception of Charlotte, is in the western part of the United States. A combination of relatively low business and income taxes contribute to the cities’ low cost of doing business.
Charts 5 displays a selection of major California cities. Los Angeles and San Francisco rank among the Survey’s top 20 most expensive cities in which to do business. Out of 214 California cities in the 2004 Survey, two cities and two unincorporated counties in the state received a very low cost ($) index rating. California has a higher than average state income tax (8.84%); the high income tax, in conjunction with high sales taxes, often raised California cities’ rankings.
As Chart 6 depicts, Los Angeles County is an expensive region within California in which to do business. There are no cities in Los Angeles County that placed in the Survey’s lowest cost index ($). Bell Gardens, the least expensive city in which to do business in Los Angeles County, ranked number 32 among the 214 California cities in the Survey (See Chart 7). Sixteen cities in Los Angeles County ranked within the 100 least expensive cities in which to do business in California.

In some cities, high utility and business taxes, in conjunction with the higher than average state income tax, hurt Los Angeles County cities’ rankings. Santa Monica, one of Los Angeles County’s most expensive cities, has business and utility taxes that are three times higher than the national average.

The least expensive cities, however, have lower than average business and property taxes that help to offset the state’s high income tax. For example, although Cerritos has high income and sales taxes, it has no utility taxes and lower than average business and property taxes. The cities of Rosemead and La Mirada show many of the same characteristics.
Overall, Orange County provides a less expensive place in which to do business than Los Angeles County. Eleven cities, including two cities over 100,000 in population, rank as low cost cities. Only one city in Orange County, Seal Beach, ranks as a very expensive community in which to do business. The Orange County cities that have lower cost ratings often have lower than average business and property tax rates.
CHART 10: KOSMONT-ROSE INSTITUTE COST OF DOING BUSINESS RATING
Most Expensive Orange County and San Diego County Cities

<table>
<thead>
<tr>
<th>City</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEAL BEACH</td>
<td>1.2</td>
</tr>
<tr>
<td>GARDEN GROVE</td>
<td>1.25</td>
</tr>
<tr>
<td>SANTA ANA</td>
<td>1.15</td>
</tr>
<tr>
<td>HUNTINGTON BEACH</td>
<td>1.1</td>
</tr>
<tr>
<td>WESTMINSTER</td>
<td>1.05</td>
</tr>
<tr>
<td>DANA POINT</td>
<td>1.05</td>
</tr>
<tr>
<td>BUENA PARK</td>
<td>1.05</td>
</tr>
<tr>
<td>ALISO VIEJO</td>
<td>1.0</td>
</tr>
<tr>
<td>SAN CLEMENTE</td>
<td>1.0</td>
</tr>
<tr>
<td>COSTA MESA</td>
<td>1.0</td>
</tr>
</tbody>
</table>

CHART 11: KOSMONT-ROSE INSTITUTE COST OF DOING BUSINESS RATING
Least Expensive Orange County and San Diego County Cities

<table>
<thead>
<tr>
<th>City</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>LEMON GROVE</td>
<td>1.015</td>
</tr>
<tr>
<td>EL CAJON</td>
<td>1.02</td>
</tr>
<tr>
<td>POWAY</td>
<td>1.025</td>
</tr>
<tr>
<td>SAN MARCOS</td>
<td>1.03</td>
</tr>
<tr>
<td>ORANGE</td>
<td>1.035</td>
</tr>
<tr>
<td>NATIONAL CITY</td>
<td>1.04</td>
</tr>
<tr>
<td>TUSTIN</td>
<td>1.04</td>
</tr>
<tr>
<td>Unincorporated ORANGE CO.</td>
<td>1.035</td>
</tr>
<tr>
<td>FOUNTAIN VALLEY</td>
<td>1.03</td>
</tr>
<tr>
<td>NEWPORT BEACH</td>
<td>1.035</td>
</tr>
</tbody>
</table>
Charts 10, 11, and 12 draw comparisons between cities’ cost indexes in Orange and San Diego Counties. Orange County accounts for all 10 of the most expensive cities. Nine of the twelve San Diego County cities in the 2004 Survey rank as low cost cities; the other three cities receive moderate cost ratings. Four cities in Orange County receive high cost rankings. However, some Orange County cities still compete well against cities in San Diego Counties.

