Cost of Doing Business Survey®

Executive Summary

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Welcome

Introduction

In 2010, the *Cost of Doing Business Survey* celebrates its sixteenth year of publication and its eighth year since the Kosmont Companies began its partnership with the Rose Institute of State and Local Government. The goal of the *Survey* is to provide information about the costs required to operate a business in various cities across the country. Such information is of particular interest to, among others, real estate and business professionals, city and county governments, and business and economic associations. The *Survey*'s detailed profiles of hundreds of cities nationwide enable these individuals and organizations to easily compare the costs of doing business in different communities. The ability to compare these costs helps with important business decisions, like where to begin a specific project or even where to relocate the business itself.

The city profiles contained in the 2010 *Kosmont-Rose Institute Cost of Doing Business Survey* are the end result of a labor-intensive survey process. Raw data on the fees, taxes, and economic incentives and programs that businesses may encounter in each city must be collected. This information is then carefully analyzed for all 413 cities across the country. Comparative analysis between cities is achieved through the use of the median rate from the previous year.

The result of this comparative analysis allows the *Survey* to designate a cost rating for each city using a proprietary formula: Very Low Cost ($), Low Cost ($$), Average Cost ($$$), High Cost ($$$$), or Very High Cost ($$$$$). This year, there are eighty-two Very Low Cost cities, eighty-three Low Cost cities, eighty-three Average Cost cities, eighty-three High Cost cities, and eighty-two Very High Cost cities. For more information on the *Survey*'s methodology, please consult the "User Guide" on the *Cost of Doing Business Survey* CD.

National Analysis

Twenty Most Expensive Cities

This year's twenty most expensive cities are distributed across every region of the country. There are five cities in the Northeast, four in the Midwest, two in the Southeast, four in the Southwest, one in the Pacific Northwest, and four in California. Some cities, like Philadelphia, New York, and Chicago, have long histories as central business hubs in their respective regions. These cities can therefore take advantage of abundant demand for office space by levying high business, property, and utility taxes on businesses that are willing to pay a premium to be based in the city. Major cities provide businesses with access to key financial markets, central trade outlets, investors, buyers, and other partners that other, less expensive cities with less access cannot. Businesses in these cities also grow and benefit financially from access to global markets and international trade.

The most expensive cities in this year's *Survey*, unsurprisingly, have some of the highest business taxes. Fifteen of the twenty most expensive cities assess business taxes based on either gross receipts or general profit. With such formulas, the taxes a business pays and a city receives has the potential to increase rapidly. In eighteen of these cities, a medium-sized retail business would pay over $10,000 a year in business license fees alone. In eight of these cities, however, a medium-sized retail business would pay over $100,000 a year in licensing fees! High fees can therefore impose a heavy burden on businesses struggling to get by.

The twenty most expensive cities also have high property taxes. Half have property tax rates over 2.0%, with Chicago and Jersey City having the highest rates at 4.82% and 6.0% respectively. Many of the most expensive cities also have high utility user taxes. Culver City has the highest gas, electricity, and cable utility taxes in the *Survey* at 11%, while Gilbert, Los Angeles, Phoenix, Richmond, San Francisco, and Santa Monica all have utility taxes over 7.5%. Mesa, Philadelphia, and Portland do not impose utility taxes, but they do have very high property tax rates (over 2.25%) that account for their Very High Cost ratings.

Table 1 lists sales tax rates, retail business license fees, and property tax rates for the twenty most expensive cities surveyed in 2010. The cities are arranged in alphabetical order.

Table 1: The Twenty Most Expensive Cities

City Name and State	Sales Tax	Retail Business License Fee	Property Tax
AKRON, OH	6.75%	$112,500	2.64%
CHICAGO, IL	10.25%	$129,320	4.82%
CINCINNATI, OH	6.99%	$21,000	2.35%
CLARKSBURG, WV	8.25%	$500	1.81%
COLUMBUS, GA	6.78%%	$60,050	1.66%
CULVER CITY, CA	9.75%	$10,060	1.06%
GILBERT, AZ	7.80%	$150,000	2.43%
JERSEY CITY, NJ	7.00%	$40,000	6.00%
LOS ANGELES, CA	9.25%	$13,700	1.19%
MESA, AZ	8.05%	$175,000	2.29%
NAPERVILLE, IL	6.75%	$100,000	2.54%
NEW YORK, NY	8.38%	$88,500	1.53%
NEWARK, NJ	9.75%	$2,311	1.13%
PHILADELPHIA, PA	8.00%	$106,272	2.64%
PHOENIX, AZ	8.30%	$200,000	1.82%
PORTLAND, OR	0.00%	$20	2.65%
RICHMOND, VA	9.75%	$4,412	1.36%
SAN FRANCISCO, CA	9.50%	$60,500	1.16%
SANTA MONICA, CA	9.25%	$12,794	1.11%
TUCSON, AZ	8.10%	$200,000	2.25%

Twenty Least Expensive Cities

This year all of the least expensive cities are located west of the Mississippi River, with six in Texas and six in Washington. Significantly, these twelve cities, as well as Cheyenne, WY, and Henderson, Reno, and Las Vegas, NV, are all located in states that do not impose personal or corporate income tax. Billings, MT, Eugene, and Gresham, OR, in turn, are located in states that do not impose sales tax.

While Washington and Texas do not impose income tax, they diverge widely with regards to utility taxes. All six cities in Washington have high utility tax rates across the board. Vancouver and Yakima have the highest taxes on water in the *Survey* – 15% and 14% respectively. Kent imposes a high 5-6% tax on all utilities, while Federal Way imposes an even higher tax at 7.75%. In contrast, utility taxes remain extremely low in Texas cities. In Austin, Corpus Christi, Fort Worth, and Houston, there are no utility tax rates over 2%. Abilene is the only city with utility taxes on water, and Fort Worth the only city that taxes telephone service. While every city in Washington taxes cable television, not a single Texan city does so.

Nine of the twenty least expensive cities do not charge business license taxes, while three only charge a flat rate of less than $150. This is especially beneficial to large businesses that would have to pay considerably more in fees if they were based in cities that assessed business license fees according to either gross receipts or number of employees. When taxes are assessed using either criteria, businesses must pay larger amounts as they grow in size, effectively punishing companies for expanding. Flat taxes, in contrast, encourage businesses to expand because higher fees are not levied as profits increase or as new employees are hired.

No Texas city charges business license fees, a critical factor in determining their Very Low Cost rating. However, it is important to note that the state of Texas does impose a franchise (business) tax on all companies doing business in Texas. This tax is based on a company's revenue, and a medium-sized retail business would pay approximately $5,000 a year. Businesses should take care to look at combined state and local taxes when making financial decisions; municipal fees and tax rates alone may not always fully reflect the cost of doing business. Since Texas has no personal income tax, though, these cities are still extremely affordable compared to the most expensive cities.

Table 2 lists sales tax rates, retail business license fees, and property tax rates for the twenty least expensive cities surveyed in 2010. The cities are arranged in alphabetical order.

The Golden State

Why do California cities consistently rank poorly?

According to the *Survey*'s founder, Larry Kosmont of the Los Angeles-based Kosmont Companies, the answer hinges on the political and economic climate of California itself. "Just by being located in California, these cities are at a 'cost' disadvantage right out of the gate," he says. "In fact, any California city that earns an Average Cost rating is doing fairly well in my book," he continues, noting that California's high sales and income taxes make it very difficult for California cities to effectively compete with those in other states.

In fact, 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, several tax-restricting ballot measures have declared some traditional income streams off limits, thereby forcing California cities to find new sources of revenue. In addition, these cities can count on little support from a state that struggles to pay its own bills.

Long-term economic development therefore has been systematically eroded by shortsighted tax policies as well as heavy exactions on business and development activities. While residents shift the tax burden onto business, some companies respond by relocating to more friendly economic climates. As a result, cities may lack sufficient revenue from sales and fees to support themselves while taxing an frequently shrinking local business base.

Without meaningful financial help from the state, California cities are left with only two basic options to raise funds: raise local taxes or encourage development. Raising taxes is widely unpopular and requires a public vote. To meet their needs, cities have historically relied upon revenues from real estate and businesses.

