Cost of Doing Business Survey®

Executive Summary

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With the recession of 2007-2009 now years in the past and economic growth slowly becoming the norm again, the new worry is whether this growth is stable and real. Many states have seen their economic figures improve, yet, as the 2015 Kosmont-Rose Institute Cost of Doing Business Survey highlights, costs for many cities remain high.

This year marks the twenty-first version of the Cost of Doing Business Survey and the twelfth since Kosmont Companies first partnered with the Rose Institute. The 2015 Survey focuses on California and other western states commonly seen as alternatives to the Golden State. This year the Survey features 305 cities spread across nine states: Arizona, California, Colorado, Nevada, New Mexico, Oregon, Texas, Utah, and Washington. Local government officials will find the results helpful in analyzing their city or county, while businesses can use the results to make important decisions on location and expansion. In addition to the detailed city profiles, the executive summary contains breakdowns by counties, cities, and several topics documenting broader economic trends in the region.

This valuable tool for both businesses and government officials is the result of a rigorous, yearlong survey process. The Rose Institute works with local governments to collect data on license fees, tax structures, economic incentives, and other quantitative measures that influence a business's operating expenses. 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 2015 User Guide or contact the Rose Institute at (909) 621-8159.

2015 Most Expensive Cities

The 2015 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. The twenty most expensive cities are located in five different states. California dominates the list with twelve cities – 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, Portland, San Francisco, Santa Monica, Bellingham, Glendale, Culver City, Berkeley, Inglewood, Oakland. Many of the most expensive cities are important regional hubs. 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. Many businesses are willing to pay a premium in business, property, and utility taxes in order to benefit from the abundance of business opportunities available in such cities.

The 2015 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. All three cities have high utility rates of 7.50%. San Francisco ranks first on the list with an extremely high business license fee for a medium-sized retail business (typically a store of roughly 5,000 to 15,000 square feet with approximately 25 to 75 full time equivalent employees) of $60,000 a year. Seven out of the twenty most expensive cities are in Los Angeles County: Los Angeles, Santa Monica, Culver City, Inglewood, Beverly Hills, Bell, and El Segundo. In these cities, a medium-sized retail business would pay between $4,386 and $52,800 a year in business license fees. Portland trails the Bay Area and Los Angeles with a high business license fee of $36,500 and utility tax rate of 5%. This concentration of expensive cities in major metropolitan areas limits options for businesses that want to locate in cheaper cities while still retaining access to key markets and other resources.

Arizona has three of the most expensive western cities on the list: Glendale, Tucson, and Chandler. These cities have high property tax rates between 3.49% and 4.01%, some of the highest rates found in the Survey. These three cities also have high electricity tax rates that go up to 9.50%. Washington also has three cities on the list: Bellingham, Seattle, and Tacoma. All three cities have a utility user tax rate of 6% and charge business license fees above $40,000 for

Table 1: The Twenty Most Expensive Cities

City Name and State	Sales Tax	Retail Business License Fee	Property Tax
BELL, CA	9.00%	$4,386.00	1.55%
BELLINGHAM, WA	8.70%	$17,000.00	2.69%
BERKELEY, CA	9.50%	$12,000.00	1.22%
BEVERLY HILLS, CA	9.00%	$12,500.00	1.23%
CHANDLER, AZ	7.80%	$50.00	3.15%
CULVER CITY, CA	9.50%	$10,060.00	1.08%
EL SEGUNDO, CA	9.00%	$13,048.00	1.24%
GLENDALE, AZ	9.50%	$50.00	3.49%
INGLEWOOD, CA	9.50%	$11,022.00	1.41%
LOS ANGELES, CA	9.00%	$13,200.00	1.22%
MONTEREY, CA	8.62%	$12,041.00	1.05%
OAKLAND, CA	9.50%	$12,000.00	1.41%
POMONA, CA	9.00%	$5,099.50	1.20%
PORTLAND, OR	0.00%	$36,500.00	2.32%
SAN BERNARDINO, CA	8.00%	$7,548.75	1.34%
SAN FRANCISCO, CA	8.75%	$13,500.00	1.19%
SANTA MONICA, CA	9.50%	$12,500.00	1.14%
SEATTLE, WA	9.50%	$21,590.00	1.29%
TACOMA, WA	9.50%	$15,390.00	1.72%
TUCSON, AZ	8.10%	$25.00	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.

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 about half of all cities in the Survey have utility user taxes, fifteen out of the twenty cities have utility user taxes above 5%, and five have at least one utility tax at or above 10%. In Arizona, the state and county privilege (sales) tax is also assessed on utilities, which helps explain Arizona's very high utility taxes. California has no equivalent tax on utilities. Los Angeles and Culver City have the highest electricity tax rates in the Survey at 12.50% and 11%. Glendale and Culver City have the highest telephone tax rates at 12.70% and 11%. Beverly Hills is the only city on the list that does not have taxes for 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 2.30%, nearly double the Survey's median property tax rate. Tucson has the highest property tax rate in the list at 4.01%, followed by Glendale at 3.49% and Phoenix at 3.24%. California's Prop 13 greatly limits property tax rates; the twelve California cities on the list have property tax rates ranging from 1.05% to 1.55%.

Many, though not all, of the most expensive western cities also have high business license taxes. These taxes vary widely. A medium-sized retail business would pay $60,000 per year in San Francisco, $52,800 in Los Angeles, and $41,490 in Seattle. In thirteen of the twenty most expensive cities, a medium sized retail business would pay over $10,000 a year — compared to an overall median business license fee of $1,025 in the Survey. All three of the Arizona cities stand out because of their very low business license fees. A medium-sized retail business would pay $50 in Glendale and Chandler and only $25 in Tucson. However, these cities have very high property, utility, and sales tax rates that still make them three of the twenty most expensive cities in the western United States.

