Cost of Doing Business Survey ®

Executive Summary

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Introduction

The 2014 *Kosmont-Rose Institute Cost of Doing Business Survey* marks the publication's nineteenth year and the tenth year since Kosmont Companies initiated a partnership with the Rose Institute of State and Local Government. The *Survey* provides information about the costs of operating a business in more than three hundred cities and a variety of regions across the United States. City and county governments can use this information to bring economic policies into agreement with economic goals. Corporations, real estate developers, and business associations can use the information to document regional economic trends and make informed business decisions.

The cost ratings found in the 2014 *Cost of Doing Business Survey* are the result of a yearlong survey process. The Rose Institute collects data on license fees, tax structures, economic incentives, and other quantitative measures that influence a business's operating expenses. After a comparative analysis of all 305 cities, each city is assigned a cost rating on the following scale: Very Low Cost ($), Low Cost ($$), Average Cost ($$$), High Cost ($$$$), and Very High Cost ($$$$$). For more information on the *Survey*'s methodology, cost ratings, or city profiles, please consult the 2014 User Guide or contact the Rose Institute at (909) 621-8159.

The 2014 *Survey* features 305 cities in nine states: Arizona, California, Colorado, Nevada, New Mexico, Oregon, Texas, Utah, and Washington. Keeping in line with past editions, this year's publication maintains a focus on California and the western states that many businesses consider to be alternatives to the Golden State. We hope you find the 2014 *Survey* valuable as you compare the cost of doing business in these economically diverse regions.

2014 Most Expensive Cities

The 2014 edition of the *Kosmont-Rose Survey* takes a close look at the cost of doing business in California and eight other western states (Arizona, Colorado, Nevada, New Mexico, Oregon, Texas, Utah, and Washington) that many companies may view as alternatives to California. This year's list of twenty most expensive cities focuses on five different western states. California dominates the list with twelve—nine in Southern California and three in the Bay Area. Arizona and Washington have three cities on the list while Colorado and Oregon each have one.

The twenty most expensive cities in the West include several of the largest cities in the region. Seven of the ten largest western metropolitan areas are represented on the list: Los Angeles, San Francisco, San Bernardino, Phoenix, Seattle, Denver, and Portland. Many of the most expensive cities are important regional hubs; Denver, Los Angeles, Phoenix, Portland, and Seattle are the largest cities in their respective states. In spite of high taxes and fees, these cities are often attractive to businesses because they provide access to financial markets, concentrated manufacturing and distribution, and regional and international trade. Some businesses are willing to pay a premium on business, property, and utility taxes in order to benefit from the abundance of support services and business opportunities available in such cities.

The *Survey*'s findings indicate that the Bay Area and Los Angeles are the two most expensive metropolitan areas in the western United States, followed by Portland. The three most expensive cities located in the Bay Area are San Francisco, Berkeley, and Oakland. Eight out of the twenty most expensive cities are in Los Angeles County: Los Angeles, Santa Monica, Culver City, Inglewood, Beverly Hills, Bell, El Segundo, and Compton. Portland has the highest business license fee of all cities surveyed reflecting its position as a prominent commercial hub in Oregon. This concentration of expensive cities in metropolitan areas can limit options for businesses that want to locate in lower cost cities while still retaining access to key markets and other resources. In some cases, such as Los Angeles County, there are smaller cities that are located within reasonable proximity to the major hub city, which can provide a lower cost tax solution.

Arizona has three of the most expensive western cities on the list: Tucson, Glendale, and Phoenix. The high cost of these cities stems from high property tax rates between 3.49% and 4.58% of assessed value, which are the highest rates found in the *Kosmont-Rose Survey*. Washington also has three cities on the list: Seattle, Tacoma, and Bellingham. All three cities have a utility user tax rate of 6% and charge business license fees ranging from $15,390 to $21,590 for a medium-sized retail business.

Utility user taxes are an important determinant of business expense. Not surprisingly, many of the twenty most expensive western cities have high utility tax rates. Whereas only half of all cities in the *Survey* have utility user taxes, seventeen out of the twenty cities have utility user taxes at or above 5%, and eight have at least one utility tax at or above 10%. In Arizona, the state and county privilege (sales) tax is

Table 1: The Twenty Most Expensive Cities

City Name and State	Sales Tax	Retail Business License Fee	Property Tax
BELL, CA	9.00%	$4,386	1.55%
BELLINGHAM, WA	8.70%	$17,000	1.15%
BERKELEY,CA	9.00%	$12,000	1.27%
BEVERLY HILLS, CA	8.75%	$12,500	1.23%
CHANDLER, AZ	7.80%	$50	3.15%
CULVER CITY, CA	9.50%	$10,060	1.08%
DENVER, CO	7.62%	$4,800	3.69%
EL SEGUNDO, CA	8.75%	$13,048	1.17%
GLENDALE, AZ	9.50%	$50	3.49%
INGLEWOOD, CA	9.50%	$11,022	1.41%
LOS ANGELES, CA	9.00%	$13,200	1.22%
OAKLAND, CA	9.00%	$12,000	1.41%
PHOENIX, AZ	8.30%	$0	4.58%
PORTLAND, OR	0.00%	$36,500	2.29%
SAN BERNARDINO, CA	8.25%	$7,549	1.31%
SAN FRANCISCO, CA	8.75%	$13,500	1.17%
SANTA MONICA, CA	9.50%	$12,500	1.14%
SEATTLE, WA	9.50%	$21,590	1.29%
TACOMA, WA	9.50%	$15,390	1.72%
TUCSON, AZ	8.10%	$25	4.01%

Table 1 lists the twenty most expensive western cities in alphabetical order along with each city's sales tax rate, retail business license fee, and property tax rate.

also assessed on utilities, which helps explain Arizona's very high utility taxes. California has no equivalent tax on utilities. Culver City and Los Angeles have the highest electricity tax rates in the Survey at 11% and 12.50%. Glendale and Culver City have the highest telephone tax rates at 12.70% and 11%. The median electricity and telephone tax rates for the most expensive western cities are both 7.50%. Beverly Hills is the only city on the list that does not tax electricity and telephone services.