Mr. Kosmont breaks down these two sources into what he calls the "Four R's:" Redevelopment, Retail, Rooms, and Relocation. Redevelopment creates new sources of property tax; retail outlets bring cities more sales tax; hotel rooms tap into non-local spending; and businesses relocated to reside within city limits will pay additional taxes,

Table 2: The Twenty Least Expensive Cities

City Name and State	Sales Tax	Retail Business License Fee	Property Tax
ABILENE, TX	8.25%	$0	0.69%
AUSTIN, TX	8.25%	$0	1.81%
BILLINGS, MT	0.00%	$625	1.98%
CHEYENNE, WY	6.00%	$0	0.67%
CORPUS CHRISTI, TX	8.25%	$0	2.03%
DALLAS, TX	8.25%	$0	2.62%
EUGENE, OR	0.00%	$0	0.72%
EVERETT, WA	8.60%	$1,000	1.33%
FEDERAL WAY, WA	9.00%	$50	1.16%
FORTH WORTH, TX	8.25%	$0	0.86%
GRESHAM, OR	0.00%	$369	1.75%
HENDERSON, NV	7.75%	$5,600	1.02%
HOUSTON, TX	8.25%	$0	2.44%
KENT, WA	9.00%	$50	1.29%
LAS VEGAS, NV	7.75%	$5,650	1.15%
OVERLAND PARK, KS	7.65%	$0	0.15%
RENO, NV	7.73%	$7,545	1.28%
SPOKANE, WA	8.49%	$2,060	1.37%
VANCOUVER, WA	8.10%	$125	1.39%
YAKIMA, WA	8.20%	$1,285	1.15%

The Year in Review

2010 Survey Highlights

National

- ✦ All of the least expensive cities are located west of the Mississippi River, with six cities in Texas and six in Washington.
- ✦ Sixteen of the twenty least expensive cities are located in states that do not impose income tax, and three are located in states that do not impose sales tax.
- ✦ The Great Recession has caused many businesses to fold, leading to high unemployment and falling tax revenues. City and state governments are fundamentally rethinking the old framework of public finance, leading to greater privatization of city services and reconsiderations of pension benefits.

California

- ✦ California remains an expensive state in which to do business, especially after its 2009 sales, income, and vehicle tax increases went into effect.
- ✦ Thirteen of the 40 most expensive cities nationwide are in California, while only four of the 40 least expensive cities are in California.
- ✦ Los Angeles County and the Bay Area remain some of the most expensive areas in the state, while San Diego is one of the most affordable for business.
- ✦ California's unemployment rate remains the third-highest in the country at 12.3%, and a single-digit unemployment rate is unlikely to return until 2012.

Los Angeles County

- ✦ Only a quarter (18 cities) of the 72 Los Angeles County cities featured in the *Survey* received either a Low or Very Low Cost rating, while over half (41 cities) received either a High or Very High Cost rating.
- ✦ Only three cities (Agoura Hills, Glendora, and Westlake Village) received Very Low Cost ratings.
- ✦ Los Angeles County's minimum sales tax rose to 9.25% after a voter-approved half-cent sales tax increase went into effect in July 2009. Pico River and South Gate have the highest sales tax rates in the *Survey* at 10.75%.

bring paying jobs and, thus, an influx of disposable income to area businesses. While all four of these sources are geared to serve both cities and citizens, local fiscal policies in California have disproportionately used the Four R's at the expense of broad range goals.

Many California cities view housing as a budgetary expense rather than a source of revenue, opting instead to chase the commercial projects, especially those that are sales tax "thumpers." Also, assistance for small businesses and industrial incentives have consistently been second-tier priorities for local economic development departments. "The unfortunate reality is that California cities have become so dependent on a few unbalanced sources of income that it makes it difficult for them to commit to a long-term economic development plan with the appropriate incentives and still pay their day-to-day costs," he notes. "In their rush for sales tax cash registers, cities frequently forget that you need rooftops or well-paying jobs to generate sales."

While many California cities have scrambled to encourage their businesses to remain or expand locally, the state continues down a path that erodes the profitability of business with tax and fee policies, rather than reducing barriers to growth that could stimulate even greater back-end fiscal benefits.

A Stalled Recovery

Current economic indicators show that the United States and California remain mired in a deep recession. While many were hopeful that the economy would turn around by the end of 2010, the stagnant growth in jobs and GDP over the summer suggests recovery will come much slower than anticipated. California is facing a bleak economic forecast for the near future. The UCLA Anderson Forecast predicts little to no growth for the remainder of 2010, although it does estimate that the state economy will regain normal growth rates by mid-2011. Early this year, California economists were very optimistic after the state's tax revenue from July 2009 to March 2010

“In their rush for sales tax cash registers, cities frequently forget that you need rooftops or well-paying jobs to generate sales.”

- Larry Kosmont

exceeded projections by $2.3 billion, or 4.1%. April 2010’s revenue was 1.4% higher than last year’s, but still 26.4% below expectations, dashing some of the optimism about California’s recovery. State Controller John Chiang summed up the current situation, “We’ve seen a slight uptick… but there is still fundamental weakness in California.” Lower-than-expected revenue will make it even more difficult for the state to balance its budget, which already includes a nearly $20 billion gap due to California’s deficit and revenue shortfalls.

Another important economic indicator, housing prices, is also sending mixed signals. Median home prices continue to rise; from March 2009 to March 2010, they rose 15.4%. The quantity of sales in that period, though, was lower than the previous year. This is due in part to the lower availability of cheap, foreclosed properties, especially in the rapidly growing inland suburbs and exurbs that helped fuel much of that sales growth. In April 2010 they comprised approximately 36% of re-sales, while the year before they comprised nearly 54%. It is a positive sign that consumers are beginning to buy more expensive properties in coastal areas. However, the expiration of several government programs intended to stimulate the housing market may negatively impact property sales across the state.

Above all, California’s continued high unemployment shows that the business environment in the state is undergoing a deeper and more painful recession than the rest of the country. As of July 2010, California’s unemployment rate was 12.3%, the third-highest in the nation behind Nevada (14.3%) and Michigan (13.1%). Although employment rose by 0.3% from March to July 2010, such marginal gains in aggregate do not reflect the incredibly high unemployment in California’s agricultural and rural interior where 23 counties have unemployment rates over 15% even when accounting for seasonal labor trends. The unemployment rate as of July 2010 is 15.5% in Riverside, 15.3% in Fresno, 18.7% in Merced, 23.7% in Coachella and 28.8% in El Centro. As inland areas tend to be less economically diverse and more dependent on individual sectors of the economy, like agriculture in Imperial County or housing construction in the Coachella Valley, it may take much longer for these regions to bounce back than the coastal cities.

This trend is already seen in decreasing unemployment rates in the major metropolitan areas. The unemployment rate is only 10.8% in the San Diego Metropolitan Statistical Area, 9.4% in San Francisco, 11.5 in San Jose, and 9.8% in Santa Ana although Los Angeles has seen unemployment increase to 13.4%. Other signs indicate that the technology and export industries in the Bay Area and the entertainment business in Southern California are beginning to revive, with the two regions receiving over $2.6 billion in venture capital investments in the fourth quarter of 2009. An uneven recovery, with the coastal cities resurgent while the inland interior languishes, would only reinforce a growing political and cultural division within the state.

Currently over 2.3 million Californians are unemployed, and over 1.6 million of them receive federal or state unemployment benefits. Given the very modest employment gains this year and a long-awaited recovery that has yet to materialize, even the most optimistic economists do not expect to see a single-digit unemployment rate until 2012. There is a strong possibility that California will experience a “jobless recovery,” as structural shifts within the economy may mean that many lost jobs will never return. Companies are saving money and increasing profits by cutting unessential employees, outsourcing abroad, and increasingly relying on technology and software instead of human labor. Even after the economy

recovers, it is likely that such companies will not rehire all the employees they laid off and will pay their new hires less. Californians will have to wait and see exactly what economic “recovery” will look like.

Pension Problems

While the financial crisis certainly has not improved California’s dire budget crisis, it has focused attention on the financial burden the state’s government employee pension system places on tax payers. Historically, California has offered generous pension plans for a variety of government employees, but the past ten years have seen pension costs increase over 2000%. During this same period, revenue from taxes increased by only 24%. According to the 2010 budget, nearly $4 billion will be diverted from higher education, transportation, parks and other programs to help fulfill the state’s pension obligations to former employees.