Table 2: The Twenty Least Expensive Cities

City Name and State	Sales Tax	Retail Business License Fee	Property Tax
ABILENE, TX	9.50%	$0.00	2.32%
BREA, CA	8.00%	$500.00	0.76%
CORPUS CHRISTI, TX	8.25%	$0.00	2.56%
DALLAS, TX	8.25%	$0.00	0.80%
EUGENE, OR	0.00%	$0.00	1.50%
EVERETT, WA	9.50%	$1,000.00	1.00%
FEDERAL WAY, WA	9.50%	$50.00	1.25%
FORT WORTH, TX	8.25%	$0.00	0.09%
GRESHAM., OR	0.00%	$469.00	1.62%
HENDERSON, NV	8.10%	$5,600.00	1.01%
HOUSTON, TX	8.25%	$0.00	2.68%
KENT, WA	9.50%	$717.50	1.55%
LAKE FOREST, CA	7.75%	$0.00	1.04%
LAS VEGAS, NV	8.10%	$5,600.00	1.15%
OGDEN, UT	6.85%	$987.41	1.00%
PLANO, TX	8.25%	$0.00	2.45%
RENO, NV	7.72%	$7,545.00	0.96%
SPARKS, NV	7.72%	$10,070.00	1.27%
SPOKANE, WA	8.70%	$2,060.00	1.42%
YAKIMA, WA	8.20%	$1,285.20	1.34%

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.

2015 Least Expensive Cities

The twenty least expensive cities in the West have an entirely different profile. Again, the list of least expensive cities represents a diverse array of Western states. Four of the least expensive cities are located in Nevada, two are in Oregon, six are in Texas, one is in Utah, and five are in Washington. Importantly, the list includes only two cities from California, Lake Forest and Mission Viejo, which is a reversal from the Most Expensive Cities list.

As in the Most Expensive Cities list, the cities profiled also tend to be major metropolitan areas. These cities, however, reflect a different approach to growth. It appears that, in order to attract growth, cities like Reno, Las Vegas, Eugene, Houston, Plano, Spokane, Dallas, and Fort Worth have kept business costs low. The presence of Dallas and Fort Worth on the list is notable as the Dallas/ Fort Worth area is projected to surpass Chicago in population around 2040 and grew about 7.5% in population between 2010 and 2014.

Dallas and Fort Worth are the two least expensive cities in the 2015 Kosmont-Rose Cost of Doing Business Survey and both benefit from property tax rates of under 0.9%. Both cities feature a sales tax rate of 8.25%, which is approximately the average of all sales tax rates in the Survey. However, since Dallas and Fort Worth see 19 and 10 billion dollars of total taxable revenue each year, respectively, the income from sales tax is quite high.

In the same vein of keeping business costs low, nine of the cities in the list do not charge a retail business licensing fee. The two cities in California, Lake Forest and Mission Viejo, are included in these nine cities. Cities that do charge retail business license fees follow no clear pattern, although the two cities with the highest retail license fees, Reno and Sparks Nevada ($7,545 and $10,070, respectively), are both in Washoe County, Nevada and have relatively low sales tax rates of 7.72%.

While many of the most expensive cities in the Survey had high property tax rates of 2.30% and up, most of the least expensive cities have property tax rates at or below the survey median of 1.15%. The cities with (relatively) high property tax rates keep their cost ratings low with low taxes in other areas. For instance, neither of the two cities with the highest property tax rates, Houston and Corpus Christi, have any utility taxes.

The two Oregon cities make their way into the 20 least expensive cities in part because of the lack of sales tax in Oregon. This anomaly makes up for the high state corporate income tax of 7.60%. Three other cities in the list have a state corporate income tax, Ogden (5.00% - Utah), Lake Forest (8.84%) and Mission Viejo (8.84%).

Although only two California cities made it into the list of 20 least expensive cities, the next 28 cities after the cheapest 20 were all from California. None of the cities were from Los Angeles County or the Bay area, which are the two most expensive areas in California. For the most part, the cheapest cities in California are located away from the coastal areas, as well.


Photo by Christopher Bowns

County Summaries

The County Summaries serve as a brief comparative analysis of Alameda & Contra Costa, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo & Santa Clara, and Ventura counties. Each summary covers either one or two counties and includes a table breakdown by cost as well as some of the specific factors contributing to those ratings such as property and business taxes. While some counties such as Alameda are higher cost across the board, each county displays a remarkable variance in costs between cities.

Alameda & Contra Costa Counties

Alameda remains one of the highest cost counties in California and the most expensive county in the high-cost Bay Area. Alameda County has seven Very High Cost ($$$$$) cities, four Average Cost ($$$) cities, and one Low Cost ($$) city. Most of these Very High Cost cities are concentrated along the coast of the East Bay. 10 of the 12 Alameda County cities featured in the Survey have property tax rates above the California median of 1.1392%, and every city has a sales tax rate at least 0.5% above the California median of 8.25%. Alameda, Berkeley, and Oakland also have some of the highest utility user taxes in the state – a 7.5% tax on all utilities except water. The city of San Leandro has moderate utility taxes but an additional 6.0% tax on water.

Very high business license fees greatly contribute to Alameda County's high cost ratings. 10 of the 12 cities have business license fees that are well above the California median of $1,105. Berkeley and Oakland, in which a medium-sized business would pay $12,000 a year, are two of 13 cities with the highest retail business license fees in the state. Dublin, in contrast, is the least expensive city in Alameda County and one of two cities with a business license tax below the state median. While other cities calculate retail business license fees based on gross receipts or number of employees, Dublin only charges a low $50.00 flat rate fee.

Neighboring Contra Costa County, on the other hand, has a more even distribution of cost ratings across its cities. Of the 10 cities featured in the Survey, two are Very High Cost ($$$$$), one is High Cost ($$$$), three are Average Cost ($$$), three are Low Cost ($$), and one is Very Low Cost ($). Two of Contra Costa County's four most expensive cities, Richmond and San Pablo, are both located close to Oakland and other Very High Cost cities in Alameda County, while most of the lower cost cities are further away from San Francisco and Oakland. Richmond and San Pablo, like Alameda, Berkeley, Oakland, and San Francisco, have high utility user taxes above 7% that contribute to their high cost ratings. They also have some of the highest property tax rates in the Bay Area with 1.40% and 1.3104% respectively.

Contra Costa County's four cities that are either Very Low Cost or Low Cost are San Ramon, Walnut Creek, Pittsburg, and Antioch. Unlike cities of higher cost, none of these cities have utility taxes, and all

Table 3: The Cities of Alameda County

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

Table 4: The Cities of Contra Costa County

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

Tables 3 & 4 list the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in Alameda & Contra Costa 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.

four have significantly smaller fees than other cities in Contra Costa County. San Ramon, the only Very Low Cost city, features just a $350 flat rate fee for all businesses, which is significantly smaller than other cities in the county.

