Cost of Doing Business Survey®

Executive Summary

ROSE INSTITUTE OF STATE AND LOCAL GOVERNMENT
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Welcome

Introduction

To tax or not to tax? That appears to be the question across the nation as businesses face a seeming tidal wave of tax proposals from virtually every level of government. The Great Recession technically ended three years ago, but business, local governments and communities still face daily struggles to climb out from the hole created by the biggest financial downturn since the 1930s. Getting back to "normal" is inherently difficult for each of these groups as they are dependent on one another to restore wealth. Sustainable cities require gainfully employed residents, but neither one of these occurs without a thriving business sector. Taxes, services and jobs form a three legged stool upon which a sustainable local economy rests, but it is a vital and productive business climate that keeps that stool from toppling. Yet there is a fundamental attraction on the part of local government to tax non-residents, meaning businesses, first. Perhaps then the better question is: will the swooning attraction to tax businesses be a fatal one, or at least harmful enough to extend the slow pace of recovery?

In California alone, more than 230 measures for local taxes, bonds and fees appeared on the recent November election ballot. While most were bonds designed to fund local schools, more than 100 were put forward by cities and special districts to increase utility, sales, and hotel taxes. All of these affect business, particularly smaller companies who tend to be cash flow-tight and credit-challenged.

The sluggish economy has made the pain of tax increases on businesses and owners more acute. Four years of economic distress has squeezed profit margins and put pressure on companies to cut costs. While many large corporations are sitting on stockpiled cash, the prevailing imperative is that businesses must reduce operating cost in order to stay viable and competitive, and as such, have less ability to absorb locally-exacted taxes and fees and more incentive than ever to examine the costs of doing business in various cities. Bolstered by the flexibility technology promises, thousands of companies are faced with strategic "move" decisions which seek to reduce fixed costs such as government taxes while investing in workplace efficiencies.

The goal of the *Cost of Doing Business Survey* is to provide information about the costs of operating a business in a variety of cities and regions in the United States. Cities know they must compete, locally and across state lines, in order to attract, retain or expand their source of jobs and taxes. 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 more than three hundred cities enable these individuals and organizations to compare the cost of doing business in different communities. Businesses around the country have used this information in deciding where to start a specific project or where to relocate the company itself.

2012 marks the eighteenth edition of the annual *Cost of Doing Business Survey* and the ninth year since the Kosmont Companies began its partnership with the Rose Institute of State and Local Government. The city profiles included in the 2012 *Kosmont-Rose Institute Cost of Doing Business Survey* are the result of a labor-intensive survey process. We collect raw data on the fees, taxes, economic incentives and other programs that businesses may find in each city. This information is then carefully analyzed for all 305 cities. We use the median rate from the previous year to perform a comparative analysis and assign each city 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 "User Guide" on the 2012 *Cost of Doing Business Survey* CD or contact the Rose Institute at (909) 621-8159.

The 2012 *Survey* features a total of 305 cities in nine western states: Arizona, California, Colorado, Nevada, New Mexico, Oregon, Texas, Utah and Washington. The *Survey* team narrowed the study's scope this year in order to provide clearer, more in-depth analysis of the cost of doing business in communities across the western United States. This year's edition focuses on California and other western states that many businesses consider as possible alternatives to the Golden State, and we expect the 2012 *Survey* to be especially useful to businesses and local governments that want to compare the cost of doing business in these economically important regions.

Table 1: The Ten Most Expensive Cities

City Name and State	Sales Tax	Retail Business License Fee	Property Tax
BELL, CA	8.75%	$4,386	1.55%
BERKELEY, CA	8.75%	$12,000	1.26%
BULLHEAD CITY, AZ	7.85%	$200	2.71%
CHANDLER, AZ	8.80%	$50	2.23%
COMPTON, CA	8.75%	$2,850	1.55%
CULVER CITY, CA	8.75%	$10,060	1.21%
DENVER, CO	7.62%	$4,800	3.69%
GLENDALE, CA	8.75%	$0	1.07%
INGLEWOOD, CA	9.25%	$11,022	1.28%
LOS ANGELES, CA	8.75%	$12,700	1.25%
OAKLAND, CA	8.75%	$12,000	1.41%
PHOENIX, AZ	9.30%	$0	3.53%
POMONA, CA	8.75%	$5,100	1.20%
PORTLAND, OR	0.00%	$36,500	2.29%
SAN BERNARDINO, CA	8.00%	$7,549	1.34%
SAN FRANCISCO, CA	8.50%	$60,500	1.17%
SANTA MONICA, CA	9.25%	$12,500	1.14%
SEATTLE, WA	9.50%	$21,590	1.29%
TEMPE, AZ	9.30%	$0	2.47%
TUCSON, AZ	9.10%	$45	4.32%

