2005 Kosmont-Rose Institute Cost of Doing Business Survey
Executive Summary

The Kosmont Companies and the Rose Institute of State and Local Government at Claremont McKenna College have released the findings of the 2005 Kosmont-Rose Institute Cost of Doing Business Survey. The 2005 Survey includes 367 city profiles from all 50 states and the District of Columbia. The Survey added 53 cities from all parts of the nation, including ten new cities in California. The new cities that the Survey added represent the communities in the United States that have the fastest growing populations.

The Survey, in its eleventh year of publication and its third year as the Kosmont-Rose Institute Cost of Doing Business Survey, contains a vast amount of data concerning fees, taxes, costs, and incentives that affect business in 367 communities nationwide. Over the eleven years of its publication, corporations, real estate developers, community planners, and public officials have widely used the Survey to compare the cost of doing business on a national scale. It is especially useful to businesses contemplating a move. The 2005 Kosmont-Rose Institute Cost of Doing Business Survey includes charts and rankings and is available in two bound booklets or on CD.

The 2005 Survey ranks cities as Very Low Cost ($), Low Cost ($$), Medium Cost ($$$), High Cost ($$$), and Very High Cost ($$$$$).
Glendora, a newly-added city in the Survey, represents the only very low cost city in Los Angeles County. In the state of California, four communities are rated as Very Low Cost ($): Glendora, Sutter Creek, Unincorporated Lake County, and Unincorporated Merced County.

Very High Cost cities ($$$$$$) in Los Angeles County include: Los Angeles, Santa Monica, Culver City, Inglewood, Compton, and Bell. Other Very High Cost cities in California include: San Francisco, Oakland, Berkeley, Rancho Santa Margarita, Richmond, and San Bernardino.

The lowest-cost city outside California surveyed is Hillsboro, Oregon. The most expensive in which to carry on a business is Philadelphia, Pennsylvania.

The Survey results this year continue to show that local government taxes are rising as the municipalities try to offset the budget shortfalls at the state level. Communities in Texas, Nevada, Oklahoma, and Colorado still consistently provide low cost communities in which to do business. All regions in the United States, however, feel the pressure of the low-cost business environments that countries like China and India provide. California cities such as Los Angeles, San Francisco, Oakland, and Santa Monica continue to receive very high cost ratings.
### 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
   - Electric Taxes
   - Telephone Taxes
   - Property Taxes
   - Sales 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 2005 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. Boston, Buffalo, Philadelphia, New York, Nashville-Davidson and Newark are the only most expensive major cities that do not have higher than average utility taxes. Eleven of the cities outlined in Chart 2 have higher than average business taxes.

In particular, high property taxes played a significant factor in the cities’ high cost ratings. With the exception of the cities in California, every city in Chart 2 had higher than average property taxes. New York, for example, has a property tax that is three times the national average.

All the cities in Chart 2 are among the top-70 most expensive cities in which to do business in the entire Survey, regardless of population size. Also, thirteen of the cities in Chart 2 rank in the top-25 most expensive cities to conduct business according to the Survey.
Chart 3 displays the 2005 Survey’s lowest-cost major US cities. Again, the Survey defines a major city as a community with over 250,000 citizens. Eight of the twenty 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 3, 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.
Chart 4 displays a selection of major California cities. Los Angeles and San Francisco rank among the entire Survey’s top-20 most expensive cities in which to do business. Out of 224 California cities in the 2005 Survey, two cities and two unincorporated counties in the state received a very low cost ($) index rating. The very low cost cities and counties include Glendora, Sutter Creek, and Unincorporated Lake and Merced Counties. California has a higher than average state income tax (8.84%); the high income tax, in conjunction with high sales taxes, often raised California cities’ rankings.
As Chart 5 depicts, Los Angeles County is an expensive region in which to do business. There is one city in Los Angeles County that placed in the Survey’s lowest cost index ($). Glendora, the least expensive city in which to do business in Los Angeles County, is also the least expensive of the 224 California cities in the Survey (See Chart 6). Eighteen 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 more than 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. Twelve cities, including two cities over 100,000 in population, rank as low cost cities. Two cities in Orange County, Seal Beach and Rancho Santa Margarita, rank as very expensive communities 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 8: Kosmont-Rose Institute 2005- Orange County with Populations of 50,000+
Chart 9: Kosmont-Rose Institute 2005- Most Expensive Orange County Cities

Chart 10: Kosmont-Rose Institute 2005- Least Expensive Orange County Cities
Charts 9 and 10 on the preceding page depict the lowest and highest cost Orange County cities. Chart 11 gives an overview of cities in both Orange and San Diego Counties. Orange County accounts for eight of the ten most expensive cities in both counties. Ten of the thirteen San Diego County cities in the 2005 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.
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 13 and 14 (on the 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. Unincorporated San Bernardino County has a higher than average property tax. 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 about equal numbers of low cost cities. Riverside County has five low-cost cities, and San Bernardino has six. 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 13: Kosmont-Rose Institute 2005- Most Expensive Cities in Riverside and San Bernardino Counties

- SAN BERNARDINO
- RIALTO
- Uninc. SAN BERNARDINO CO.
- LA QUINTA
- COLTON
- MORENO VALLEY
- FONTANA
- RIVERSIDE
- PALM SPRINGS
- INDIO

Chart 14: Kosmont-Rose Institute 2005- Least Expensive Cities in Riverside and San Bernardino Counties

- MURRIETA
- TEMECULA
- UPLAND
- RANCHO CUCAMONGA
- CORONA
- Uninc. RIVERSIDE CO.
- CHINO
- CHINO HILLS
- HEMET
- APPLE VALLEY
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; three of the four 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. Charts 16 and 17 on the proceeding page show the most expensive and least expensive communities in Northern California.
Chart 16: Kosmont-Rose Institute 2005- Most Expensive Northern California Cities

Chart 17: Kosmont-Rose Institute 2005- Least Expensive Northern California Cities
Conclusions

The 2005 Kosmont-Rose Cost of Doing Business Survey analyzes data from 367 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, eleven cities are east of the Mississippi River. The low-cost cities in the eastern portion of the United States are from all parts, but the majority of the cities are in the south.

2. The Midwest and the Northwest regions of the United States tend to be low-cost business areas. As Chart 3 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 place in which to do business. Three of California’s communities that received very low cost rankings ($) are in Northern California. Glendora received the only very-low cost rating in Southern California.