Los Angeles County

Los Angeles County, California's most populous county, remains a very high cost county. Of the 74 Los Angeles County cities surveyed, more than half received a High or Very High Cost rating. Los Angeles County has 22 Very High Cost ($$$$$) cities, 23 High Cost ($$$$) cities, 11 Average Cost ($$$) cities, 16 Low Cost ($$) cities, and only 2 Very Low Cost ($) cities. This means that fewer than 3% of Los Angeles cities are Very Low Cost, while nearly 30% are Very High Cost. From 2014 to 2015, the number of cities with a Very High Cost ($$$$) rating remained constant, while the number of High Cost ($$$$) cities increased by one and the number of Average Cost ($$$) cities decreased by one.

The Survey finds that Los Angeles is one of the most expensive areas in California and the Western United States in which to do business. Ten of the twenty most expensive cities in California are in Los Angeles County; on the other hand, not a single Los Angeles city made the list of 20 least expensive California cities. Additionally, eight of the 20 most expensive cities in the western United States are located in Los Angeles County: Bell, Beverly Hills, Culver City, El Segundo, Inglewood, Los Angeles, Pomona, and Santa Monica. These cities tend to have high taxes across the board, including business license fees, utility taxes, sales taxes, and property taxes.

In Beverly Hills, Culver City, El Segundo, Inglewood, Los Angeles, and

Table 5: The Cities of Los Angeles County

City Name	Retail License Fee Rank	Property Tax Rank	Cost Rating
AGOURA HILLS	9	18	$$
ALHAMBRA	10	24	$$$$
ARCADIA	11	62	$$$$
ARTESIA	12	2	$$$
AZUSA	13	8	$$$$
BALDWIN PARK	27	39	$$$$
BELL	28	70	$$$$$
BELL GARDENS	12	43	$$
BELLFLOWER	18	11	$$$$
BEVERLY HILLS	71	55	$$$$$
BURBANK	20	8	$$$$
CALABASAS	1	12	$$$
CARSON	2	43	$$$
CERRITOS	16	1	$
CLAREMONT	17	12	$$$$
COMMERCE	25	43	$$
COMPTON	26	35	$$$$$
COVINA	22	29	$$$$
CUDAHY	45	43	$$$$$
CULVER CITY	46	5	$$$$$
DIAMOND BAR	7	50	$$
DOWNEY	8	24	$$$$
DUARTE	17	29	$$
EL MONTE	18	65	$$$$$
EL SEGUNDO	73	58	$$$$$
GARDENA	74	55	$$$$$
GLENDALE	1	5	$$$$
GLENDORA	2	29	$$
HAWTHORNE	3	38	$$$$$
HUNTINGTON PARK	4	67	$$$$$
INDUSTRY	1	73	$$$$
INGLEWOOD	2	66	$$$$$
IRWINDALE	3	29	$$$$$
LA MIRADA	4	18	$$
LA PUENTE	21	8	$$
LA VERNE	48	12	$$$$

Table 5 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.

Santa Monica, a medium-sized retail business would pay over $10,000 a year in business license fees, nearly ten times the state median of $1,105. Most of the cities have some of the highest utility tax rates in the state; electricity rates, for instance, range from 10% in Bell to 12.5% in Los Angeles. Property tax exceeds 1.20% in six of the eight cities, and runs as high as 1.55% in Bell.

Los Angeles County remains such an expensive area in part because of its high sales and utility user taxes. All but one city have a sales tax equal to or above 8.75%, while the California state median is 8.25%. Ten cities have a sales tax over 9.00%, while Pico Rivera has a sales tax of 10.00%, the highest of all 305 cities in the Survey. While only 45% of all California cities have utility user taxes, more than 60% of Los Angeles cities tax at least one utility. Of the cities with utility taxes, 22 have high electric taxes ranging from 6% to 12.5%.

Several Los Angeles County cities also have very high property taxes. 11 cities have property taxes above 1.30%, among the 34 highest tax rates in California. The City of Industry has the highest property tax rate in the state of California at 1.83%. Although Industry is a High Cost city, it does not have any business license or utility taxes.

The City of Los Angeles is one of the most expensive cities in the county. Los Angeles has high utility taxes such as a 10.0% tax on gas and a 12.5% tax on electricity, and a relatively high property tax rate of 1.224%. Thanks to its gross receipts-based formula, the City also has one of the highest business license fees; depending on the type of business, a company making $10 million a year would pay between $10,500 and $52,800 a year. Los Angeles is surrounded by other High and Very High Cost cities, many of which also have high utility taxes and business license fees totaling several thousand dollars a year. Cerritos

Table 5: The Cities of Los Angeles County (cont.)

City Name	Retail License Fee Rank	Property Tax Rank	Cost Rating
LAKEWOOD	49	18	$$$
LANCASTER	11	59	$$
LAWNDALE	28	12	$$$$
LOMITA	29	55	$$$$$
LONG BEACH	30	18	$$$$
LOS ANGELES	74	50	$$$$$
LYNWOOD	24	68	$$$$$
MANHATTAN BEACH	25	3	$$$$
MAYWOOD	45	59	$$$$$
MONROVIA	46	71	$$$
MONTEBELLO	47	72	$$$$
MONTEREY PARK	48	50	$$$$
NORWALK	49	24	$$$$
PALMDALE	15	64	$$$
PARAMOUNT	14	24	$$$
PASADENA	15	24	$$$$$
PICO RIVERA	16	29	$$$$
POMONA	17	39	$$$$$
REDONDO BEACH	18	12	$$$$
ROSEMEAD	8	50	$$
SAN DIMAS	9	39	$$
SAN FERNANDO	10	68	$$$$$
SAN GABRIEL	11	63	$$$$$
SANTA CLARITA	1	38	$$
SANTA FE SPRINGS	19	37	$$$
SANTA MONICA	71	29	$$$$$
SIGNAL HILL	13	18	$$
SOUTH EL MONTE	14	61	$$$$
SOUTH GATE	15	43	$$$
TEMPLE CITY	26	50	$$
TORRANCE	27	43	$$$$$
Uninc. LOS ANGELES CO.	1	39	$$$
VERNON	23	3	$$
WALNUT	10	35	$$
WEST COVINA	11	5	$$$
WEST HOLLYWOOD	12	43	$$$$
WESTLAKE VILLAGE	1	12	$
WHITTIER	45	18	$$$$

and Westlake Village, the two Very Low Cost cities, are both located on the geographic extremes of Los Angeles County, bordering the less expensive Ventura and Orange Counties. Westlake Village is one of six cities without any business license tax, while a medium-sized retail business would pay less than $500 a year in Cerritos. Both cities have low property tax rates (0.82% and 1.11%, respectively).