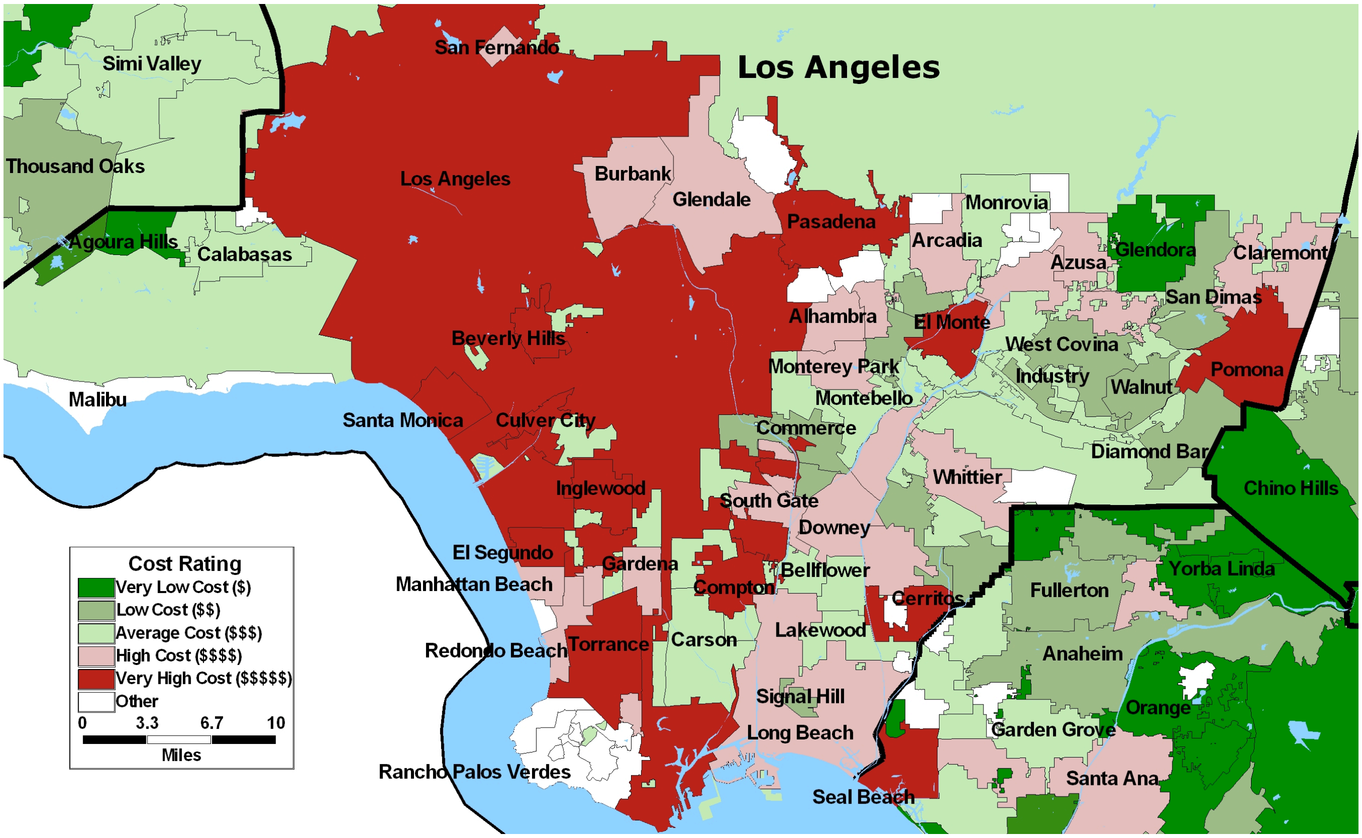
Many of these recipients are persons who once served vital roles within California’s governmental infrastructure such as police officers, firefighters, teachers, and prison guards. Under current law, these employees can retire in their 50s and receive a pension at 90% of their former salaries. These taxpayer-funded pensions are guaranteed forever, regardless of other economic activity that would make such payments impossible, and increase in proportion to inflation. According to the California Foundation for Fiscal Responsibility, there are over 15,000 retired government workers with pension incomes exceeding $100,000 per year. The financial crisis has only worsened matters. In 2008, prior to the recession, the unfunded pension deficit was already estimated at $65 billion dollars, to be amortized over the next few decades. A recent Stanford study, however, estimates that the unfunded pension deficit will exceed half a trillion dollars over the next 16 years. According to this study, the amount of California’s pension shortfall is more than six times greater than the total value of the state’s general obligation bonds.

Pensions are also placing a heavy strain on county and city governments. Los Angeles County paid over $800 million in pensions last year, and some economists expect that the County will pay over $1 billion annually within the next two years. The City of Los Angeles paid over $650 million, and may have to pay as much as $1.3 billion by 2014. These pension obligations have clearly contributed to Los Angeles’ current $485 million budget shortfall.

While the situation is dire at both the state and local level, California is making little progress towards reforming the system. Public employee unions, to which approximately 85% of California government employees belong, have substantial political clout in Sacramento. These unions, along with interest groups such as the AARP, strongly oppose most reforms that would alter the existing pension system. Rather than compromising during these difficult economic times, the California Public Employees’ Retirement System (CalPERS) requested an additional $600 million from the state to fund employee pension plans.

Meanwhile, with the State facing a $19.1 billion budget deficit, government officials and taxpayers are beginning to press for pension reform. California Senate Minority Leader Dennis Hollingsworth introduced a bill in the California Senate in May that addressed many key problems with the pension system. This bill would have raised the retirement age, scaled back pension and health care benefits for new employees, and increased employee contributions. In June, however, the Senate Public Employment and Retirement Committee derailed this bill, and it is unlikely that the California Legislature will adequately address the pension problem in the

Cost Rating Map of Los Angeles County 2010



near future. Governor Schwarzenegger summed up the situation, "Every year we are diverting more and more money away from higher education, health and human services, public safety, parks and environmental protection to pay for unsustainable retiree costs, and without action, those costs will keep skyrocketing. This is a classic example of Sacramento promising more than it can afford." Without a viable solution, the immense weight of government pension plans will likely lead to further financial problems, increased taxes, more debt, and potentially reduced services.

Recent Tax Increases

California has long been one of the highest-taxed states in the Union. In the last year, as California legislators struggled to balance the budget and make up for billions of dollars in budget gaps, they attempted to boost state revenue by increasing sales taxes, income taxes, and vehicle taxes while decreasing tax deductions for dependents.

A temporary one percent sales tax increase came into effect on April 1, 2009, upping the state portion of the sales tax from 7.25% to 8.25% and giving California the highest state sales tax rate in the country. According to the California State Board of Equalization, this sales tax increase is scheduled to expire July 1, 2011. In the mean time, there has been a decrease in consumer consumption, likely due to the recession as well as the tax increase. However, the increase in tax revenues per sale has almost offset the decrease in consumption. The California Legislative Analyst's Office estimates that the total sales and use tax revenues for FY 2010 will be slightly over $26 billion, up from $23.75 billion the previous fiscal year, and just $500 million short of the FY 2008 revenues.

California residents will also see higher personal income taxes after increases on every tax bracket went into effect January 1, 2010. The rate increase grows progressively larger with each tax bracket; the rate on the lowest bracket increases by 0.125% while the rate on the highest increases by 0.955%. This pushes California's highest tax bracket to 10.505%, the second highest state income tax rate in the country. The California Legislative Analyst's Office only expects a $200 million increase in revenues for FY 2011 for a total of $46.9 billion, still far short of the $54.2 billion received in the FY 2008. The disparity is due in large part to the continuing high unemployment rate. Unemployed and underemployed citizens' reduced incomes translate into dramatically lower income tax revenues.

In addition to tax increases to the two largest sources of revenue in California, the sales and income taxes, there have also been an increase in the vehicle license fee and a decrease in the tax deduction for dependents. The vehicle license fee increased from 0.65% to 1.15% as of May 2009, and the increase will last until July 1, 2011 with a possible two-year extension. The tax deduction for dependents fell from $319.00 to $102.00, saving the state $2.1 billion over the next two years while having a major impact on California families.

As California raises its taxes, it continues to lose businesses to nearby Arizona, Colorado, and Nevada. Arizona and Colorado's corporate income tax rates – 4.63% and 6.97% respectively – are much lower than California's 8.84%. Nevada does not assess income tax, making the state even more attractive to businesses. Salaried employees would also appreciate that these states' personal income tax rates (4.54% in Arizona and 4.63% in Colorado for the highest bracket; no income tax in Nevada) are all less than half California's 10.5%. Meanwhile, Arizona's state sales tax rate is 5.6%, Colorado's is 2.9%, and Nevada's is 6.8% in contrast to California's high 8.2% rate. The high cost of doing business in California may encourage some businesses to move out of state.

The Los Angeles Budget Crisis

The economic crisis has hit the City of Los Angeles particularly hard. Los Angeles' budget deficit for FY 2009-10 exceeds $200 million, while the projected FY 2010-11 deficit exceeds $485 million. Indicators of economic climate all attest to LA's economic trouble. The City of Los Angeles has an unemployment rate of 13.4%, the highest rate since the end of WWII. Taxable retail sales dropped 12.6% in the last fiscal year, and construction activity has fallen almost 30% from its 2006 high. Last year Los Angeles' credit rating was downgraded from "AAA" to "AA-".