Many of the twenty most expensive western cities also have very high property tax rates. Five cities have property tax rates above 2.28%—nearly double the *Survey*'s median property tax rate of 1.30%. Phoenix has the highest property tax rate in the *Survey* at 4.58%, followed by Tucson at 4.01%, Denver at 3.69%, and Glendale, AZ at 3.49%. California's Prop 13 greatly limits property tax rates; the twelve California cities on the list have property tax rates ranging from 1.14% to 1.55%. Santa Monica has the lowest property tax rate on the list at 1.14%. Overall, California's median property tax rate of 1.22% is roughly half that of Arizona.

Many, though not all, of the most expensive western cities also have high business license fees. A medium-sized retail business would pay $13,500 per year in San Francisco, $36,500 per year in Portland, and $21,590 per year in Seattle. The median business license fee for a medium-sized business in one of the top 20 most expensive cities is $14,800, compared to a survey median of just over $1,100.

Table 2: The Twenty Least Expensive Cities

City Name and State	Sales Tax	Retail Business License Fee	Property Tax
ABILENE, TX	8.25%	$0	2.32%
CORPUS CHRISTI, TX	8.25%	$0	2.77%
DALLAS, TX	8.25%	$0	2.71%
EUGENE, OR	0%	$0	1.44%
EVERETT, WA	9.00%	$10,000	1.19%
FEDERAL WAY, WA	9.50%	$50	1.61%
FORT WORTH, TX	8.25%	$0	2.84%
GRESHAM, OR	0%	$469	1.62%
HENDERSON, NV	7.75%	$5,600	1.01%
HOUSTON, TX	8.25%	$0	2.68%
KENT, WA	9.50%	$718	1.55%
LAS VEGAS, NV	8.10%	$5,600	1.15%
MISSION VIEJO, CA	7.75%	$0	1.04%
MOORPARK, CA	7.25%	$36	1.08%
OGDEN, UT	6.85%	$987	1.00%
PLANO, TX	8.25%	$0	2.19%
RENO, NV	7.72%	$7,545	1.28%
SPARKS, NV	7.72%	$10,070	1.27%
SPOKANE, WA	8.70%	$2,060	1.42%
YAKIMA, WA	8.20%	$1,285	1.29%

Table 2 lists the twenty least expensive western cities in alphabetical order along with each city's sales tax rate, retail business license fee, and property tax rate.

2014 Least Expensive Cities

This year's list of twenty least expensive cities in the western United States includes six Texas cities, five Washington cities, four Nevada cities, two southern California cities, two Oregon cities, and one city in Utah. The list also includes cities from several of the largest western metropolitan areas including Dallas-Fort Worth, Houston, Seattle, and Las Vegas.

Business license fees are an important determinant of cost ratings, so not surprisingly many of the twenty least expensive cities have very low license fees. Eight of the twenty cities do not have any fee, while two have a low annual flat-rate fee of either $36 or $50. A medium-sized business would pay less than $400 a year in eleven of the twenty cities, well below the *Survey* median of $1,000. However, the four Nevada cities included in the *Survey* (Henderson, Las Vegas, Reno, and Sparks) all have fairly high business license taxes; a medium-sized retail business would pay over $5,600 a year in one of those cities. These four cities remain Very Low Cost, though, because they are located in a state without corporate income tax. Additionally, all four Nevada cities have fairly low property tax rates, ranging from 1.01% to 1.28%.

Many of the twenty least expensive cities also have low utility user taxes. Eight cities have no electricity tax, and nine have no telephone tax. The three remaining cities have electricity tax rates ranging from 0.26% to 7.75% and telephone tax rates ranging from 1.0% to 6.0%. Plano, TX is the exception, with an 8.3% gas tax and a 9.05% telephone tax. Plano is still rated Very Low Cost, though, because Plano has no business license tax, nor does Texas have a corporate income tax.