Table 6: The Cities of Orange County

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

Table 6 lists the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in Orange 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.

Orange County

Orange County remains a relatively low-cost county with 24 of the 28 cities featured in the Survey ranking Average Cost ($$$) or lower. The county has five Average Cost ($$$) cities, six Low Cost ($$) cities, and thirteen Very Low Cost ($) cities. Three of the remaining four cities are High Cost ($$$$), and, only one, Seal Beach, is Very High Cost ($$$$$). Geographically, every city south of Santa Ana is either Low or Very Low Cost, and the more expensive cities are located in the northern part of Orange County, closer to Los Angeles County.

Overall, Orange County has low business license fees and sales tax relative to other California cities. 21 of the 28 Orange County cities have business license taxes below the state median of $1,105 for a medium-sized retail business. Seven cities do not have any business license fees, and in twelve other cities a retail business would pay less than $1,000. 27 of 28 cities have a sales tax below the state median of 8.25%.

Orange County's low property tax rates contribute to its low-cost county status. 25 of the 28 featured cities have property tax rates below the state median of 1.1392%; 17 of these cities have property tax rates below 1.10%. Rancho Santa Margarita has one of the highest property tax rates in California at 1.49501% due to a high water bond. However, Rancho Santa Margarita remains a Low Cost ($$) city because it does not have any utility user taxes or business license tax.

The only Very High Cost city in Orange County, Seal Beach, has very low business license fees (a flat rate of $215 in most business categories). However, with utility tax rates of 10%, Seal Beach has the highest utility taxes in the entire county, and some of the highest in the Survey.

Riverside County

Riverside County has a wide distribution of cost ratings, with seven Very Low Cost ($) cities, five Low Cost ($$) cities, three Average Cost ($$$) cities, six High Cost ($$$$) cities, and one Very High Cost ($$$$$) city. Coachella is the only Very High Cost city; it has high taxes across the board. Coachella has the highest retail business license fees; a medium-sized retail business pays $7,000 a year in Coachella, compared to the county median fee of $852.50. Coachella has 5% utility tax rates and a 1.148% property tax rate.

Property tax rates in Riverside County range from 1.03% in Temecula to 1.48% in Cathedral City. 17 of the 22 cities have property tax rates above the state median of 1.1392%. Banning, Cathedral City, and Beaumont have three of the twenty highest property tax rates in California with rates of 1.39072%, 1.48%, and 1.36706%, respectively.

Ten of the twenty-two Riverside County cities featured in the Survey have retail business license fees greater than or equal to $1,000. Four cities have flat-rate fees of $100 or less.

Although every city charges a business license tax, the lowest fees are in the un-

Table 7: The Cities of Riverside County

City Name	Retail License Fee Rank	Property Tax Rank	Cost Rating
BANNING	6	20	$$$
BEAUMONT	13	19	$$$
CATHEDRAL CITY	13	22	$$$$
COACHELLA	22	8	$$$$$
CORONA	20	11	$$
DESERT HOT SPRINGS	11	16	$$$$
HEMET	8	9	$
INDIAN WELLS	5	15	$$
INDIO	18	12	$$$$
LA QUINTA	13	17	$$
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	6	$$$$
SAN JACINTO	9	9	$
TEMECULA	2	1	$
Uninc. RIVERSIDE CO.	1	21	$$

Table 7 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 Christopher Michel

incorporated areas of Riverside at $30 per year, followed by $36 in Temecula. Twelve of the twenty-two cities have no utility user taxes at all, while two more only have taxes of 5% or below on just three types of utilities. On the other side of the spectrum, Desert Hot Springs and Riverside have high utility taxes with rates of 7.0% and 6.5%, respectively.

The seven Very Low Cost ($) cities are Norco, Murrieta, San Jacinto, Hemet, Perris, Lake Elsinore, and Temecula. None of these cities have utility taxes and they have low property tax rates, all below 1.20%. Temecula has the lowest property tax in the county at 1.03%.

San Bernardino County

San Bernardino is a lower cost county, with two Very Low Cost ($) and nine Low Cost ($$) cities. However, the County also has four Very High Cost ($$$$$), one High Cost ($$$$), and three Average Cost ($$$) cities. All of the High and Very High Cost cities are concentrated around the City of San Bernardino and lie near the border with Riverside County.

San Bernardino, the county seat, is one of the four Very High Cost cities and has some of the highest taxes within the county. San Bernardino's sales tax rate is among the highest rates in the county at 8%, although this is still below the state median of 8.25%. The gross receipts-based business license tax is also the highest in the county; a medium-sized retail business would pay $7,549 in San Bernardino, well above the state median of $1,105. Additionally, San Bernardino has a high 7.75% utility tax on electricity, gas, telephone, and cellular service. Rialto, another Very High Cost city, is the only city in the county with higher utility taxes; it has an 8% tax on all six utilities studied in the Survey. Rialto also has the third highest retail business license fees in the county, behind San Bernardino and Redlands.

San Bernardino County's property tax rates vary widely. At 1.0438%, Rancho Cucamonga has one of the lowest property tax rates among all California cities surveyed. It is followed closely by Chino Hills at 1.0536%. In contrast, Grand Terrace, Colton, Fontana, Rialto, San Bernardino, Unincorporated San Bernardino, Adelanto, and Victorville all have property rates between 1.3426% and 1.3479%, making them among the 25 most expensive California cities in terms of property tax. These tax rates are significantly higher than the state median of 1.1392%. However, several of these cities, including Adelanto and Victorville, maintain Low Cost ratings because they have low business license taxes and no utility taxes.

San Bernardino remains a lower cost county because of low utility taxes and business license fees. 14 out of the 19 surveyed cities do not have any utility taxes. Additionally, most cities have low to moderate business license fees. A medium-sized retail business would pay less than $1,000 a year in 10 cities, and nothing in unincorporated parts of the county. Chino Hills and Hesperia have the lowest business license fees, with flat rates of $52.00 and $69.00, respectively, for all business categories.

Table 8: 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	3	$
COLTON	15	12	$$$$$
FONTANA	16	12	$$$$$
GRAND TERRACE	11	12	$$$
HESPERIA	3	7	$
HIGHLAND	7	10	$$
LOMA LINDA	9	9	$$$
ONTARIO	14	4	$$
RANCHO CUCAMONGA	13	2	$$
REDLANDS	18	11	$$$$
RIALTO	17	12	$$$$$
SAN BERNARDINO	19	12	$$$$$
Uninc. SAN BERNARDINO CO.	1	12	$$
UPLAND	10	5	$$
VICTORVILLE	5	19	$$

Table 8 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.