Sizable declines in city revenue since the recession's onset have only contributed to Los Angeles' budget crisis. Property tax revenue has fallen by $64 million since FY 2008-09, and while the economy may begin to recover this year, property tax revenues are expected to decline by an additional $37 million during FY 2010-11. Projected revenue from business taxes is expected to be $56 million less than FY 2007-08 levels while revenue from

Table 3: The Cities of Los Angeles County, CA

City Name	Retail Business License Fee	Property Tax	Cost Rating
BELL	15	2	$$$$$
COMPTON	21	3	$$$$$
EL MONTE	24	7	$$$$$
HUNTINGTON PARK	16	8	$$$$$
LYNWOOD	50	9	$$$$$
INGLEWOOD	5	10	$$$$$
HAWTHORNE	7	19	$$$$$
LOS ANGELES	1	23	$$$$$
POMONA	12	27	$$$$$
PASADENA	35	33	$$$$$
SANTA MONICA	3	40	$$$$$
TORRANCE	11	45	$$$$$
BEVERLY HILLS	4	52	$$$$$
EL SEGUNDO	2	54	$$$$$
CULVER CITY	6	61	$$$$$
CERRITOS	57	65	$$$$$
REDONDO BEACH	30	4	$$$$
PICO RIVERA	19	5	$$$$
SAN FERNANDO	10	6	$$$$
NORWALK	38	11	$$$$
SAN GABRIEL	43	16	$$$$
MAYWOOD	27	17	$$$$
LOMITA	9	18	$$$$
MONTEREY PARK	36	20	$$$$
ARCADIA	37	21	$$$$
LONG BEACH	41	28	$$$$
CLAREMONT	18	36	$$$$
GLENDALE	67	39	$$$$
LA VERNE	25	41	$$$$
AZUSA	34	42	$$$$
CUDAHY	26	49	$$$$
WHITTIER	28	50	$$$$
ALHAMBRA	31	51	$$$$
LAWNDALE	46	53	$$$$
DOWNEY	22	57	$$$$
COVINA	51	59	$$$$

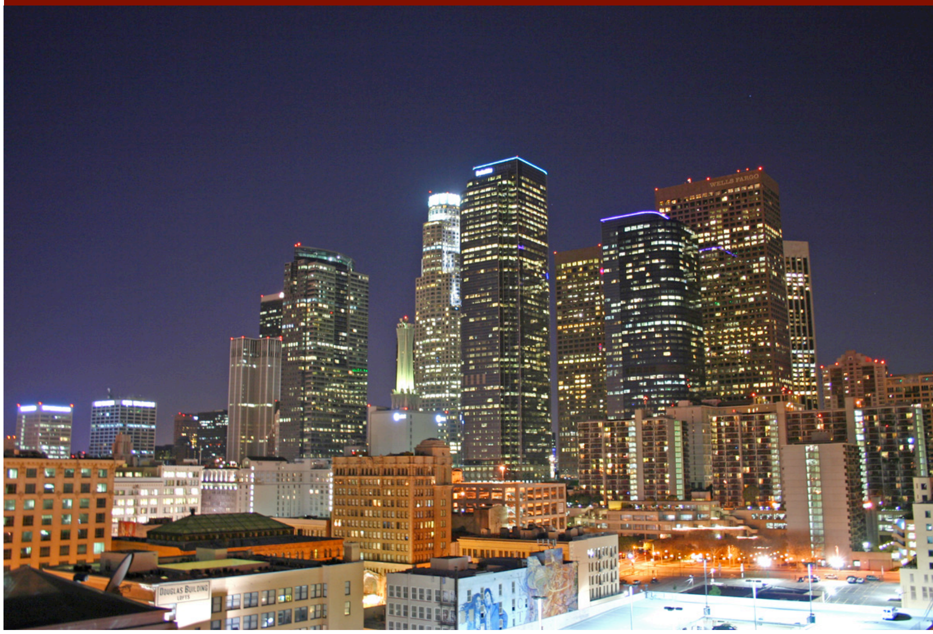
Table 4: The Cities of Los Angeles County, CA (continued)

City Name	Retail Business License Fee	Property Tax	Cost Rating
BURBANK	55	60	$$$$
MANHATTAN BEACH	8	62	$$$$
IRWINDALE	17	70	$$$$
GARDENA	13	72	$$$$
INDUSTRY	69	1	$$$
MONTEBELLO	39	12	$$$
PARAMOUNT	58	13	$$$
PALMDALE	54	15	$$$
MONROVIA	40	22	$$$
Uninc. LOS ANGELES CO.	70	25	$$$
SOUTH EL MONTE	29	26	$$$
BALDWIN PARK	47	34	$$$
WEST HOLLYWOOD	14	46	$$$
SOUTH GATE	20	47	$$$
CARSON	23	48	$$$
BELLFLOWER	64	56	$$$
LAKEWOOD	33	63	$$$
CALABASAS	68	67	$$$
ROSEMEAD	63	14	$$
SANTA CLARITA	71	24	$$
COMMERCE	49	29	$$
DIAMOND BAR	66	30	$$
TEMPLE CITY	48	31	$$
VERNON	53	32	$$
LANCASTER	62	35	$$
SANTA FE SPRINGS	56	37	$$
BELL GARDENS	60	38	$$
SIGNAL HILL	59	43	$$
WALNUT	61	44	$$
LA PUENTE	52	55	$$
SAN DIMAS	42	58	$$
LA MIRADA	45	69	$$
WEST COVINA	32	71	$$
GLENDORA	44	64	$
AGOURA HILLS	65	66	$
WESTLAKE VILLAGE	72	68	$

the transient occupancy tax is expected to be $26 million below peak revenues from FY 2007-08. Economists believe that revenues from sales, documentary transfer, and parking taxes will increase in the coming fiscal year; however, revenues will remain below those of previous years despite modest gains. Sales tax revenue, for instance, is projected to increase by nearly $14 million. Even with this best-case scenario, though, sales tax revenues would still be $43 million below the 2007-08 level.

As the 2009-10 fiscal year ends, Los Angeles officials are trying to deal with the current year's $212 million budget shortfall while at the same time preparing for next year's projected $485 million shortfall. Los Angeles will cover this year's deficit with funds from the city's reserves and transferred funds from the Los Angeles Department of Water and Power. But with only $230 million in reserve funds after covering this year's deficit, the city's reserves will be extremely low as the 2010-11 fiscal year begins.

Mayor Villaraigosa's proposed FY 2010-11 budget includes five strategies to eliminate the projected deficit: one-time sources of revenue, increased general fund revenues, employee furlough days, a capital spending freeze, and operational cost savings. The City expects to generate $53 million in one-time revenues by leasing parking garages to private operators and fixing parking meters. Such measures may help, but they will not accomplish the mayor's goal of creating "a roadmap towards fiscal sustainability." As Los Angeles' economy begins to recover, revenues from existing taxes may increase, but the mayor's office admits, "[The] City's General Fund revenues still lag behind the budgeted revenues for FY 2009-10." Mayor Villaraigosa has also proposed requiring most employees to take unpaid days off to reduce the city's salary costs, but even employees of the Convention Center, the LA Zoo, and Recreation and Parks are included among the many exceptions. The mayor projects a savings of $63 million from furlough days, as well as a savings of $39 million



"If we can't fix these government problems and get the economy going, the frame work of city finance is potentially at risk."

-Larry Kosmont

from the General Fund's capital spending freeze. It is important to note that most of the mayor's proposed cuts only apply to the General Fund. Employees and capital projects funded by other funds are not necessarily subject to furlough days, spending freezes, or budget cuts.

City employees have been worried that Villaraigosa's operational savings plans involve eliminating 3,546 jobs. In cutting nearly 10% of Los Angeles' public work force, the City would save approximately $176 million. Of these jobs, the City would only cut approximately 761 positions through layoffs; the majority of cuts would come from early retirement or worker transfers to self-supporting municipal agencies such as the Department of Water and Power. However, some projections suggest that the City must eliminate an additional 1,000 jobs because the current budget proposal relies too heavily on projected revenue increases that may not materialize. Proposed cuts to salaries and benefits, a key element of the mayor's budget, have angered the unions that represent over 95% of Los Angeles' 37,000 employees.

Residents and businesses within Los Angeles will acutely feel the effects of the City's budget crisis. The City is cutting funding to many programs that will result in delays in services such as pothole and other street repairs. Some programs, including animal shelters and child care services, will be shut down and others, like the library system, will have their hours reduced.