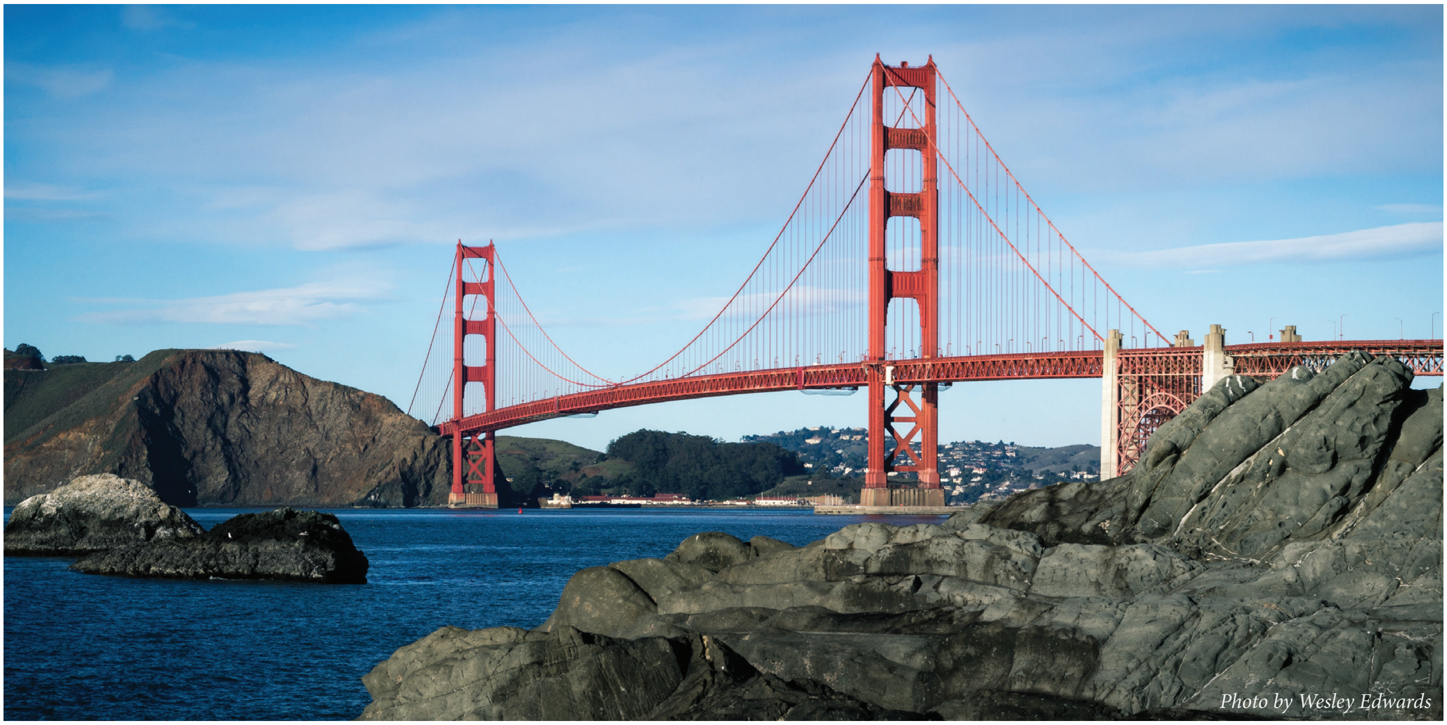

Photo by Wesley Edwards

State income tax greatly impacts a city's cost of doing business. Fifteen of the twenty least expensive cities are located in Nevada, Texas, or Washington – three states that do not have income taxes. Two other Very Low Cost cities – Eugene and Gresham – are located in Oregon, which has no sales tax. However, businesses should note that while Texas and Washington do not have state income taxes, they both have gross receipts-based taxes that were not included in the *Survey*'s cost ratings. Under Texas's Franchise Tax, a medium-sized retail business would pay about $5,000 a year; under Washington's Business and Occupation (B&O) tax, the same business would pay roughly $48,400 a year (0.47% of gross receipts).

Texas continues to defend its status as a Very Low Cost state, boasting six of the twenty least expensive cities in the western United States (Dallas, Corpus Christi, Abilene, Houston, Plano and Austin). None of these cities has business license fees, four of the six have no telephone tax and just one has taxes on cable and water. However, to make up for these revenue shortfalls, all six cities have high property taxes, ranging from 2.19% to 2.84%. Texas is a reminder that cities can remain inexpensive overall even though they may be expensive in a specific area of business operations.

Although it is home to the following thirty-three cities after the twenty least expensive, California has only two cities on the list of twenty least expensive (Moorpark and Mission Viejo). To compensate for California's high corporate income tax, currently 8.84% for C Corporations, these two cities have very low business license, utility, and property taxes. Mission Viejo has no business license tax while Moorpark has an annual flat-rate fee of $36. Neither city has utility taxes, and the property tax rates range from 1.04% in Mission Viejo to 1.075% in Moorpark, significantly below the *Survey* median of 1.29% and the California median of 1.15%. The two cities also have sales tax rates ranging from 7.25% to 7.75%, below the *Survey* median of 8.25%.

California and State Competition over Businesses

The regulation, tax, and incentive climate within states is playing an increasing role in a business' decision-making process. State and local governments compete for businesses by offering the best incentive packages while also upselling the state or municipality's strategic location and complementary industries. Despite rising costs, California for years has been a destination for new businesses due to factors independent of the government's economic development departments: climate, population density, port access, and an educated workforce, particularly in Silicon Valley.

Recently, though, businesses have started relocating to neighboring low-cost states in an apparent realization that California's high cost is uncompetitive. In this year's *Survey*, California had 99 cities ranked as High Cost or Very High Cost. Meanwhile, nearby states such as Texas and Nevada have no cities in either ranking, and Portland is the only high cost city in Oregon. Rising business expenses are especially relevant in the major California metropolitan areas. For example, in Los Angeles County, 45 of the 74 cities are rated in the two highest cost categories, up from 44 last year. The reason for rising expenses lies with city councils and county boards, which are adding new regulations to an already dense tax code.

The business exodus from California is not limited to small or even medium-sized businesses. In April of 2014, Toyota suddenly announced that it would be moving one of its headquarters, and 3,000 jobs, from Torrance to Dallas. While there were other factors playing a role in Toyota's decision, including the desire to have management closer to the Midwest manufacturing location, the company did receive an incentive package from Texas. The automaker is eligible for $40 million from Governor Perry's Texas Enterprise Fund, plus local tax breaks in Plano. Similarly, in February Occidental Petroleum announced that it would be moving its headquarters from Los Angeles to Houston and spin off its California assets into a separate company. Several years ago Nissan moved its headquarters from Gardena to Nashville and left a clear statement as to the reasoning: "The costs of doing business in Southern California are much higher than the costs of doing business in Tennessee."

