



2014 KOSMONT-ROSE INSTITUTE COST OF DOING BUSINESS SURVEY REPORT

RELEASED BY THE ROSE INSTITUTE OF STATE & LOCAL
GOVERNMENT AT CLAREMONT MCKENNA COLLEGE

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Claremont, Calif. June 29, 2015 - Claremont McKenna College's Rose Institute of State & Local Government today released the 20th annual ***Kosmont-Rose Institute Cost of Doing Business Survey***. The Rose Institute gathers business fees and a variety of tax rates from 305 selected cities, focusing in on the states where business relocation is the most active. The 2014 edition of the *Survey* encompasses the most recent calendar year and takes a close look at the cost of doing business in California along with eight other western states that many companies view as possible alternatives to California (Arizona, Colorado, Nevada, New Mexico, Oregon, Texas, Utah, and Washington). Rankings for each city are divided into one of five "Cost Ratings" groups: Very Low Cost (\$), Low Cost (\$\$), Average Cost (\$\$\$), High Cost (\$\$\$\$), and Very High Cost (\$\$\$\$\$).

Highlights from the 2014 Survey

Most Expensive Cities

- Of the 20 most expensive cities surveyed, 12 are located in California; 9 are in Southern California and 3 are in the San Francisco Bay Area.
- Los Angeles and the San Francisco Bay Area are the two most expensive metropolitan areas in the western United States.
- Seven out of the twenty most expensive western cities surveyed are in Los Angeles County: Those cities are Bell, Beverly Hills, Culver City, El Segundo, Inglewood, Los Angeles, and Santa Monica.

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Least Expensive Cities

- Texas stands out as a low cost state, with six cities on the list of twenty least expensive western cities surveyed.
- Both of the least expensive cities in California, Moorpark and Mission Viejo, are located in Southern California.

California Cities Continue to Rank as High Cost – No Relief in Sight

“California continues to have the highest business tax climate on the West Coast. This reality compels businesses to reconsider their relationship with the State and look elsewhere for a lower-cost solution,” according to Larry Kosmont, President of Kosmont Companies and founding publisher of the *Kosmont-Rose Institute Cost of Doing Business Survey*.

Kosmont maintains that firms still want to locate in California, citing the Golden State’s world-class weather (although recently dry), amenities, large and diverse workforce, and strategic Pacific Rim location. “Mid-to-large corporations have a love-hate relationship with California. They may *want* to be in California, but in their attempt to control costs and remain competitive, many CEO’s are motivated to ask, ‘How small an operation in California can I manage and still service that market?’ As a result, the sales, design office, or distribution unit may stay or even expand in places in or nearby LA, San Diego or the Bay Area, but other operating units are more likely to end up in states like Nevada, Arizona or Texas,” says Kosmont.

Despite efforts to minimize costs for businesses, much of the current public policy and economic discussion is focused on increasing minimum wages across the state. The Los Angeles City Council voted in June 2015, with Mayor Garcetti recently signing this law, to raise the minimum wage from \$9 an hour to \$15 per hour over the next five years. Los Angeles is just one city in the latest wave to raise minimum wage beyond what state law dictates. San Francisco voted in 2014 to increase minimum wage to \$15 per hour by 2018. San Diego will hike its minimum wage to \$11.50 by 2017, a measure it passed in 2014. The minimum wage is already set to increase to \$10 per hour across the state in 2016 and both legislative bodies are considering another statewide wage hike.

Further fueling an environment unfriendly to business, numerous city elections during the past few years have resulted in increased taxes at the local level. In 2014, an astounding 65 local sales tax measures were decided, and of this total, 50 were approved by voters.

Almost every year, the California Legislature considers whether the Property Tax on businesses should be increased. Called the split roll, if adopted, it would require businesses to pay property taxes at a rate higher than the rate imposed on homeowners, versus the present system where property taxes are taxed based on the same formula, whether a residence, apartment building, or property used for commercial or industrial purposes.

While rare, there are random business-friendly actions that take place in California. The City of Los Angeles adopted an ordinance in 2015 reducing its Gross Receipts Tax. Effective February 2015, the cut takes the top tax rate paid by law firms and other professional service businesses from the current \$5.07 per \$1,000 in gross receipts to \$4.75 in 2016, \$4.50 in 2017 and \$4.25 in 2018. Even if some local taxes, like LA’s business tax are reduced, “the fact is California is an expensive state when it comes to fees and taxes on businesses, and it looks like it will stay that way,” observed Kosmont.