City Governments Go Business-Friendly

One of the few good things to come out of the Great Recession is that many city governments, now intensely eager to help businesses that provide jobs and tax revenue, are actively trying to give new start-ups a chance to get on their feet. One critical region is the Los Angeles Metropolitan Statistical Area (MSA), which had the most small business bankruptcies in the country last year. According to an Equifax report analyzing national bankruptcy trends, the number of new small businesses gone bankrupt in the Los Angeles MSA rose from 899 in the 4th Quarter of 2009 to 1,035 in the 1st Quarter of 2010 – a dramatic 15% increase in a single year. Although it is understandable that more businesses are likely to fold during a recession, even with a healthy economy Los Angeles business taxes place a heavy burden on new start-ups that make it difficult for them to survive.

In summer 2009, the *Los Angeles Times* examined the case of Shopzilla, Inc., a comparative shopping Internet search engine based in west Los Angeles. In 1997, Los Angeles had agreed to an 80% business tax discount for Internet firms in an effort to attract and keep high-tech firms in the city as a long-term source of economic growth. But with tax revenues falling and a ballooning deficit, the city government declared that 30 Internet companies were not eligible for the discount and therefore had to pay millions of dollars in back taxes. Shopzilla was outraged by the arbitrary reclassification and bluntly stated that if they were required to pay, they would relocate to Santa Monica, a city only 400 yards from their current offices. The City Council ultimately passed an ordinance creating a new, reduced business tax category for firms "that generate revenues by providing access to Internet-based electronic applications or Internet-based search engines." In the short-run, the tax reclassification is projected to cost the city $3.4 million in tax revenue, but City Council President Eric Garcetti was confident the ordinance would enable Internet-based firms to remain in the city, paying $1.01 per $1000 in gross receipts. In early

"If you're in business right now, there are good deals to be struck with cities."

-Larry Kosmont

August, the Los Angeles City Council also approved an ordinance allowing businesses that open in the city from now through 2012 a three-year break from paying taxes on gross receipts. The reprieve from business taxes could significantly help new firms establish themselves during their first three years of operation while keeping potentially profitable companies from leaving Los Angeles. These efforts by city leaders are promising signs that the municipal government will take active, effective steps to aid the business community in the future.

Other cities are taking more drastic means to balance their budgets. Many California cities facing critical financial problems have laid off part-time or non-essential employees, and in some cases have opted to hire independent contractors to perform city services. San Jose saved $4 million in the 2009 fiscal year by bringing in contract janitors to maintain their government and airport facilities. Other cities, such as Lakewood, have for many years contracted with the Los Angeles County Sheriff to perform local police services. The delegation of city services to private contractors has become a growing national trend among municipal governments. An astounding 15% of all American cities increased their use of contractors from 2009 to 2010.

While some cities have cut costs with contractors, other city bureaucrats have come under direct fire for their financial extravagance. On July 15, the *Los Angeles Times* reported that Bell City Manager Robert Rizzo received a 12% raise, netting a staggering $787,637 salary for the 2009 fiscal year. Bell, one of the poorest municipalities in Los Angeles County, also paid its police chief an annual salary of $457,000 – more money than Los Angeles Police Chief Charlie Beck makes! Compare these outrageous salaries to Bell's average per capita income of $24,800 as of 2008. Local residents were incensed at the city's financial malfeasance and urged city officials to hold public hearings on employee salaries. As stories of mismanagement and rampant financial irresponsibility streamed out of Bell over the summer, city officials and state legislators across California have hopefully begun to get their own houses in order.

Cities are also starting to reconsider their approach to retirement benefits and pensions. In the past 20 years, public employee unions have successfully negotiated generous benefits and retirement packages from city governments that can no longer afford to pay for them. Moreover, many local unions, such as those for firefighters, police officers, or school teachers, wield significant political power with school boards and city councils. The convergence of union clout and enriched salaries and benefits has induced one of the most critical financial problems for local government in over two decades. If anything, the Great Recession has clearly shown that local governments can no longer afford the extravagant pensions unionized employees have demanded.

The Wolf at the Doors

While the Great Recession may have technically ended over the summer, the national economy remains stalled and California's crushing financial problems have only gotten worse. With the state strapped for cash, it has begun raiding municipal redevelopment agency (RDA) accounts for new funds. This has had an extremely negative impact on local cities that face financial crises of their own. With the reduction in available money, many cities have reduced their RDA staff to cut costs. The result is that cities not only have less money to attract new business or aid existing ones, but now don't even have dedicated personnel to bring in companies looking to expand or relocate. “Without a reliable RDA manager on staff, cities are effectively flying blind with regards to new business,” said Larry Kosmont. “There’s simply not enough skilled economic development and redevelopment technicians at city halls these days.” With falling tax revenues and major pension costs, city halls may soon have to worry about meeting bond payments and maintaining their credit ratings. “The huddled masses of cities are in trouble because the states are all in trouble,” said Larry Kosmont. “If we can’t fix these government problems and get the economy going, the frame work of city finance is potentially at risk.”

Despite the dire situation of local government, there are several potentially positive opportunities to be had in the midst of this crisis. First, many city governments have enacted or are seriously considering major tax breaks or fee holidays to help ailing local businesses. The down economy and the desperation by city governments can help savvy business owners to leverage advantageous deals. “If you’re in business right now,” Larry Kosmont observed, “there are good deals to be struck with cities.”

Secondly, the depth of this recession and growing anger among the general public over government in general is leading many cities to reconsider many basic assumptions and practices. As has already been noted, many cities are rethinking their tax structures, fee rates, employee pension plans, as well as potentially contracting local city services. On the flip side of the coin, each election in California yields ballots loaded with requests for new local taxes such as increases in commercial utility taxes, rental car and hotel taxes, which are directed at business and out of town visitor pocketbooks. Indeed, while the economic downturn has hurt everyone, some cities like Riverside and Santa Clarita seem to have weathered the storm extremely well and can serve as models for other cities looking to innovate. While it remains to be seen whether Sacramento or other state capitols have learned the hard economic lessons of these past two years, local governments may emerge