National Analysis

Most Expensive Cities

The 2012 edition of the *Kosmont* survey takes a close look at the cost of doing business in California as well as Arizona, Colorado, Nevada, New Mexico, Oregon, Texas, Utah and Washington). This year's list of the most expensive cities brings attention to twenty of the most expensive cities in the western United States. California dominates the list with a total of eleven cities – eight in Southern California and three in the San Francisco Bay Area. Arizona is another expensive state with six cities on the list of top twenty. Colorado, Oregon, and Washington each have one city.

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

The *Survey*'s findings indicate that Los Angeles and Phoenix are the two most expensive metropolitan areas in the western United States. Seven out of the twenty most expensive western cities are in Los Angeles County: Bell, Compton, Culver City, Inglewood, Los Angeles, Pomona, and Santa Monica. In these seven cities, a medium-sized retail business would pay between $2,850 and $12,700 a year in business license fees and between 9% and 12.5% in tax on electricity.

Another four of the most expensive western cities are in the Phoenix metropolitan area: Chandler, Glendale, Phoenix and Tempe. These four cities also have very high taxes on utilities that range from 9.3% to 12.7%, the highest rate found in the *Survey*. In addition, they have high property taxes between 2.2347% and 3.5346%.

California's Bay Area has three of the most expensive western cities: Berkeley, Oakland, and San Francisco. All three cities have a high utility tax rate of 7.5% and high business license taxes. A medium-sized retail business would pay $12,000 a year in Berkeley and Oakland, and $60,500 a year in San Francisco. The high concentration of expensive cities in major metropolitan areas can limit available options for businesses wanting to relocate to less expensive cities while still retaining access to key markets, a prominent address and other resources.

High utility user taxes are a cost factor that put every one of these cities on the list of most expensive western cities. Whereas only half of all cities in the *Survey* have a utility user tax, all twenty cities have utility user tax rates above 5%, and nine have at least one utility tax rate above 10%. Los Angeles and Culver City have the highest electricity tax rates in the *Survey* at 12.5% and 11%, respectively. Glendale, Phoenix and Culver City have the highest telephone tax rates at 12.7%, 12% and 11%, respectively. The median electricity and telephone tax rates for the most expensive cities are 9.15% and 8.55% respectively, compared to 2% and 0% for the *Survey* overall. Businesses need utilities such as electricity and telephone service in order to operate, and utility user taxes can impact operating costs and overall competitiveness.

Many of the twenty most expensive western cities also have high property tax rates. Eight cities have property tax rates above 2.20% which is nearly double the *Survey*'s median property tax rate of 1.17%. Tucson has the highest property tax rate in the *Survey* at 4.322%, followed by Denver at 3.692%, Phoenix at 3.535%, and Glendale, Arizona, at 3.489%. Santa Monica and San Francisco have the lowest property tax rates on the list at 1.136% and 1.172%, respectively.

Many, though not all, of the most expensive western cities also have high business license taxes. A medium-sized retail business would pay $60,500 a year in San Francisco, the highest of any city in the *Survey*, followed by $36,500 a year in Portland and $21,590 in

Table 2: The Ten Least Expensive Cities

City Name and State	Sales Tax	Retail Business License Fee	Property Tax
ABILENE, TX	8.25%	$0	2.21%
CORPUS CHRISTI, TX	8.25%	$0	2.77%
DALLAS, TX	8.25%	$0	2.71%
ENCINITAS, CA	7.75%	$20	1.04%
EUGENE, OR	0.00%	$0	1.44%
EVERETT, WA	9.00%	$1,000	1.19%
FORT WORTH, TX	8.25%	$0	2.84%
GRESHAM, OR	0.00%	$469	1.72%
HENDERSON, NV	7.75%	$5,600	1.01%
HOUSTON, TX	8.25%	$0	2.68%
KENT, WA	9.50%	$100	1.37%
LAKE FOREST, CA	7.75%	$0	1.04%
LAS VEGAS, NV	8.10%	$5,600	1.15%
MISSION VIEJO, CA	7.75%	$0	1.04%
MOORPARK, CA	7.25%	$35	1.08%
PLANO, TX	8.25%	$0	2.19%
RENO, NV	7.72%	$7,545	1.28%
SPOKANE, WA	8.49%	$2,060	1.38%
TEMECULA, CA	7.75%	$35	1.03%
YAKIMA, WA	8.20%	$1,285	1.31%