California Pursuing a Green Economy: New Sustainable Economic Development Tool Approved in California

California appears committed to moving in a direction that creates a sustainable and green economy. The march to an economy focused on industrial and commercial processes that reduce energy consumption and achieve significant carbon footprint reduction is on in California. The state is on the brink of adopting more “green” legislation that would accelerate the efforts of AB 32, SB 375 and SB 535 by requiring that the state generate 50% of its electricity from renewable sources, double energy efficiency in older buildings, and reduce gasoline usage by half. With sustainability as a goal and potentially a foundation of California’s “green” economy, to the extent the state does attract businesses; it will likely come from sustainable industries and processes.

Collaterally, California’s solutions to successful economic development appear to be tied to sustainable infrastructure policies. The state legislature recently adopted SB 628 which facilitates a new economic development tool that shows promise: Enhanced Infrastructure Financing Districts (EIFDs). EIFDs return a mechanism to California local agencies that can help fund projects, which may in turn spur economic development.

SB 628 enables either a local city or county to initiate a form of TIF which permits collaborative cities, counties and special districts to fund a broad array of economic development projects, including infrastructure, and which can provide incentives to create projects that conserve water, reduce greenhouse gas (GHG) emissions, and create jobs. Sustainable projects are further incentivized by significant sources of funds such as the billions provided through cap-and-trade, as well as Proposition 1, a \$7.5 billion general obligation bond designed to build and improve the amount and quality of California’s water infrastructure.

Kosmont reports, “After wandering in the desert without effective economic development tools for a number of years, California is laying the groundwork to empower cities and counties to induce economic development. Although EIFDs are still a work in progress, getting TIF back allows the state to be more competitive in the fight to create economic development opportunities through attraction and retention of businesses.”

Despite the opportunities that new economic development tools such as EIFDs provide, Kosmont cautions, “California won’t become business friendly overnight. Change is likely to be incremental, but hopefully sooner or later the state will figure out that the long term answer to financial certainty is in great part through private investment that creates well paying jobs, and that means the state will need to view focus on greenhouse gas reduction measures as a way to induce industries to stay rather than leave.”

To learn more about Kosmont Companies, use the following URL: <http://www.kosmont.com/>

For more information on the Rose-Institute and the Cost of Doing Business Survey, use the following URL: <http://roseinstitute.org/>

For access to the 2014 Kosmont-Rose Doing Business Survey order form, use the following URL: <http://www.kosmont.com/wp-content/uploads/2015/06/2014-Kosmont-Rose-Cost-of-Doing-Business-Survey-Order-Form.pdf>

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The Twenty Most Expensive Cities in the West in 2014

All have a Very High Cost (\$\$\$\$) Rating

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

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**The Twenty Least Expensive Cities in the West in 2014
All have a Very Low Cost (\$) Rating**

City Name and State	Sales Tax	Retail Business License Fee	Property Tax
ABILENE, TX	8.25%	\$ -	2.32%
CORPUS CHRISTI, TX	8.25%	\$ -	2.77%
DALLAS, TX	8.25%	\$ -	2.71%
EUGENE, OR	0.00%	\$ -	1.44%
EVERETT, WA	9.00%	\$ 1,000	1.19%
FEDERAL WAY, WA	9.50%	\$ 50	1.61%
FORT WORTH, TX	8.25%	\$ -	2.84%
GRESHAM, OR	0.00%	\$ 469	1.62%
HENDERSON, NV	7.75%	\$ 5,600	1.01%
HOUSTON, TX	8.25%	\$ -	2.68%
KENT, WA	9.50%	\$ 718	1.55%
LAS VEGAS, NV	8.10%	\$ 5,600	1.15%
MISSION VIEJO, CA	7.75%	\$ -	1.04%
MOORPARK, CA	7.25%	\$ 36	1.08%
OGDEN, UT	6.85%	\$ 987	1.00%
PLANO, TX	8.25%	\$ -	2.19%
RENO, NV	7.72%	\$ 7,545	1.28%
SPARKS, NV	7.72%	\$ 10,070	1.27%
SPOKANE, WA	8.70%	\$ 2,060	1.42%
YAKIMA, WA	8.20%	\$ 1,285	1.29%

Detailed information can be found in the survey at <http://www.kosmont.com> or <http://roseinstitute.org/research-overview/kosmont-rose-institute-cost-of-doing-business-survey/>.