Cost Rating Map of San Bernadino County

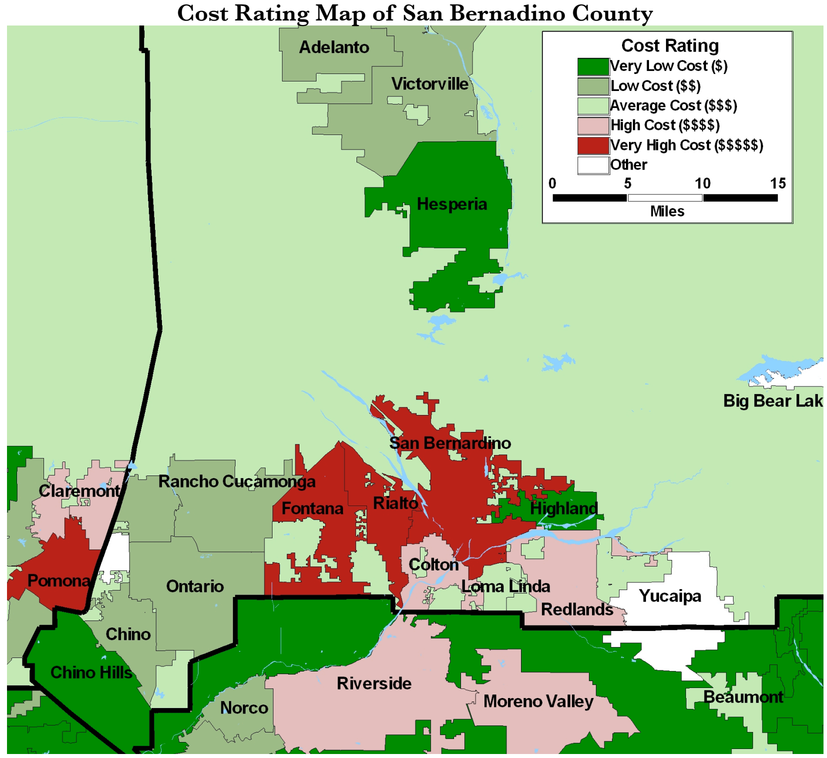


Table 5: The Cities of San Bernardino County, CA

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

Cost Rating Map of Riverside County

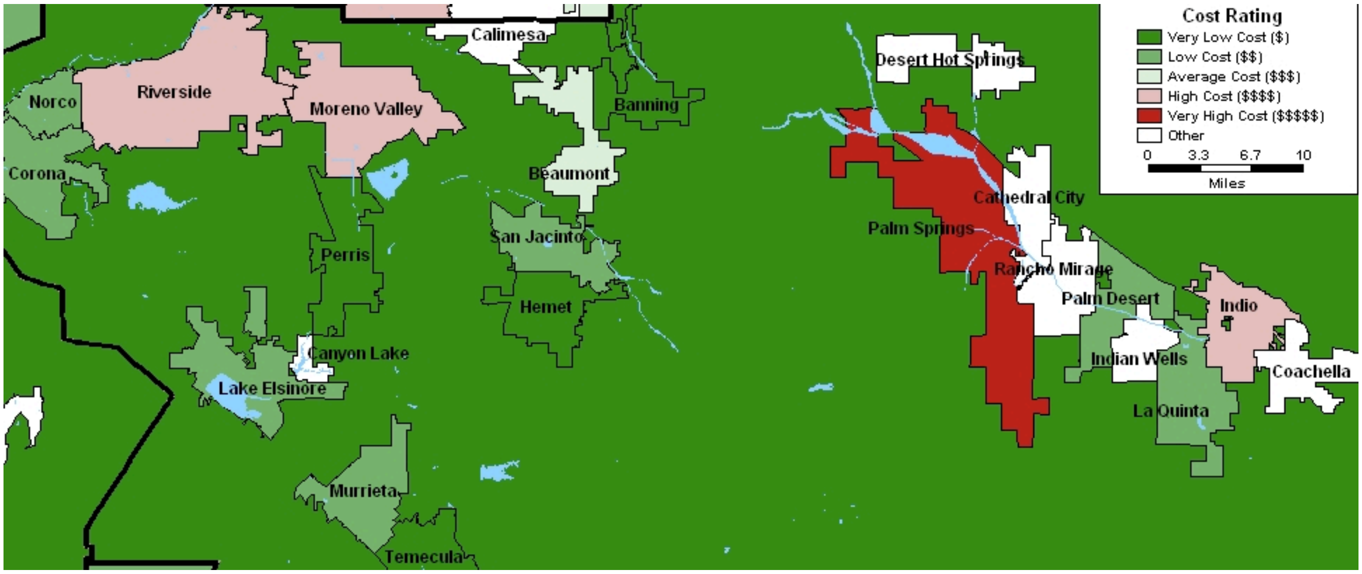


Table 6: The Cities of Riverside County, CA

City Name	Retail Business License Fee	Property Tax	Cost Rating
PALM SPRINGS	8	1	$$$$$
RIVERSIDE	4	10	$$$$
INDIO	3	8	$$$$
MORENO VALLEY	1	6	$$$$
BEAUMONT	13	5	$$$
PALM DESERT	5	16	$$
CORONA	2	15	$$
NORCO	6	11	$$
MURRIETA	9	9	$$
SAN JACINTO	10	7	$$
LAKE ELSINORE	15	4	$$
LA QUINTA	7	3	$$
BANNING	12	17	$
HEMET	11	14	$
TEMECULA	16	13	$
PERRIS	14	12	$
Uninc. RIVERSIDE CO.	17	2	$

from the Great Recession leaner, smarter, and friendlier to the businesses that keep the lights on at city hall.

Findings for the Golden State

Los Angeles County

Tables 3 and 4 lists the retail business license fees rank and property tax rank for cities surveyed in Los Angeles County. Note that city rankings are as compared with other cities in each county.

Los Angeles County, California's most populous county, remains one of the most expensive areas in the state. Over half of its seventy-two cities received either a High Cost or Very High Cost rating, giving the county the distinction of having a higher proportion of high cost cities than any other California county. Within Los Angeles County, there are sixteen Very High Cost ($$$$$) cities, twenty-four High Cost ($$$$) cities, fourteen Low Cost ($$) cities, and only three Very Low Cost ($) cities. This year the number of Very Low Cost cities fell from six to three. As a result, less than 5% of Los Angeles County cities received this rating.

Of the fifty most expensive cities featured in the *Survey*, ten are located within Los Angeles County. Los Angeles, Santa Monica, and Culver City are also among the twenty most expensive cities nationwide. On the other hand, not a single Los Angeles County city made the list of the fifty least expensive U.S. cities. Very high sales tax is one factor that makes it so expensive to do business in Los Angeles

Cost Rating Map of San Diego County

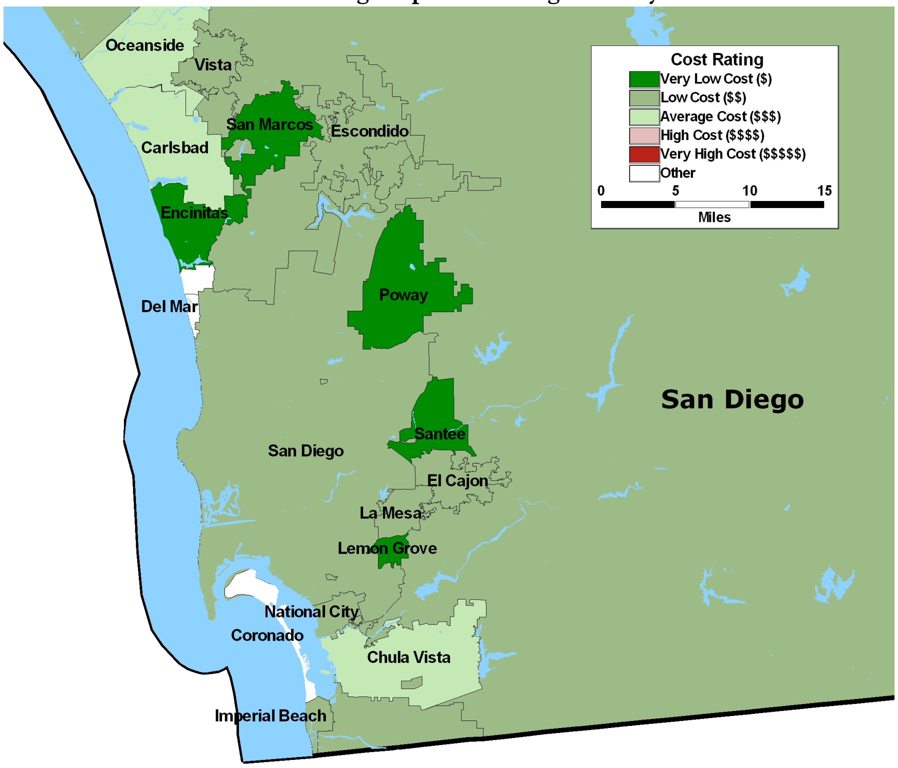


Table 7: The Cities of San Diego County, CA

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

County. As a result of Measure R, a county-wide half-cent sales tax increase that went into effect last July, the minimum sales tax rate in Los Angeles County is 9.25%. However, twenty-five cities – over a third of the county – have sales tax rates over 9.75%. In fact, Pico Rivera and South Gate have a 10.75% sales tax, the highest rate among cities featured in the *Survey*.

Geographically, the most expensive cities are clustered around the City of Los Angeles. This high concentration of High and Very High Cost cities limit businesses' ability to relocate to friendlier business climates in the county. Los Angeles, the most expensive city in the county, has the highest business license, transient occupancy, and documentary transfer taxes as well as some of the highest parking, electricity, and gas taxes. As Los Angeles struggles with its falling revenues, it is likely that other fees may increase in the near future. Every Very High Cost city in the immediate Los Angeles area, except for Lynwood, has a business license fee higher than the state median of $1,100 for a medium-sized business. Other neighboring cities, like Commerce, may choose to keep their business taxes low to attract businesses looking for a cheaper location in the greater Los Angeles area.

Cerritos recently enacted 10% utility taxes, some of the highest in the *Survey*, causing it to move from Very Low Cost to Very High Cost. This year, Agoura Hills, Glendora, and Westlake Village are the only 2009 Very Low Cost cities to maintain this rating. The three cities have the lowest sales tax rates in Los Angeles County at 9.25%, as well as property tax rates below 1.10%. Agoura Hills has a low flat rate business license fee ($35.00), while Westlake Village does not have any business license fee. None of these three cities have utility taxes.

San Bernardino County

Table 5 lists the retail business license fees rank and property tax rank for cities surveyed in San Bernardino County.

San Bernardino County is a Low Cost County. Over half the cities – 11 out of the 19 featured in the *Survey* – are either Low or Very Low Cost. In San Bernardino County, three cities are Average Cost ($$$), seven are Low Cost ($$), and four are Very Low Cost ($). Only two cities are High Cost ($$$$) and three are Very High Cost ($$$$$), and all five are located along the border with Riverside County.