The aerospace and defense industry, predominant in California during the Reagan years, is gone as well. Its last vestiges disappeared when Northrop Grumman relocated in 2010 followed by Raytheon and Airborne Systems in 2013. This decline has hit Southern California particularly hard; a UCLA Anderson School of Management study estimated that the Los Angeles area has lost 3.1% of its employment base since 1990. California still maintains robust car, technology,

Table 3: The Cities of Los Angeles County

City Name	Retail License Fee Rank	Property Tax Rank	Cost Rating
AGOURA HILLS	9	18	$$
ALHAMBRA	42	22	$$$$
ARCADIA	37	61	$$$$
ARTESIA	56	2	$$$
AZUSA	39	8	$$$$
BALDWIN PARK	27	36	$$$$
BELL	60	71	$$$$$
BELL GARDENS	12	41	$$
BELLFLOWER	18	19	$$$$
BEVERLY HILLS	71	53	$$$$$
BURBANK	20	7	$$$$
CALABASAS	1	10	$$$
CARSON	53	45	$$$
CERRITOS	16	1	$
CLAREMONT	59	5	$$$$
COMMERCE	25	43	$$
COMPTON	52	31	$$$$$
COVINA	22	25	$$$$
CUDAHY	45	44	$$$$$
CULVER CITY	69	4	$$$$$
DIAMOND BAR	7	50	$$
DOWNEY	51	21	$$$$
DUARTE	17	28	$$
EL MONTE	49	66	$$$$$
EL SEGUNDO	73	34	$$$$$
GARDENA	62	54	$$$$$
GLENDALE	2	6	$$$$
GLENDORA	30	26	$$
HAWTHORNE	68	35	$$$$$
HUNTINGTON PARK	58	68	$$$$$
INDUSTRY	3	74	$$$$
INGLEWOOD	70	67	$$$$$
IRWINDALE	57	60	$$$$$
LA MIRADA	29	14	$$
LA PUENTE	21	29	$$
LA VERNE	48	13	$$$$

Table 3, continued on the next page, lists the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in Los Angeles County. Please note that the license fee and property tax rankings are in comparison to only the other cities in the county. Any cities with equal fees or tax rates receive the same ranking.

and entertainment industries, but with an unforgiving business climate these industries could also slowly begin to change.

One of the major narratives is the competition between California and Texas. Texas is especially reminiscent of an earlier California: a huge, Republican state experiencing rapid growth. Governor Rick Perry has made courting California companies one of his top priorities, even visiting California to talk with the companies. Silicon Valley too is beginning to feel the competition. Although there is no real danger yet of Silicon Valley moving, many companies are turning their expansion efforts towards Austin.

Texas is not alone in this game of baiting California businesses. Utah, Nevada, and Arizona are making similar economic offers to try and tempt business into their states. Even Governor Cuomo recently launched "Start-Up NY," a campaign that launched ads across California highlighting newly created tax-free zones and other incentives for companies that relocate. Despite these political difficulties, California still retains inherent economic attractions of location and climate that no other state can match. Additionally, Governor Jerry Brown has begun to take a proactive stance by highlighting the growth areas of the state and implementing several incentive policies. Therefore, many large companies are still moving into the state: Dell, Samsung, Caterpillar, and Amazon are all set to open or expand new facilities in California. In particular, Silicon Valley attracts high growth venture capital firms in numbers that dwarf any other state; for example, in 2012, the state brought in $3.2 billion in investments while Texas totaled only $924 million. Brook Taylor, spokesman for Gov. Jerry Brown's Office of Business and Economic Development, points to a budget surplus and many companies

Table 3: The Cities of Los Angeles County (cont.)

City Name	Retail License Fee Rank	Property Tax Rank	Cost Rating
LAKEWOOD	40	17	$$$
LANCASTER	11	40	$$
LAWNDALE	28	12	$$$$
LOMITA	67	55	$$$$$
LONG BEACH	33	16	$$$$
LOS ANGELES	74	51	$$$$$
LYNWOOD	24	69	$$$$$
MANHATTAN BEACH	66	3	$$$$
MAYWOOD	46	58	$$$$$
MONROVIA	34	72	$$$
MONTEBELLO	35	73	$$$$
MONTEREY PARK	38	63	$$$$
NORWALK	36	20	$$$$
PALMDALE	15	65	$$$
PARAMOUNT	14	62	$$$
PASADENA	50	23	$$$$$
PICO RIVERA	55	27	$$$$
POMONA	63	39	$$$$$
REDONDO BEACH	43	9	$$$$
ROSEMEAD	8	52	$$
SAN DIMAS	31	38	$$
SAN FERNANDO	65	70	$$$$$
SAN GABRIEL	32	64	$$$$$
SANTA CLARITA	4	49	$$
SANTA FE SPRINGS	19	32	$$$
SANTA MONICA	72	24	$$$$$
SIGNAL HILL	13	15	$$
SOUTH EL MONTE	44	59	$$$$
SOUTH GATE	54	46	$$$
TEMPLE CITY	26	57	$$
TORRANCE	64	48	$$$$$
Uninc. LOS ANGELES CO.	5	37	$$$
VERNON	23	42	$$
WALNUT	10	30	$$
WEST COVINA	41	56	$$$
WEST HOLLYWOOD	61	47	$$$$
WESTLAKE VILLAGE	6	11	$
WHITTIER	47	33	$$$$

Photo by Wesley Edwards

moving in to the state as a positive sign for the business climate. He released in a statement saying, "Dozens of businesses big and small - including companies like Genentech and Amazon - have relocated or expanded in California in the past year, in part, because of pro-job policies pushed by the administration."