Seattle. The same medium-sized retail business would pay over $2,800 a year in fourteen of the twenty most expensive cities, and over $10,000 a year in nine – compared to an overall median business license fee of $1,000. All five Arizona cities stand out because of their very low business license fees. A business would pay $50 in Glendale and Chandler, $45 in Tucson, and nothing in Phoenix and Tempe. However, these cities' comparatively high utility user taxes, property tax, and sales tax still make them five of the most expensive cities in the western United States.

The distribution of taxes and fees in the list of twenty most expensive western cities illustrates the impact of the state tax structure on the cost of doing business in individual cities. In Arizona, for instance, the state and county privilege tax (a type of sales tax) is also assessed on utility providers and the cost is usually passed on to utility users. This means that there are no separate utility tax rates in Arizona. By contrast, most Californian cities assess a utility user tax which is collected by a utility and then remitted to the city. There are no sales or privilege taxes imposed on utility consumption in California.

In terms of property tax levies, California's Prop 13 greatly limits property tax rates. The eleven California cities on the list have property tax rates ranging from 1.136% to 1.548%, while the five Arizona cities' property tax rates range from 2.235% to 4.322%. Overall California's median property tax rate is 1.142% while Arizona's median is 2.333% - more than twice California's.

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.

Least Expensive Cities

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

Business license fees are an important factor in determining cost ratings, and many of the least expensive western cities have very low business taxes. Nine out of the twenty cities do not have a business license tax, while three others have a very low annual flat rate fee between $20 and $35. A medium-sized business would pay less than $400 a year in 14 of the 20 cities, well below the *Survey* median of $1,000. However, the three Nevada cities – Henderson, Las Vegas, and Reno – all have significantly higher business license taxes, calculated based on gross receipts; a medium-sized retail business would pay over $5,500 a year in all three cities. These three cities, along with Sparks, remain Very Low Cost because they are located in a state without corporate income tax. Additionally, all four cities have fairly low property tax rates between 1.0135% and 1.28%.

Many of the least expensive western cities also have relatively low utility user taxes. Eleven of the twenty cities do not have any electricity tax and twelve do not have any telephone tax. With the exception of Plano, the remaining cities have electricity tax rates varying from 0.26% to 6%, and telephone tax rates varying from 1% to 6%. Plano stands out as having the highest utility taxes with a 9.05% tax on telephone service and an 8.3% tax on gas. Overall, Plano remains a very low cost city, though, because a Plano-based business would not pay any business license tax or state corporate income tax.

Cities have no control over state taxes, but these greatly influence the cost of doing business locally. Thirteen of the twenty least expensive western cities are located in Nevada, Texas or Washington – three states that do not have corporate income tax. Two other cities – Eugene and Gresham, Oregon – are located in a state that does not have any sales tax.

Texas once again stands out as a low cost state with six cities on the list of twenty least expensive western cities. The State of Texas does not have a corporate income tax, and these six cities do not have any business license fees. Four of the six do not have any utility tax on telephone service and five do not tax cable or water. However, all six cities have high property taxes between 2.188% and 2.838%, among the thirty highest in the *Survey*. These Texas cities are examples of how certain cities can be inexpensive overall, despite having high taxes in one or two categories.

Despite its reputation as a high cost state, five of the twenty least expensive western cities are located in Southern California, with two in Orange County, one in San Diego County, one in Riverside County, and one in Ventura County. None of the cities are located in Los Angeles County or the Bay Area, the two most expensive regions in California. To make up for California's high corporate income tax, these cities must have very low business license, utility, and property taxes. Mission Viejo and Lake Forest do not have a business license tax, while Encinitas, Moorpark, and Temecula have very low flat rate fees between $20 and $35 a year. None of the five cities have utility taxes. Their property tax rates range from 1.032% in Temecula to 1.075% in Moorpark; rates that are significantly below the *Survey* median of 1.17% and the California median of 1.145%. The five cities also have sales tax rates of 7.75% which is below the *Survey* median of 8.25%.