San Bernardino, one of the three Very High Cost cities, has the highest sales tax rate at 9%. The City's 7.75% utility taxes make it an expensive city for business of all sizes, while the business license tax, based on a percentage of gross receipts, is the highest in the county. The other two Very High Cost cities, Rialto and Fontana, also have high property taxes compared to the rest of the county and relatively high business license fees. Both cities levy high utility taxes, 8% and 5% respectively, as well.

Apple Valley, Hesperia, Highland, and Chino Hills, the four Very Low Cost cities, have very low business license fees, property tax rates under 1.10%, and no utility taxes. Although Unincorporated San Bernardino County does not charge business license fees and has the lowest sales tax in the county, it still is an Average Cost city because it has the highest property tax rate.

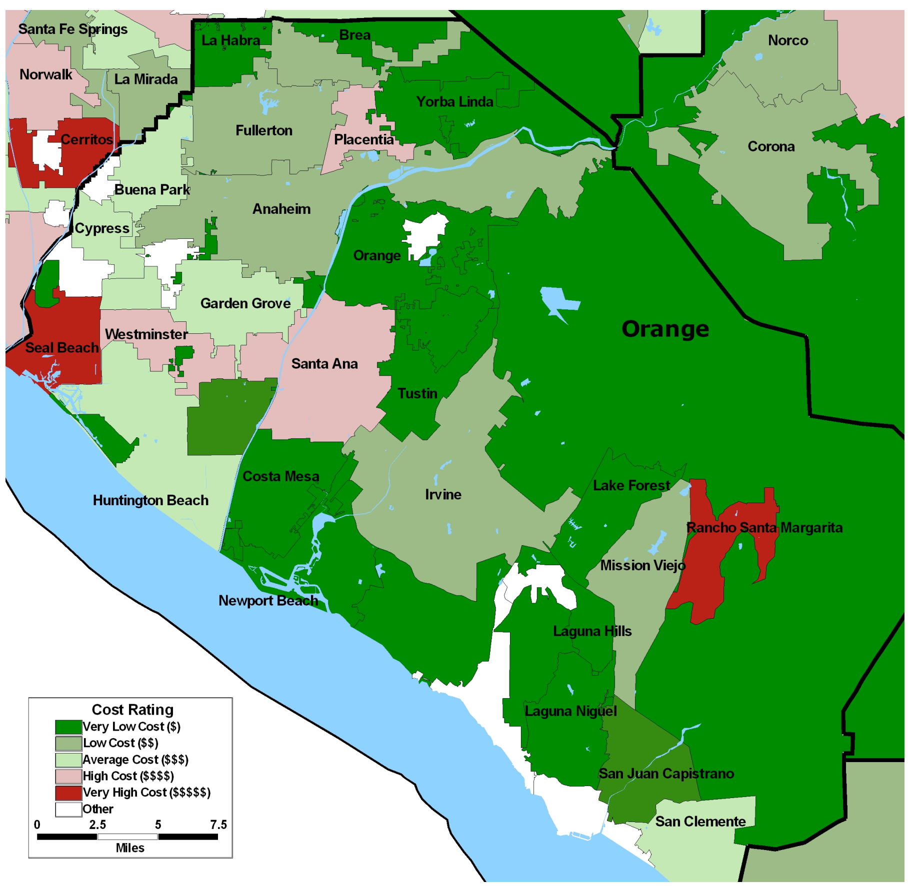
Riverside County

Table 6 lists the retail business license fees rank and property tax rank for cities surveyed in Riverside County.

Riverside County is a Low Cost county with twelve of its seventeen surveyed cities receiving either Low ($$) or Very Low ($) Cost ratings. These ratings are based on the cities' low business, property, and utility tax rates. Palm Desert is the only Low or Very Low Cost city

Riverside, San Bernardino, Orange, and San Diego Counties remain some of the very best places to do business in California

Cost Rating Map of Orange County



with utility taxes, but it only charges 2% on electricity and gas and only 5% on cable. Each Average, High, and Very High Cost city in Riverside County, in contrast, has utility tax rates higher than 5%.

Palm Springs, the only Very High Cost city, has the highest property tax rates in the County at 1.92% as well as a relatively high business license tax. Indio, Moreno Valley, and Riverside, the three High Cost cities, all have some of the highest business license fees in the County. Moreno Valley has the highest business license fees; a medium-sized retail business would pay approximately $2,588 a year. Corona also has business license fees over $2,000 a year. However, it does not have any utility taxes and keeps its property tax rates low, which explains its Low Cost rating.

San Diego County

Table 7 lists the retail business license fees rank and property tax rank for cities surveyed in San Diego County.

San Diego County is a low cost county where all of the surveyed cities are rated as Average Cost or lower. Three of its sixteen cities are Average Cost ($$$), eight are Low Cost ($$), and five are Very Low Cost ($).

These low cost ratings can be attributed to a variety of factors including the absence of utility taxes as well as relatively low business and property tax rates. Chula Vista, one of the Average Cost cities, is the only city to assess utility taxes – and these are only on telephone and cellular services. Carlsbad and Oceanside, the other two Average Cost cities, have by far the highest business license fees in the county ($3,525 and $5,075 respectively for retail), considerably higher than the $450 county median.

The median San Diego County property tax rate (1.07%) is below the California state median (1.10%). Only San Diego, Lemon Grove, and the unincorporated areas of San Diego County have property rates above the median. However, they avoid High Cost Ratings by charging very low business license fees.

Table 8: The Cities of Orange County, CA

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

Orange County

Table 8 lists the retail business license fees rank and property tax rank for cities surveyed in Orange County.

Orange County remains an extremely low-cost and business-friendly county with twenty-three of its twenty-eight cities rated as Average Cost ($$$), Low Cost ($$), or Very Low Cost ($). With thirteen Very Low Cost cities, Orange County has the highest proportion of Very Low Cost cities among California counties. Between the remaining fifteen cities, five are Low Cost ($$), five are Average Cost ($$$), three are High Cost ($$$$), and only two are Very High Cost ($$$$$).

Rancho Santa Margarita is the only Orange County city to receive a higher cost rating this year. Even though Rancho Santa Margarita does not impose business license, utility, or transient occupancy taxes, its high property tax rate accounts for its Very High Cost rating. The city's ad valorem property tax rate, 5.19797%, is the highest among the California cities featured in the *Survey*. Despite the restriction on property tax due to Prop 13 at the state level, the local property tax rate remains over 5% due to the Santa Margarita Water ID#4C 1984 Bond, which levies a tax rate of 3.8552% on the city.

Seal Beach remains one of Orange County's most expensive cities because of its high utility taxes. The city levies an astounding 11% tax on electricity, telephone, and gas, making Seal Beach's electricity and gas taxes the highest among the 413 cities surveyed nationwide, and telephone tax the second highest. The three High Cost cities, Placentia, Santa Ana, and Westminster, all have fairly high business license fees and utility taxes.

This year, Irvine, Aliso Viejo, and Newport Beach all received lower cost ratings. Of the twenty-three Average Cost, Low Cost, and Very Low Cost cities, Irvine is the only city that has utility taxes. Low Cost cities usually have low business license fees as well. In Orange County, there does not appear to be a correlation between population and the cost of doing business. Anaheim and Irvine, two of the largest cities, are both Low Cost, while Seal Beach, the smallest city, is Very High Cost. However, there appears to be a strong correlation between geographic location and cost rating. All of the Average Cost, High Cost, and Very High Cost cities, with the exception of Rancho Santa Margarita, are located in the northwestern portion of Orange County, closer to Los Angeles County.

Table 9: The Cities of Ventura County, CA

City Name	Retail Business License Fee	Property Tax	Cost Rating
PORT HUENEME	1	6	$$$$
OXNARD	2	4	$$$
SIMI VALLEY	4	8	$$$
Uninc. VENTURA CO.	3	5	$$$
VENTURA	7	2	$$$
CAMARILLO	5	7	$$
THOUSAND OAKS	6	1	$$
FILLMORE	8	3	$
MOORPARK	9	9	$

Ventura County

Table 9 lists the retail business license fees rank and property tax rank for cities surveyed in Ventura County.

Ventura County is an Average to Low Cost County, in large part due to the absence of Very High Cost ($$$$$) cities. Port Hueneme, the most expensive city in the county, is the only city with a High Cost ($$$$) rating. Of the remaining cities, four are Average Cost ($$$), two are Low Cost ($$), and two are Very Low Cost ($) cities.