State Economic Development

California's budget remains tight at the state and local levels, creating a challenge to providing economic incentives using legislation. The legislative decisions being made across the state have reduced project subsidies drastically, choosing to implement limited-scale tax credits instead. These tax credits, at the statewide level, are not new, rather, they are restrictive modifications. Cities face the same challenges of attempting to pay for their ever expanding budgets by placing new tax measures on the ballot.

As unemployment slowly inches towards pre-recession levels, the repeal of Geographically Targeted Economic Development Area Tax Incentives (G-TEDA) and its replacement by the New Employment Credit (NEC), marks the contraction of a previously broad economic development initiative. G-TEDA created areas of economic development focus called Enterprise Zones (EZ), where communities demonstrated blighted conditions such as high poverty or high unemployment.

Table 4: The Cities of San Diego County

City Name	Retail License Fee Rank	Property Tax Rank	Cost Rating
CARLSBAD	15	5	$$$
CHULA VISTA	11	6	$$
EL CAJON	8	13	$$$
ENCINITAS	3	1	$
ESCONDIDO	13	9	$$
IMPERIAL BEACH	10	10	$$
LA MESA	7	16	$$
LEMON GROVE	5	12	$
NATIONAL CITY	12	8	$$
OCEANSIDE	16	2	$$$
POWAY	2	3	$
SAN DIEGO	9	15	$$
SAN MARCOS	5	4	$
SANTEE	4	11	$
Uninc. SAN DIEGO CO.	1	14	$
VISTA	14	6	$$

Table 4 lists the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in San Diego County. Please note that the license fee and property tax rankings are in comparison to only the other cities in the county. Any cities with equal fees or tax rates receive the same ranking.

Within these EZs, a variety of state and local incentives were offered; mainly hiring tax credits, preferential treatment for state contracts, subsidizing the cost of development and funding related infrastructure improvements.

The repeal of G-TEDA and the implementation of NEC repeals these Enterprise Zones, and replaces previously recognized EZs with Designated Geographic Areas (DGA), except census tracts within previous EZs with the lowest unemployment and poverty levels. DGAs reach beyond the previous EZ by including designated census tracts that have the highest unemployment and highest poverty within the state. LAMBRAs are also repealed and absorbed by the newly created DGAs. Existing tax credits from G-TEDA, including the EZ Employee Credit, cannot be generated after Jan. 1, 2014.

NEC creates a credit for newly hired, full-time employees within the DGA to replace the hiring credit provided by G-TEDA. NEC credits can only be claimed by a full-time employee who was hired after Jan. 1, 2014, receives starting wages that exceed 150% but not more than 350% of the State minimum wage AND meets one of the five conditions: was unemployed for the six months preceding hiring, is a veteran separated from the U.S. Armed Forces in the preceding 12 months, received the Earned Income Tax Credit in the previous taxable year, is an ex-offender convicted of a felony, or currently receives CalWORKS or general assistance. Finally, in an effort to incentivize small businesses, rather than large corporations, only businesses classified as small businesses by NAICS are eligible to receive NEC. The culmination of these strict requirements narrows the effect of the economic program in comparison to G-TEDA. Not only is the substance of the incentives being offered greatly reduced, but also the requirements to claim the incentives are much greater. This reduction in breadth is in favor of a more targeted incentive program for middle-class, small business employment.

In 2013, Governor Edmund G. Brown signed into law AB 93 and SB 90, which include a sales tax exemption, hiring credits, and the California Competes tax credits. The sales tax exemption aims to reinvest in manufacturing in biotech, high tech, and similar sectors. California Competes is directed towards businesses that want to move to California or are already in California and would like to stay. A total of $380 million dollars is available for this program from 2013-2018. A quarter of these funds are set aside for small businesses each fiscal year in recognition of the important role they play in the California economy.

Businesses can apply for this tax credit and will be evaluated based on job creation, investment, and amount of credit requested compared to other applicants during the application period. Businesses with the highest cost-benefit ratio will be evaluated further based on factors such as job retention, economic impact in California, unemployment in the area, and strategic importance. For the fiscal year 2013-2014, 29 businesses received a collective total of $28,904,663 in tax credits. For the current fiscal year, the Governor's Office of Business and

Table 5: The Cities of San Bernadino County

City Name	Retail License Fee Rank	Property Tax Rank	Cost Rating
ADELANTO	4	18	$$
APPLE VALLEY	6	7	$$
BARSTOW	8	6	$$
CHINO	12	1	$$$
CHINO HILLS	2	1	$
COLTON	15	13	$$$$$
FONTANA	16	13	$$$$$
GRAND TERRACE	11	13	$$$
HESPERIA	3	8	$
HIGHLAND	7	10	$$
LOMA LINDA	9	9	$$$
ONTARIO	14	3	$$
RANCHO CUCAMONGA	13	4	$$
REDLANDS	18	12	$$$$
RIALTO	17	13	$$$$$
SAN BERNARDINO	19	11	$$$$$
Uninc. SAN BERNARDINO CO.	1	13	$$
UPLAND	10	4	$$
VICTORVILLE	5	18	$$

Table 5 lists the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in San Bernadino County. Please note that the license fee and property tax rankings are in comparison to only the other cities in the county. Any cities with equal fees or tax rates receive the same ranking.