Although Unincorporated San Bernardino County does not have a business license tax, it has one of the highest property tax rates at 1.3426% and therefore received a Low Cost rather than Very Low Cost rating.

San Diego County

San Diego has historically been one of the lowest cost counties featured in the Survey, and it keeps its place as one of the least expensive counties in California. San Diego is one of very few California counties without any High or Very High Cost cities; of a total 16 cities surveyed, 6 are Very Low Cost ($), 7 are Low Cost ($$), and only 3 are Average Cost ($$$).

The city of San Diego is one of the least expensive Big Cities in California. It is also one of only three Low Cost Cities in California with a population over 250,000 (the others being Anaheim and Chula Vista, which is also in San Diego County), and it is the only Low Cost City in California with a population over 500,000 (San Antonio, in Texas, also has a population over 500,000 and a Low Cost rating). San Diego has a lower cost rating than most large cities mainly because of its low business license tax, which is computed based on the number of employees working for a company; a medium-sized retail business would pay around $560.00 a year in business license taxes, which is about half of the state median of $1,105. Like most of the other cities in the county, San Diego does not have utility user taxes. However, it does have the third highest property tax rate in San Diego County, which helps explain why it received a Low Cost rather than Very Low Cost rating.

El Cajon, Oceanside, and Carlsbad received the highest cost ratings in San Diego County, although all three are only Average Cost and remain competitive with other California cities. El Cajon is the only city in San Diego County with utility taxes on electricity and gas, and one of just two cities with utility taxes on telecommunications. Oceanside has the highest business license tax in the county; with the city's gross receipts calculation formula, a medium-sized business could pay $5,075 a year, compared to the low figure of $560 in the city of San Diego.

San Mateo & Santa Clara Counties

With two Very Low Cost ($) cities, one Low Cost ($$) cities, three Average Cost ($$$) cities, two High Cost ($$$$) city, and one Very High Cost ($$$$$) city, San Mateo is an Average Cost county. The nine cities featured in the Survey, with property taxes ranging from 1.0909% to 1.1306%, all have rates below the state median of 1.1392%.

Like most of the Bay Area, San Mateo County has relatively high business license fees; in seven of the nine cities, a medium-sized retail business would pay more than the state median of $1105. Daly City, where businesses pay 0.1% of their gross receipts in taxes, has the highest retail business license tax rates in the county, and one of the 20 highest in California. Colma and Burlingame, two Very Low Cost cities, both have flat rate fees that are some of the lowest retail business license fees in the state. While a retail business making $10,000,000 in gross receipts would pay $10,000 a year in Daly City, it would only pay $26 in Colma and $100 in Burlingame.

Santa Clara County is a higher cost county than San Mateo, with four Low Cost ($$), four Average Cost ($$$), and four High Cost ($$$$) cities. All 12 Santa Clara cities have property tax rates above the state median, with Gilroy and San Jose having the highest in the county at 1.2273% and 1.2827%, respectively. Compared to San Mateo cities, Santa Clara cities tend to have higher property tax and utility user rates. While only four San Mateo cities have any utilities taxes, eight Santa Clara cities have taxes on water, electricity, gas, and telecommunications ranging from 2% to 5%.

However, Santa Clara County has lower retail business license fees than

Photo by Joe Wolf

Table 9: The Cities of Santa Clara County

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

Table 10: The Cities of San Mateo County

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

Tables 9 & 10 list the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in Santa Clara & 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.

San Mateo County, with a median of $634.50 versus $3,858. In eight Santa Clara cities, a medium-sized retail business would pay less than $1,000 a year; in contrast, there are only two such cities, Colma and Burlingame, in San Mateo County. Palo Alto does not have any business license tax, while Mountain View charges a $30.00 flat fee for most types of business. Although San Jose has the highest retail business license tax in Santa Clara County, a medium-sized retail business would still pay less in San Jose than it would in two thirds of the cities in San Mateo County.

Table 11: The Cities of Ventura County

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

Table 11 lists the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in Ventura 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.

Ventura County

Ventura is a fairly low-cost county, as Table 11 illustrates. Of the nine cities surveyed, two are Very Low Cost ($), two are Low Cost ($$), two are Average Cost ($$$), and three are High Cost ($$$$). Ventura County does not have any Very High Cost ($$$$$) cities. Generally, the more expensive cities, including Oxnard, Port Hueneme, and Unincorporated Ventura Co. are along the coast, while less expensive cities – Fillmore, Moorpark, Camarillo, and Thousand Oaks – are located further inland.

Compared with the rest of California, Ventura County cities tend to have lower sales tax rates. Simi Valley has 7.25% sales tax, Fillmore, Camarillo, Moorpark, Thousand Oaks, Unincorporated Venture Co., and Ventura have 7.50% sales tax, and Oxnard and Port Hueneme have 8.0% sales tax. All cities in Ventura County fall below the state median of 8.25% sales tax.

Ventura County cities property taxes vary. Thousand Oaks, Moorpark, Simi Valley, and Camarillo have property taxes lower than the state median of 1.1392%, while the remaining cities have higher property taxes than the state median. Only Oxnard, a high cost city, has property tax in excess of 1.20%, at 1.205%. Additionally, seven of the nine cities do not have utility user taxes. Only Port Hueneme and Ventura, the two High Cost cities, have utility taxes of 4% and 5%, respectively. The two Very Low Cost cities, meanwhile, stand out because of their low flat-rate business license fees. A medium-sized retail business grossing $10 million a year would pay just $36 in Moorpark and $258 in Fillmore. Ventura's low flat-rate of $345 helps it retain its place as an average cost city.


Photo by John Fowler

Golden State on the Rise

Among the hardest hit by the recession, many gave up on the Golden State and its ballooning deficits. Its recovery over the past three years is therefore surprising if not impressive. In 2015, California's unemployment rate averaged 6.2% —the lowest in eight years. Over the past three years California has outpaced the nation in both job and economic growth. It accounts for over 13% of the total U.S. GDP according to the Los Angeles Economic Development Corp. Through a combination of budget cuts and short-term tax hikes, Governor Jerry Brown has managed to erase a $26 billion shortfall. According to the independent Legislative Analyst's Office, the state is expected to have a reserve total nearing $7.9 billion by the end of the 2015-2016 fiscal year. Much of this reserve will automatically go to K-12 education under proposition 98. Another large chunk has been set aside as a rainy day fund by Governor Jerry Brown. What remains will be up to the legislature to allocate.