Port Hueneme's High Cost rating is the result of high business license, utility, and sales taxes. Port Hueneme and Ventura are the only two cities in Ventura County that have utility taxes, at 4% and 5%, respectively. Port Hueneme and

Table 10: The Cities of Alameda County, CA

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

Table 11: The Cities of Contra Costa County, CA

City Name	Retail Business License Fee	Property Tax	Cost Rating
RICHMOND	3	1	$$$$$
PLEASANT HILL	1	8	$$$$
SAN PABLO	7	3	$$$$
CONCORD	2	6	$$$
MARTINEZ	6	4	$$$
ANTIOCH	4	9	$$
DANVILLE	8	10	$$
PITTSBURG	10	5	$$
Uninc. CONTRA COSTA CO.	9	2	$$
WALNUT CREEK	5	7	$$
SAN RAMON	11	11	$

Oxnard share the highest sales tax rate in the county at 8.75%. Both cities add additional municipal sales tax to the California state sales tax to increase city revenue. The unincorporated areas of Ventura County received an Average Cost rating because of the county's high business license fees.

Alameda and Contra Costa Counties

Tables 10 and 11 lists the retail business license fees rank and property tax rank for cities surveyed in Alameda and Contra Costa Counties.

Alameda County is a High Cost county with six High Cost ($$$$) cities, five Average Cost ($$$) cities, and only one Low Cost ($$) city. It is one of only two featured counties that does not have any Very Low Cost ($) cities. The additional 1.5% sales tax that Alameda County levies on top of the California state-wide 8.25% sales tax contributes to the scarcity of Low Cost cities in the county. Most of the additional tax revenue goes to local programs and municipalities.

Of the Alameda County cities featured in the survey, Dublin is the least expensive and has the lowest business license fee at $50. It is also the only city whose business license fee is a flat rate instead of a percentage of gross receipts or a fixed amount per employee.

The Very High Cost cities all have utility taxes that range from 3% to 7.5%. These cities, especially Berkeley and Oakland, also have the highest business license fees in the county. At current municipal rates, a medium-sized retail business would pay approximately $12,000 in either city. They are also the only two cities that impose parking

Cost Rating Map of the Bay Area

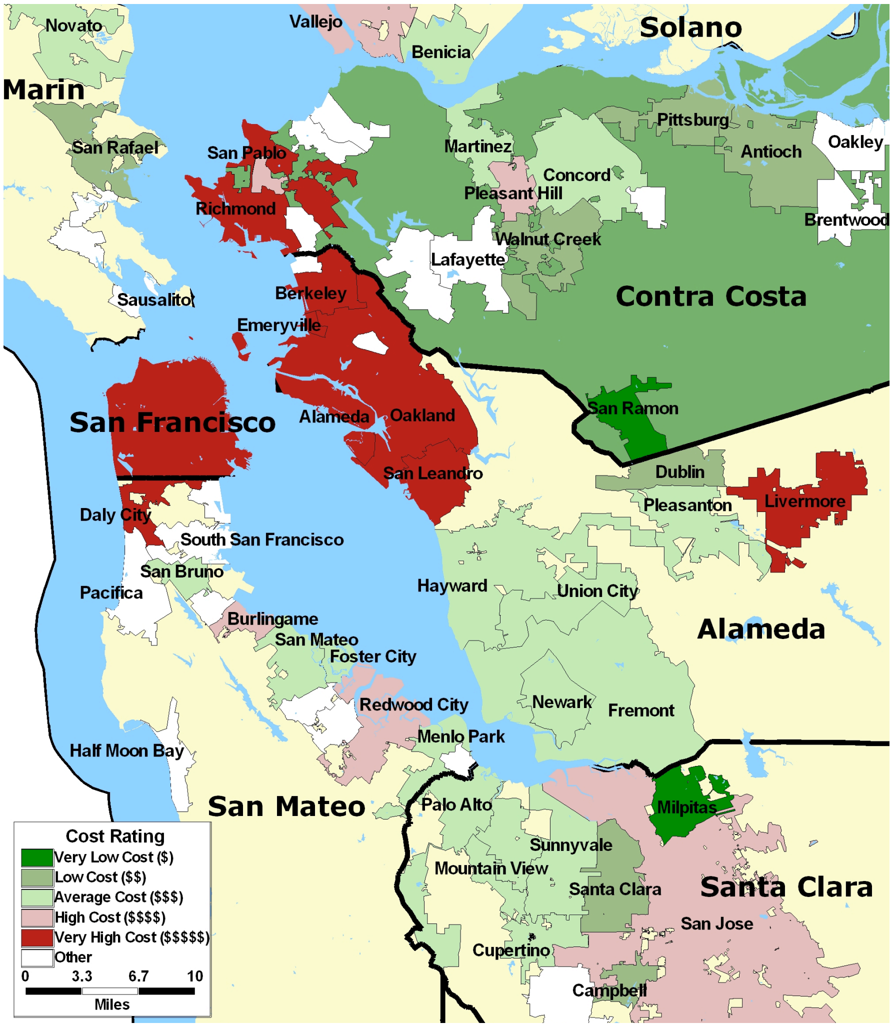


Table 12: The Cities of San Mateo County, CA

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

taxes, which are at a very high 10% in both cities. The Average Cost cities, including Hayward and Newark, have similar property tax rates and the same sales tax rate as the Very High Cost cities. However, lower business license fees provide a friendlier business environment.

Neighboring Contra Costa County is a Low Cost county with only one Very High Cost ($$$$$) city. Besides Richmond, there are two High Cost ($$$$) cities, two Average ($$$) Cost cities, five Low Cost ($$) cities, and one Very Low Cost ($) city.

Richmond is a Very High Cost city because it charges 8% utility taxes and its per-employee business license tax at over $40 per employee has the potential to quickly raise costs for medium and large businesses. Richmond also has the highest property tax in the county at 1.36%.

This year San Pablo moved down from Very High Cost to High Cost because it lowered its utility taxes from 8% to 7%. It also lowered its per-employee business license tax from $80 to $50 per professional employee and $25 to $15 per non-professional employee. However, both its utility and business license taxes remain high compared to those of other California cities.

San Mateo and Santa Clara Counties

Tables 12 and 13 list the retail business license fees rank and property tax rank for cities surveyed in San Mateo and Santa Clara Counties.

Just outside San Francisco, San Mateo County is an Average to High Cost county. While there is only one Very High Cost ($$$$$) city, Daly City, there are two High Cost ($$$$) cities and four Average Cost ($$$). Only one of the eight featured cities, South San Francisco, is Low Cost ($$), and San Mateo is one of only two California counties without a single Very Low Cost ($) city.

Table 13: The Cities of Santa Clara County, CA

City Name	Retail Business License Fee	Property Tax	Cost Rating
GILROY	2	2	$$$$
LOS GATOS	5	7	$$$$
SAN JOSE	1	10	$$$$
CUPERTINO	6	3	$$$
LOS ALTOS	4	4	$$$
MOUNTAIN VIEW	11	1	$$$
PALO ALTO	12	8	$$$
SUNNYVALE	3	11	$$$
CAMPBELL	10	6	$$
MORGAN HILL	7	5	$$
SANTA CLARA	8	9	$$
MILPITAS	9	12	$

This year, Daly City rose from High Cost to Very High Cost. With Daly City's old business license tax structure, a business with $10 million in gross receipts would have paid $5,401 in taxes. With the new tax simplified tax formula – 0.1% of gross receipts – the same business will pay $10,000, nearly twice as much. Daly City also has high utility taxes (5%), and a fairly high sales tax compared with the rest of the country (9.25%). The most expensive city in San Mateo County is also the closest one to San Francisco, whose business license, utility, and sales taxes are even higher.

Burlingame, one of the two High Cost cities, has the lowest business license tax with a $100 flat fee. It is also the only High or Very High Cost city in either San Mateo or Santa Clara County without utility taxes. Its 3.03% property tax, however, is the second highest among all 246 California cities featured in the *Survey* and is an important factor in its High Cost rating.

Santa Clara is an Average Cost county with an even distribution of cost ratings. Three cities are High Cost ($$$$), five are Average Cost ($$$), and three are Low Cost ($$). Milpitas, whose business license fees center around just $1.00 per employee, is the only Very Low Cost ($) city.

San Jose, a High Cost city, is the largest city in Santa Clara County with a population close to one million. Its business license taxes are the highest in the county and its 5% utility taxes are also fairly high. The other two High Cost cities, Los Gatos and Gilroy, both have populations under 50,000. However, their business license and utility taxes are comparable to those of San Jose. Overall, both Santa Clara and San Mateo are cheaper alternatives to San Francisco, the most expensive city in the state of California.

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