Photo by Wesley Edwards

Table 5: The Cities of Riverside County

City Name	Retail License Fee Rank	Property Tax Rank	Cost Rating
BANNING	6	21	$$$
BEAUMONT	13	20	$$$
CATHEDRAL CITY	13	22	$$$$
COACHELLA	22	9	$$$$$
CORONA	20	6	$$
DESERT HOT SPRINGS	11	17	$$$$
HEMET	8	11	$
INDIAN WELLS	5	16	$$
INDIO	18	12	$$$$
LA QUINTA	13	12	$$
LAKE ELSINORE	3	3	$
MORENO VALLEY	21	2	$$$$
MURRIETA	10	6	$$
NORCO	16	4	$
PALM DESERT	17	12	$$$
PALM SPRINGS	12	18	$$$$
PERRIS	4	5	$
RANCHO MIRAGE	7	12	$$
RIVERSIDE	19	8	$$$$
SAN JACINTO	9	10	$
TEMECULA	2	1	$
Uninc. RIVERSIDE CO.	1	19	$$

Table 5 lists the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in Riverside County. Please note that the license fee and property tax rankings are in comparison to only the other cities in the county. Any cities with equal fees or tax rates receive the same ranking.

Economic Development (GO-Biz) is evaluating 253 applications requesting a total of $289 million. The program is authorized to award $151.1 million this year.

Many cities continue to experience financial instability and difficulty funding their programs, and thus have been forced to add tax increases to the ballot. Receiving the most attention of these measures were the nearly identical Sugary Drink measures in San Francisco (Proposition E) and Berkeley (Measure D). While the measure failed to receive the necessary two-third supermajority in San Francisco, Berkeley was successful in passing the measure which will add a general tax of one cent per ounce of sugar for distribution of high-calorie and sugary drinks. Businesses with less than $100,000 in annual gross receipts would be exempted from the tax, in a weak effort to somewhat shield small businesses from the measure.

Other municipalities and counties across the state have added more general sales tax increases of varying degrees benefiting a wide range of public goods such as healthcare and infrastructure. Alameda County's Measure AA, originally enacted in 2004, was approved by voters to extend a 0.5%

sales tax until 2034. Since its approval, the tax has generated approximately $100 million in revenue to benefit healthcare services in Alameda County, the seventh most populous county in California. Alameda County also doubled its transportation sales tax, from 0.5% to 1%, with the passage of Measure BB. The City of Monterey approved Measure P, enacting a one cent per dollar sales tax set to expire in four years. Sonoma County is authorized to impose an additional 0.125% sales tax with the passage of Measure M to benefit public libraries. The general trend of adding seemingly small tax increases here and there across the local government of California is clear.

Business taxes have been added to the ballot in a number of different cities in California including Antioch, Isleton and Guadalupe. Antioch's ballot Measure O would institute a residential landlord business license tax to provide funds to support the city. Isleton's Measure E would implement a one-tenth percent business tax. Like Antioch, this would provide much needed funds to Isleton's budget to pay for general services such as law enforcement, fire protection, and infrastructure. Guadalupe's Measure W would alter the city's business tax to replace the current flat fee with a percentage of gross revenue tax. This would provide much needed funds to Guadalupe's income and help ensure that Guadalupe does not have to give up its incorporated status.

Minimum Wage and Recession Recovery

The Great Recession, which lasted from December 2007 to June 2009, is considered to be the worst global recession since World War II. In 2008 and 2009, the U.S. labor market lost 8.4 million jobs, or 6.1% of all payroll employment. Five years later, most U.S. states have still not regained all of the jobs lost, but the recovery has been increasingly positive.

In June of 2014, California reached a sizeable milestone, finally topping its July 2007 peak for nonfarm employment. Within California, the recovery has been uneven. For example, the Inland Empire city of San Bernardino has been one of the slowest recovering large U.S. cities since the recession. The types of industries in a given region play a significant role in economic recovery. For example, the computer systems design services and wired telecommunications industries have shown meaningful wage growth. Standard salaries in these industries are north of $100,000 per year. However,

Table 6: The Cities of Orange County

City Name	Retail License Fee Rank	Property Tax Rank	Cost Rating
ALISO VIEJO	1	24	$
ANAHEIM	19	18	$$
BREA	14	22	$
BUENA PARK	22	15	$$$
COSTA MESA	10	19	$
CYPRESS	26	8	$$$
FOUNTAIN VALLEY	12	7	$
FULLERTON	21	15	$$
GARDEN GROVE	23	26	$$$
HUNTINGTON BEACH	13	11	$$$
IRVINE	8	13	$$
LA HABRA	14	6	$
LAGUNA HILLS	1	25	$
LAGUNA NIGUEL	1	23	$
LAKE FOREST	1	3	$
MISSION VIEJO	1	2	$
NEWPORT BEACH	18	19	$$
ORANGE	24	15	$
PLACENTIA	27	9	$$$$
RANCHO SANTA MARGARITA	1	28	$$
SAN CLEMENTE	17	1	$$$
SAN JUAN CAPISTRANO	16	4	$
SANTA ANA	28	21	$$$$
SEAL BEACH	11	5	$$$$$
TUSTIN	9	14	$
Uninc. ORANGE CO.	1	27	$
WESTMINSTER	25	12	$$$$
YORBA LINDA	20	10	$$

Table 6 lists the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in Riverside County. Please note that the license fee and property tax rankings are in comparison to only the other cities in the county. Any cities with equal fees or tax rates receive the same ranking.