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

- Larry Kosmont

Table 2 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.

The Golden State

California Cities Rank Poorly

"The past few years have not been kind to California Cities," said Larry Kosmont, President of Kosmont Companies. "The Recession exposed weaknesses that were always there: namely unfunded pension obligations and a State that has been hostile to the needs of business. Add to these reduced tax receipts from the downturn and the recent loss of redevelopment agencies and you have a quadruple-punch in the gut of local governments."

California's relative indifference to business is nothing new. Long-term economic development has been systematically eroded by tax policies as well as heavy exactions on business and development activities. Riding on the coattails of its historic allure, the State has been slow to react to an exodus of companies seeking cost effective policies and friendlier political environments. As a result, cities may lack sufficient revenue to support themselves while taxing a 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. Notwithstanding a recent increase in tax ballot measures, raising taxes remains widely unpopular and requires a public vote. To meet their needs, cities have historically relied upon achieving new revenues from real estate and business investment.

Many California cities view housing as installing an operating expense burden rather than a source of revenue from paid fees and taxes, opting instead to chase commercial projects, especially those that are sales tax "thumpers." "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 both, rooftops and well-paying jobs, to generate local sales."

Kosmont states that firms still want to locate in California citing the Golden State's world-class weather, amenities, large and diverse workforce, and strategic Pacific Rim location. "The truth is, companies want to be in California. But in response to the pressures of minimizing costs, CEO's are compelled to ask, 'How small an operation in California can I manage with and still service that market?' As a result, the sales or design office may stay or even expand in LA or the Bay Area, but the bulk of jobs and back office functions will likely end up in states like Nevada, Arizona or Texas."

There are some signs that the anti-business sentiment in California politics may be waning. Recent voter initiatives mandated commissions, not politicians, to redraw congressional (Prop 20) and legislative districts (Prop 11). Then, the Open Primary law was passed by voters in 2010 (Prop 14) in which the top two vote getters go to the general election, regardless of party affiliation. These laws are already forcing legislators to play to a broader field of constituents, requiring politicians running force office to work harder for their votes and ultimately tending toward more moderate viewpoints in Sacramento.

Kosmont cautions, "California won't become business friendly overnight. Change is apt to be incremental, but sooner or later the State will figure out that the long term answer to their budget deficit is private investment that creates jobs, and that means it will need to woo business back. Otherwise, the

promise of temporary taxes, which led voters to recently approve sales and income tax hikes, will join the long list of excuses as to why the state needs more money to provide less effective education at all grade levels."

Redevelopment Agencies Defeated... Economic Development Wounded

For decades, cities and counties across the State of California have relied on redevelopment areas to attract private investment and to reinvigorate and improve blighted, deteriorated, and economically challenged areas, thereby improving the municipality's local economic conditions.

Redevelopment Agencies used what's called "tax-increment financing" to fund these activities. As the value of property increased due to improvements and other factors, property tax revenues, known as tax increment, would increase over a frozen base established at the birth of a redevelopment area plan in a specific geographic area. Redevelopment agencies used this property tax increment for a wide variety of projects intended to eliminate the blight, revitalize neighborhoods and fund economic development.

Redevelopment agency advocates argue that RDAs have achieved important successes, including the revitalization of Old Pasadena and San Diego's Gaslamp Quarter. They claim that redevelopment agencies provide much-needed employment in today's economic climate and contribute to the entire community by improving public infrastructure and promoting commercial development. Opponents, however, point to a February 2011 report from the Legislative Analyst's Office that concludes there are no objective or standard performance measures to determine whether redevelopment agencies actually promote job growth or generate significant economic returns to taxpayers. Critics argue that many redevelopment projects have had little public value and that some agencies have used funds inappropriately.