What can explain this dramatic turnaround in the budget? The confluence of tax hikes and a rebound in the stock market plays a role. Proposition 30, which raised sales tax and taxes on the highest-income taxpayers, is expected to generate about $7.9 billion this year and $8 billion next year. Under Proposition 30, the highest tax bracket was raised to 13.3% and capital gains are taxed as income. The state says an estimated 10 percent of total personal income tax revenue comes from capital gains, or about $12 billion in 2015. Partly because it taxes the rich at such high-rates and partly because so many rich people live in California, the state is uniquely dependent on the fortunes of its rich citizens.

This additional funding was originally designed as a temporary measure to solve the budget deficit that would be phased out beginning after the 2015-2016 fiscal year. Now, however, it looks like Proposition 30 might have new life after the California Teachers Association filed an initiative to extend Proposition 30 until 2030. Some, such as Senior Economist at the UCLA Anderson School Jerry Nickelsburg, worry that if Proposition 30 were to be extended it would leave California public finances even more vulnerable to sharp swings in the incomes of high-income earners.

Outside of divisive questions on public finance, the economic picture for California is even rosier. In December 51% reported seeing California going in the right direction, up from 30% in early 2012. Previous editions of the Cost of Doing Business Survey commented on trend of companies moving to lower cost states. High costs for the most part remain the norm, but seem to be offset by the state's strengths. For example, output per worker in California is 13% higher than the national average. This past year every major sector outside of nondurable manufacturing and natural resources saw job growth; the largest gains occurred in professional and technical services (74,100 jobs). The Golden State also took in more venture capital funds in 2015 ($33.5 billion) than all other states combined ($24.2 billion).

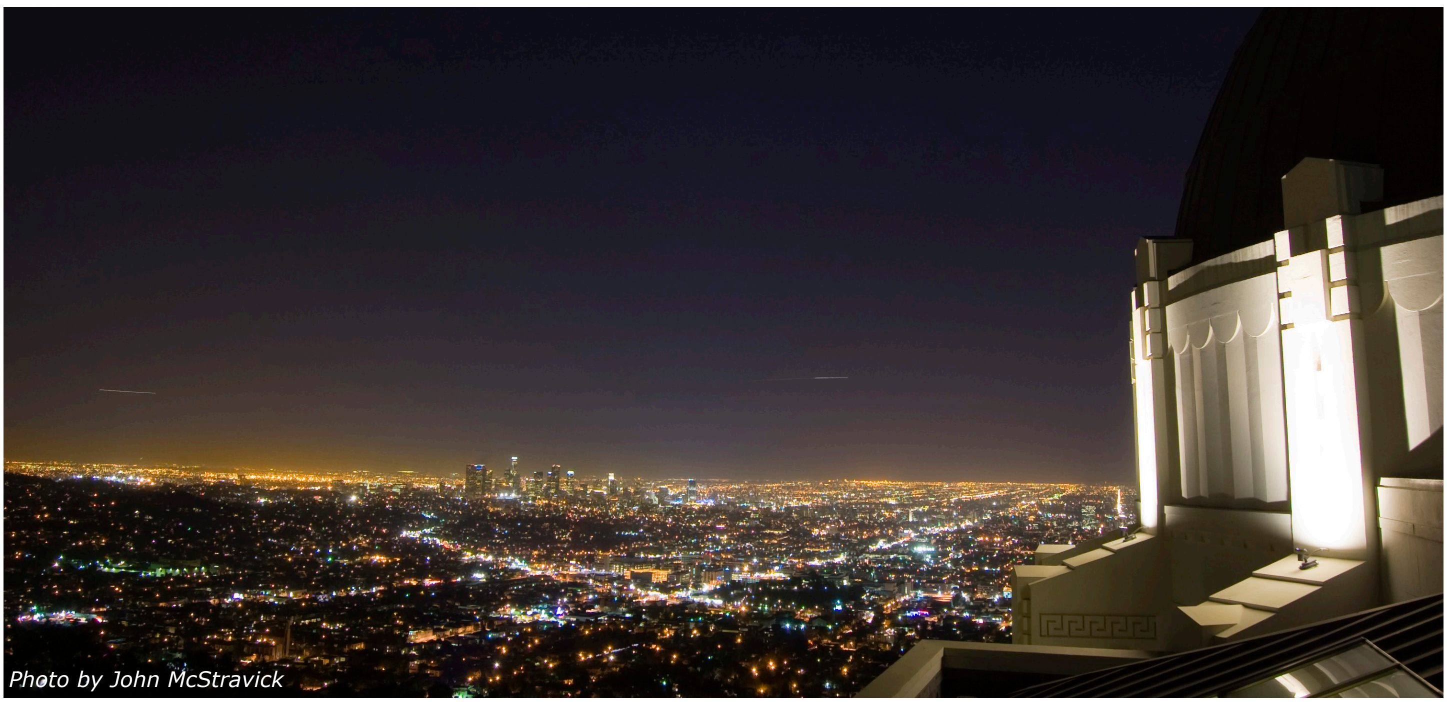
Photo by John McStravick

Photo by Jan Arendtsz

...With a Grain of Salt

The unemployment rate in California is at 5.8% as of December 2015, almost one percentage point above the national average. While this is not a new phenomenon as this trend has been present since 1991, it still may indicate failures of Sacramento policies to achieve a lower unemployment rate in the state.

One thing that is unlikely to help the employment picture in the future is the minimum wage increase to $10 per hour, implemented on January 1, 2016 by Assembly Bill 10 (2013). This rate is tied with Massachusetts' minimum wage as the highest in the country. While the full effects of a minimum wage increase are a contentious economic issue, it's unlikely that mandating the higher wage will lead to the hiring of more workers.

Moreover, there is a November 2016 ballot proposition that aims to increase the minimum wage to $15 per hour by January 1, 2021. After that, the minimum wage would be adjusted with respect to the cost of living in California. The California Legislative Analyst's Office predicts that businesses may look for alternatives to low-wage workers, increase prices, and/or see a decline in income. The net effect on workers' incomes is unclear.

In the context of the Kosmont-Rose Cost of Doing Business Survey, California's unemployment problems stand out. Of the states with cities profiled in the Survey, California's unemployment rate is third highest behind Nevada and New Mexico. Oregon, Texas, and Utah all have lower unemployment rates at 5.4%, 4.7%, and 3.5%, respectively.