Photo by Wesley Edwards

Table 7: The Cities of Alameda County

City Name	Retail License Fee Rank	Property Tax Rank	Cost Rating
ALAMEDA CITY	7	9	$$$$$
BERKELEY	11	10	$$$$$
DUBLIN	1	3	$$
EMERYVILLE	10	7	$$$$$
FREMONT	3	2	$$$
HAYWARD	4	6	$$$$$
LIVERMORE	9	1	$$$$$
NEWARK	2	5	$$$
OAKLAND	11	11	$$$$$
PLEASANTON	5	3	$$$
SAN LEANDRO	6	12	$$$$$
UNION CITY	8	8	$$$

Tables 7 lists the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in Alameda County. Please note that the license fee and property tax rankings are in comparison to only the other cities in the county. Any cities with equal fees or tax rates receive the same ranking.

California's cost of living growth continues to offset income growth. One response to higher cost of living, in California as well as in other states, is an effort to raise the minimum wage.

In September 2013, California Governor Jerry Brown signed into law a $2 minimum wage increase, to be enacted in two parts: the wage became $9 an hour in July 2014 and will increase again to $10 in January 2016. This makes California's future minimum wage, at $10 an hour, one of the highest in the country.

Connecticut, Delaware, Hawaii, Maryland, Massachusetts, Michigan, Minnesota, Rhode Island, Vermont, West Virginia and D.C. all enacted increases to the minimum wage in 2014. They were followed by Arizona, Colorado, Florida, Missouri, Montana, New Jersey, Ohio, Oregon, and

Washington, which increased the wage in January 2015. Following this trend, Alaska, Arkansas, Nebraska, South Dakota approved future wage increases during the November 2014 election. Three of these increases include at least two steps in the enactment process, similar to California's multiple-step wage increase. Illinois citizens confirmed their support for a higher minimum wage in an advisory question initiative, making half the states supporters of a higher wage.

There has been speculation that an increase in minimum wage can adversely affect small business and overall job growth for a state due to the resulting higher wage costs. However, according to a minimum wage analysis conducted by Goldman Sachs, states where the minimum wage went up had faster employment growth than states where the minimum wage remained at the 2013 standard. Similarly, the Department of Labor issued a report in July that found that the 13 states that had raised their minimum wages on January 1 have added jobs at a faster pace than those that did not. It is important to note that there have been unsuccessful efforts in Congress to raise the federal minimum wage; for now, movement on minimum wage is largely decided at the state level.

California Cities are High Cost, Does it Matter?

"Yes and no. Businesses still want to locate in California," said Larry Kosmont, President and CEO of Kosmont Companies. "The Golden State has world-class weather, amenities, a diverse and skilled workforce, a strategic Pacific Rim location, an expanding statewide and regional transportation system and a burgeoning population. However, be warned, the State has killed its golden goose of redevelopment and many cities are turning to increased business and development taxes in order to fill that financial gap." As a result, "many mid- and large-sized companies are responding by staying while minimizing or reducing their business footprint in California, unwilling to forgo the State's immense consumer base." Kosmont clarifies, "The truth is, companies want to be in California. But somewhere a CEO is pondering, 'How small an office in California can I get away with and still service that market?' The sales office then goes up in L.A. or the Bay Area, but the bulk of jobs and back-end functions end up in Tennessee, Texas or Arizona."

Despite California's numerous appealing qualities for businesses, "many local and statewide business incentives have dried up in California." The reality is, "California's high costs are symptomatic of an underlying problem. California's tax policies and political culture both cause significant problems for cities attempting to attract and retain businesses. Specifically, redevelopment dissolution and several tax-restricting ballot measures have declared some traditional income streams off limits for economic development, thereby forcing California cities to be creative in finding new sources of revenue. As a primary example, tax increment financing, a powerful tool used throughout the state