As Chart 11 depicts (on preceding page), Orange County cities account for half of the least expensive cities in Orange and San Diego Counties. Cities such as Orange and Tustin, for example, rank as low cost cities because they have no utility taxes and lower than average business and property taxes. The low cost cities in San Diego, including Lemon Grove and El Cajon, display many of the same tax characteristics as the low cost Orange County cities.
The cities in Riverside and San Bernardino Counties have comparable statistics to Orange and San Diego Counties. There are no very low cost of doing business cities in Riverside or San Bernardino Counties. The three very high cost of doing business cities and unincorporated counties are in San Bernardino County.

Charts 16 and 17 (on proceeding page) show that cities in San Bernardino and Riverside Counties have varied tax structures. The most expensive cities, San Bernardino and Rialto, have high utility taxes. The city of San Bernardino also has a higher than average business tax. As with all cities in California, the state’s higher than average income tax affect the cities’ cost indexes.

The two counties have equal numbers of low cost cities. The least expensive cities in San Bernardino and Riverside Counties have many of the same tax characteristics. For example, cities such as Hemet and Rancho Cucamonga have no utility taxes and low business taxes. Both cities also have slightly below average property taxes.
CHART 16: KOSMONT-ROSE INSTITUTE COST OF DOING BUSINESS RATING
Most Expensive Riverside County and San Bernardino County Cities

- BARSTOW
- REDLANDS
- RIVERSIDE
- PALM SPRINGS
- INDIAN
- MORENO VALLEY
- FONTANA
- RIALTO
- SAN BERNARDINO
- Unincorporated SAN BERNARDINO CO.

CHART 17: KOSMONT-ROSE INSTITUTE COST OF DOING BUSINESS RATING
Least Expensive Riverside County and San Bernardino County Cities

- MURRIETA
- ONTARIO
- TEMECULA
- UPLAND
- CHINO HILLS
- Unincorporated RIVERSIDE CO.
- CORONA
- RANCHO CUCAMONGA
- CHINO
- HEMET
Northern California has a broad range of high and low cost cities in which to conduct business. Two cities and two unincorporated counties in California receive very low cost ($) ratings; all 4 communities are in Northern California. At the other end of the spectrum, Oakland and San Francisco rank among the top-25 most expensive cities in which to conduct business in the country.

High utility and business taxes often hampered the high cost cities in Northern California. For example, Berkeley’s business, electric, and telephone taxes are over twice the Survey’s national averages. However, over half of the cities in Northern California receive a moderate cost rating ( $$ $$ ) or lower. Although California cities have a higher than average state income tax, the cities with moderate or low cost indexes exhibit modest business, property, and utility taxes. The cities of Concord and Davis, for example, have no utility taxes and moderate property and business taxes. Charts 19 and 20 on the proceeding page show the most expensive and least expensive communities in Northern California.
Conclusions

The 2004 Kosmont-Rose Cost of Doing Business Survey analyzes data from 314 cities in all 50 states. Analysis of the Survey’s data leads to the following conclusions:

1. The western part of the country has the most very low cost index cities. Of the 50 one dollar sign ($) cities in the Survey, twelve cities are east of the Mississippi River. Two of the twelve eastern cities with a very low cost rating are in the Northeast (Manchester, NH, and Hartford, CT).

2. The Midwest and the Northwest regions of the United States tend to be low cost business areas. As Chart 4 shows, Texas has five of the ten least expensive major US cities. Ten cities in Washington state receive very low cost ($) rankings.

3. California, in comparison to other states in the region, has a high average cost of doing business. The state has a higher than average income tax, and many communities in the state have higher than average business and sales taxes. As a result, only two cities and two unincorporated counties in California receive a very low cost rating ($).

4. Oakland, Los Angeles, and San Francisco rate among the most costly communities in which to do business in the country.

5. Although Los Angeles County has some low and moderate cost cities in which to do business, it is on average the most expensive region to conduct business in California.

6. Although Northern California has five very high cost cities, two ranking among the top 25 most expensive cities in the United States (Oakland and San Francisco), the region on average is a moderately expensive region in which to do business. All four of California’s communities that received very low cost rankings ($) are in Northern California.