Along with employment, California also faces issues of soaring housing costs. Between 2012 and 2015 alone, median home prices in California rose $120,000, according to the Sacramento Bee. Some parts of California, especially in the Bay and Los Angeles areas, are largely inaccessible to low-to-middle wage earners. In San Francisco, for example, a worker would need an annual salary of $191,000 to safely purchase a median-priced home. Both demand and supply forces contribute to California's high housing prices. California's climate, attractions, and size attract many people to the state. However, "community resistance to housing, environmental policies, lack of fiscal incentives for local governments to approve housing, and limited land constrains new housing construction," according to the Legislative Analyst's Office.

These high prices have even caused some workers to leave the state. Most are low-to-middle income workers earning less than $50,000 per year. The same pattern is reflected in education level, as about 250,000 workers with "some college" or less education left the state between 2007 and 2013. The LA Times identified Washington, Oregon, Nevada, Arizona, Texas, and Colorado as the biggest destinations for people leaving California.

State Economic Development

The composition of California's budget continues to remain ossified, limiting the ability of the state to establish economic incentives. With the focus on restoring program funding to original, pre-recession levels, the state's economic incentives have continued to rely mostly on existing tax credits. Cities, many of which continue to face the challenge of balancing their budgets, have again placed new tax measures on the ballot.

The most recent budget, for the 2015-

2016 fiscal year, saw a slight increase in both revenues and spending. Much of the increase came in the area of K-12 education. The budget continues to maintain a surplus with some revenue being set aside in the rainy day fund. Nevertheless, the state has not plowed any additional spending into increasing economic incentives, whether that is in the form of tax credits or subsidies. Additional funding in infrastructure development has also been lacking.

As unemployment reaches its lowest level since 2007, the state has not felt compelled to introduce new economic incentives, instead emphasizing existing incentives. The slate of economic incentives that was introduced by the Brown Administration in 2014, which included the New Employment Credit (NEC), the California Competes Credit, and the Manufacturing and Research & Development Exemption, remain in effect. NEC, intended to ensure that companies either expand within the state or return to California, creates a credit for newly hired, full-time employees within specified areas who receive wages between 150% and 350% of the state minimum wage and meet one of the following five conditions: was unemployed for the six months preceding hiring, is a veteran separated from the US 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. The state has not released data on how widely used or effective this incentive has been.

The California Competes Credit allows for businesses to negotiate with the state on tax credits in return for certain employment or project investment commitments. This past fiscal year, the Governor's Office of Business and Development (GO-Biz), which administers the credit, was authorized to award $200 million, an increase from the previous level of $151.1 million. A quarter of this funding remains reserved for small businesses in recognition of their important role in the economy. At the beginning of 2015, $180 million had been allocated to 241 companies projected to create over 35,000 jobs and make $9 billion in investments. In the most recent round of applications, GO-Biz received 341 applications for $75 million available in funding.

In contrast, the Manufacturing and Research & Development Exemption has been less successful than initially thought. This is a partial exemption of sales and use tax for certain purchases and leases relating to manufacturing, research, or development. Initial estimates had the exemption's cost at $486 million, rising above $500 million in subsequent years. The most recent estimate from the administration is a cost of $128 million, approximately one-quarter of the initial projection. Whether this is a result of businesses failing to take the necessary steps to claim the credit or simply not spending money on qualifying purchases remains unclear. An additional problem may come in the form of the decreasing value of the exemption, which falls from its current level of 4.1875% to the new level of 3.9375% at the beginning of 2017.

Municipalities and counties have continued to feel a need to increase their revenues in the past year. A variety of general use sales tax increases entered into effect in April 2015 after being passed by voters in November 2014. Five cities (Albany, El Cerrito, Hayward, San Leandro, and Union City) are now at a total sales tax rate of 10%. Alameda County, which includes Berkeley and Oakland, is now at 9.5%. In all, rates have risen in thirty-two individual cities and three counties, but declined in only one city, El Cajon.

The November 2015 elections also saw a number of tax measures: eight sales tax measures (seven of which were approved), ten parcel tax measures (half of which were defeated), and three hotel tax measures (all of which were approved). Notable results include an additional 0.5 percent increase in sales tax in South San Francisco, increasing its total sales tax to 9.5 percent, and a continuation of San Mateo's sales tax, maintaining its total sales tax at 9.25 percent. An additional attempt to increase Modesto's sales tax by 0.5 percent to 8.125 percent did fail on the ballot, however. Nevertheless, the general trend that sales tax rates are increasing in cities across the state remains clear.

This year, business taxes have been added to that ballot in a number of California cities. San Jose, voting on the quarter cent increase, is currently slated to be the largest city to vote. Other measures on the ballot are all parcel taxes for various jurisdictions: a flood control district, the San Francisco Bay Restoration Authority, a healthcare district, and a community facilities district. Undoubtedly, however, the number of measures will grow as June and November come ever closer.

California Business Competition

Despite high taxes and an expansive regulatory system, California has continued to demonstrate its dominance in the national economy. Since 2011, California's publicly traded companies in the Standard & Poor's 500 have delivered returns of 134 percent, the best total return in the S&P among the five states with the largest populations. While California taxes may be high, many have cited California's environmental, urbanization, and globalization regulations as mitigating the effect of

high taxes on businesses. By confronting these current societal problems, California's regulations have ensured success for California businesses' shareholders and bondholders. In particular, California's health care, consumer staples, specialty pharma, energy, and biotech industries have been thriving with returns up to 333%.

California has a very high concentration of "advanced industry" workers, ranking seventh in the nation for its concentration of these advanced industry jobs. The Brookings Institution defines this industry sector as consisting of companies with employees working in fields that require research and development as well as companies with positions that require significant skills in science, technology, engineering, and mathematics. These "advanced industry" companies tend to be small in terms of their work force, but they contribute $2.7 trillion in value annually to the United States GDP, which is more than any other U.S. sector.

In particular, according to this Brookings Institution report, San Francisco, San Jose, and San Diego metropolitan areas all rank in the top 10 of the largest 100 U.S. metro areas for population of high-tech workers. California's technology industry has led the country in technology revenue by significant margins. In March 2015, California's technology revenue made up 52% of technology company sales in the entire county. Furthermore, California Clean Technology Companies have dedicated 25% of their sales to research and development, resulting in significantly more jobs available to Californians. In fact, analysts forecasted a 70 percent gain in California's clean technology companies in the following 12 months, which is significantly higher than the 33 percent gain for the industry nationally.