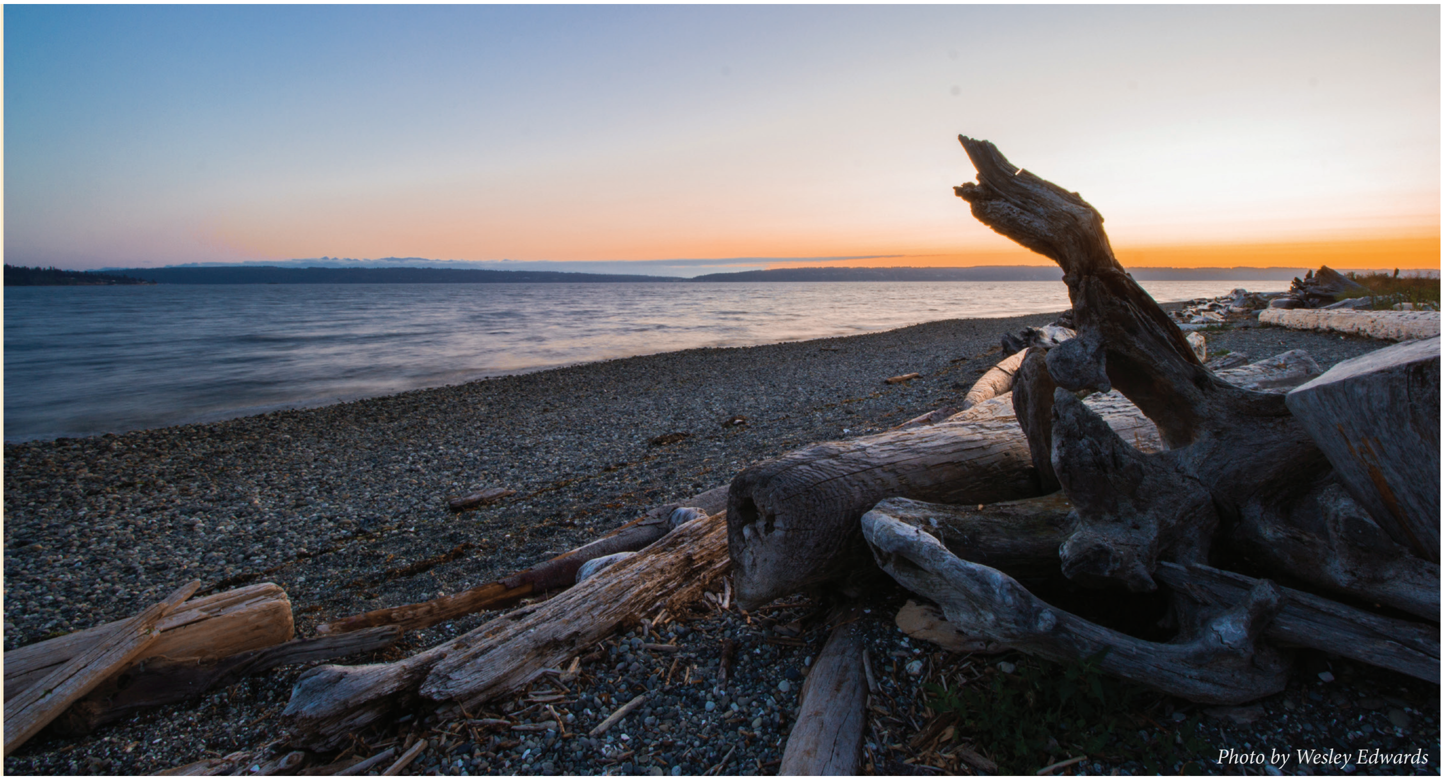

Photo by Wesley Edwards

under redevelopment, is available but no longer easily implemented. Moreover, cities cannot turn to state-funding for aid as the state struggles to pay its own bills and is wondering what taxes it will raise to replace the temporary sales and income tax surcharges approved by the voters via Prop 30 which are set to expire in coming years. As a result, most cities may lack sufficient revenue from sales and other funding sources to support themselves while looking to raise taxes on an ever-shrinking local business base."

Sustainability and Infrastructure = Economic Development

"Despite these inherent challenges, attracting new businesses is imperative for cities in order to increase municipal tax revenues to pay for vital local services, necessary infrastructure improvements and increasingly high health care and pension costs for local government employees and retirees." Although the tools available under redevelopment are no more, Governor Brown did sign a number of bills this year that represent a financial beacon of hope for California cities, businesses and developers. Some of those bills bring powerful financing mechanisms, like tax increment, back to California cities and counties to create, implement and fund successful economic development projects. One bill in particular, SB 628, authorizes cities and counties to create a new government entity called an Enhanced Infrastructure Financing District (EIFD). This bill authorizes cities and counties to develop a vast range of infrastructure projects funded by tax increment and other revenue streams that are not subject to the same burdensome requirements of existing IFD law. If this bill can be successfully implemented, it will fund a number of projects that complement existing public resources, create new working relationships amongst the public, private and non-profit sectors and possibly generate incentives for businesses to locate in California cities. The state has also approved legislation that allows EIFDs in redevelopment areas and for military base redevelopment and reuse; the goals of which are to create infrastructure and re-employment opportunities and revitalize underused areas.

Moreover, through certain legislative actions such as the approval of a cap and trade program and the expected $1 billion a year that it will generate and make available to local communities on a competitive basis through the Greenhouse Gas Grant Funding program, as well as the sustainable communities and climate protection act and groundwater management bills like AB 1739, California has affirmed that future economic development and infrastructure investment will be inextricably tied to sustainability and regional planning strategies that promote cross-jurisdictional-collaboration. California cities that are able to creatively comingle tax increment financing through EIFDs and sustainable funding programs such as the Greenhouse Gas Grant program will have the ability to attract and retain businesses more aggressively, without solely relying on increasing business taxes and development fees.

In conclusion, to remain competitive and to induce private investment, California cities will need to create transformative economic development projects in their communities by leveraging new legislative tools that attract businesses and developers in order to generate sufficient tax revenues to meet their financial needs, rather than increasing business taxes and fees. If the state's newest tools are not leveraged to the fullest, a significant number of jobs and back office functions will likely continue to move out of state.

Table 8: The Cities of Contra Costa County

City Name	Retail License Fee Rank	Property Tax Rank	Cost Rating
ANTIOCH	7	1	$$
CONCORD	9	2	$$$
DANVILLE	3	4	$$$
MARTINEZ	5	8	$$$
PITTSBURG	2	6	$$
PLEASANT HILL	10	7	$$$$
RICHMOND	8	10	$$$$$
SAN PABLO	4	9	$$$$$
SAN RAMON	1	4	$
WALNUT CREEK	6	2	$$

Table 9: The Cities of San Mateo County

City Name	Retail License Fee Rank	Property Tax Rank	Cost Rating
BURLINGAME	2	4	$
COLMA	1	3	$
DALY CITY	9	5	$$$$$
FOSTER CITY	8	2	$$$$
MENLO PARK	4	7	$$$
REDWOOD CITY	5	8	$$$$
SAN BRUNO	6	5	$$$
SAN MATEO	7	9	$$$
SOUTH SAN FRANCISCO	3	1	$$

Tables 8 and 9 list the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in Contra Costa and San Mateo County respectively. Please note that the license fee and property tax rankings are in comparison to only the other cities in the county. Any cities with equal fees or tax rates receive the same ranking.

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