While the "advanced industry" sector as grown significantly in California, California's manufacturing growth has slowed recently. Since February 2010, California's manufacturing has only grown at an anemic 1%, a rate significantly lower than the national manufacturing growth rate of 6.7%. Furthermore, while California still has the largest manufacturing base in the nation, producing 11% of national manufacturing, the state has decreased its investment in new or expanded manufacturing significantly in recent years.

In particular, the automobile manufacturing, shipbuilding, and textiles and apparel industries have suffered the most job losses in California in the past decade. In September 2014, California suffered a great blow when Tesla Motors, a California-based automaker, chose Nevada as the location for its $5 billion battery plant. Similarly, Faraday Future, a California-based electric car company, has recently announced that it will open its manufacturing plant in North Las Vegas, Nevada. Nevada is offering the Faraday Futures $215.9 million in tax incentives, which significantly affected its decision to open in Nevada. It is estimated that by 2023, Faraday Future will employ 4,500 staff, fifty percent of whom will be Nevadans. Likewise, Tesla has announced that their plant could employ up to 6,500 workers by 2020. Thus, while California's "advanced industry" sector is thriving and generating significant wealth for California, its manufacturing sector, which has the ability to employ many more Californians, is struggling to compete with other states. These discrepancies between industries have led to a disjointed California with a wealthy, highly employed, advanced industry sector on the coast and a less wealthy, less employed, manufacturing sector inland.

Silicon Valley Status

Silicon Valley is to technology what Hollywood is to film and what Wall Street is to banking. While Southern California might be giving rise to a "Silicon Beach," and cities such as Austin, Texas might be growing their own technology sectors, there are exclusive advantages to having a business based in Silicon Valley, and the Bay Area more generally. CEOs cite ease of access to likeminded entrepreneurs, and, perhaps more significantly, access to an experienced and well educated talent pool as reasons to base a business in Silicon Valley.

Silicon Valley's status as the center of tech has driven demand for office space sky high. In Mountain View, where Google's campus is located, office space is priced at $97 per square foot, compared to the national average of less than $35.2 Palo Alto comes in a close second, at $88 per square foot. Many see these soaring prices as a cost-prohibitive environment for the technology industry in Silicon Valley. However, Greg Matter, head of real estate agency Jones Lang LaSalle, reports that currently the industry is less focused on real estate prices and more focused on the price it pays for labor.

The Valley is home to excellent universities, such as Stanford and U.C. Berkeley, with many other elite universities and engineering schools opening satellite campuses in the region to increase their presence in the tech industry. Skilled technological labor is drawn from these elite universities, another reason that Silicon Valley is located where it is. Silicon Valley workers are, on average, 50% more productive than the average U.S. worker was in 2012.7As a result, many companies strive to position themselves to take advantage of this highly skilled labor.

Skilled labor is expensive, and average total compensation for a tech worker in Silicon Valley was over $195,000 in 2014, and over $156,000 in San Francisco. On top of this, competition for skilled labor among different technology firms is fierce, and often companies face pressures to provide workers with more than just a hefty salary. "Perks," a hallmark of startup culture in the Valley and pioneered in part by Google, have become standard among employers. In some cases, these perks may have an estimated value of up to 20% on top of annual compensation. The trend toward increasingly lavish perks shows no sign of slowing down, as competition for talent becomes increasingly fierce and potential employees expect things such as housing subsidies, unlimited vacation days, free food, and ping pong tables.

Another contributing factor to the high cost of doing business in Silicon Valley is the high cost of housing. Employees see a significant chunk of their compensation going toward living expenses, and as a result many desire a higher salary to maintain a comfortable standard of living. Property values in 2014 rose to an average of $725,000 for a single family residence, an 11.5% increase from 2013. Average property values in Sunnyvale, home to tech giants such as Lockheed Martin, Apple, NetApp, and Yahoo!, are now at $964,000. Rent prices for an apartment in Santa Clara County rose 35% over the past four years to an average $2,153, while rent averaged $2,022 in San Jose, and $2,133 in Oakland.

In the meantime, however, wage growth has plateaued for many middle and lower income workers in the region. The working poor compose 16.2% of the work force, and while median rents in the entire region rose an average 10% between 2005 and 2012, median income rose only 1%. Accordingly, food stamp redemption increased 114% between 2008 and 2011. The working poor have become the victims of gentrification in the region, seeing costs of goods and services rise while the money they take home has remained constant. Trading a longer commute for lower monthly payments, many have begun to relocate their residences to outlying towns such as Tracy, Patterson, or Los Baños, which, in turn, has led to increased costs in these neighborhoods (a 28% rise in Tracy, 45% rise in Patterson, and 37.5% rise in Los Baños).

Nonetheless, these outlying regions remain significantly more affordable

Photo by Tim Benedict Pou

than more central locations.

In the future, it is possible to image Silicon Valley sprawling outward into these outlying regions, as rent around San Jose begins to become too much even for high income tech workers. Michael Malone of the Wall Street Journal says it is feasible that by 2050, there might exist a "Greater Silicon Valley" stretching from Santa Cruz through Sacramento, and the Gold Country to Lake Tahoe. "Silicon Valley" may begin to become synonymous with "Northern California."

Economic growth for the region seems to appear constant looking forward. Boston Consulting Group projects that Silicon Valley's growth should be on track with that of U.S. GDP, growing about 3.4% from 2013 to 2014. However, they note that growth will probably be slower for more mature companies, with growth rates at only 1.3% in the data server sector and 2.4% in the networking sector. They estimate that for many companies evaluated over $10 billion, it will be hard for these companies to continue to grow organically. San Jose predicts a bright future as well, citing growth rates between 2012 and 2013 at a stable 3.0% as evidence of the region's stability. This is good news for the state as a whole, as Silicon Valley represents a sizable chunk of California's GDP. California's labor force is comprised of just under 19 million people, and Silicon Valley employs just under 1.5 million people, or 7.9% of California's labor force.

Despite competition from other areas of the country to win the allegiance of the tech industry, it seems that Silicon Valley has been and will be able to maintain stable growth and continue to attract skilled labor. Despite rising costs, there could still be some hope for the small business owner. As more and more companies valued at over $10 billion find it harder to scale and organically produce growth in the double digits, some workers may leave their extravagant salaries and perks in pursuit of working for a new, high-growth startup. Furthermore, while economic growth is still going to be nearly double that of the state of California, it seems to be cooling down slightly, a sign that it might begin to be cheaper to start businesses in the region.

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