On June 28, 2011, Governor Brown signed two bills as part of the State budget package that eliminated the redevelopment agency model in place at the time. The first, Assembly Bill x1 26, dissolved all California redevelopment agencies; the second, Assembly Bill x1 27, allowed cities to reinstate their redevelopment agencies by agreeing to pay substantial "community remittances" to the County, "ensuring improved educational and other community services in the areas served by the redevelopment agency." In July, the California Redevelopment Association, the League of California Cities, and the cities of San Jose and Union City filed a lawsuit challenging the new laws. The plaintiffs argued that AB 26 and AB 27 violated Proposition 22, a ballot initiative passed in November 2010 that explicitly prohibits the "seizing, diverting, shifting, borrowing, transferring, suspending, or otherwise taking or interfering with" revenue dedicated to local government, including local redevelopment funds.

On December 29, 2011, the California Supreme Court announced its decision to uphold AB 26, the "dissolution" bill, and strike down AB 27, the "reinstation" bill. The California Redevelopment Association denounced this decision as "a devastating ruling that could forever change the face of California communities and hamper job creation and economic advancement." The Governor, however, noted that the decision "guarantees more than a billion dollars of ongoing funding for schools and public safety." Redevelopment agencies controlled about $5 billion a year in tax revenue; after the dissolved agencies pay off their existing debts, these revenues will go to schools and special districts.

Under the Court's ruling, over 400 California redevelopment agencies were formally terminated as of February 1, 2012. The city or county government that created the defunct redevelopment agencies became the RDA's "Successor Agency", responsible for implementing "enforceable obligations" such as existing contracts, bonds, and leases, and for disposing of the redevelopment agency's assets and property. AB 26 and a follow-on more detailed dissolution bill, AB 1484, put in place seven-member Oversight Boards to oversee each Successor Agency's actions, including establishing new repayment terms for outstanding loans, merging project areas, pledging property tax revenues, and accepting government grants. The State Controller's Office and California Department of Finance have veto power over both the Successor Agencies and Oversight Boards.

Larry Kosmont called the Supreme Court's decision "a watershed event for cities", especially for those that over relied on redevelopment administration funds, which are now gone adding even more cuts to city services, including police and fire, which had already felt the scalpel of the recession. California municipalities remain in a state of uncertainty as they figure out how to comply with the changes, including new reporting requirements, administrative budgets, future obligations, and existing Agency agreements. Cities are experiencing potential staffing and service cutbacks, negative credit impairment by various credit rating agencies, increased litigation connected to the unclear dissolution process, and the loss of city jobs formerly funded by redevelopment agency money.

And worse still, it is difficult for cities to pay attention to economic development projects as they are busy tending to the tough deadlines under the RDA dissolution program. Cities have little or no money to pledge for economic development and now have no future financing tool to leverage tax increment because redevelopment was yanked. The few legislative efforts to restore some form of tax increment financing to local cites were all dismissed by the governor, effectively saying that the dissolution of redevelopment assets still needed more time and new economic development programs would only be a distraction. After all, the proceeds from redevelopment elimination are to go to the state. The Governor's 2012-2013 budget included $3.1 billion in cash and property taxes from former redevelopment agencies, but nearly one year into the process of "cashing out" has produced well under 300 million dollars. The expected take back may yield only 2 billion in twice the expected time.

In the meantime, local cities continue to suffer as residents feel the impact of the loss of services. The Los Angeles Sheriff's Department estimates that $26 million in patrol, detectives and other police services are at risk in Los Angeles alone, while the California Redevelopment Association predicts that, as a result of the dissolution process, over 100,000 jobs will be lost due to project-based layoffs. On a more optimistic note, Kosmont predicts that cities will promote alternative financing and development tools such as EB-5 (Immigrant Investor Program) financing, site specific sales tax reimbursements, New Market Tax Credits, and lease leaseback financing.

On June 27, 2012, Governor Brown signed AB 1484, the budget trailer bill that amends portions of AB 26. AB 1484 was intended to remove some of the confusion surrounding the dissolution of California redevelopment agencies by imposing new regulations on Successor Agencies that had just begun to adapt to the complex requirements laid out in AB 26. One important provision clarified that the payments that RDA Successor Agencies had to make to other local taxing entities, such as schools and fire districts, are now required to cover tax increment revenue going back to December 2011. The Successor Agencies, which in most cases are the city governments themselves, received bills for these back payments on July 9. They had to make so called "true up" payments by July 12 or risk a 10% penalty. Some cities, including San Bernardino and San Diego, had to come up with millions of dollars to make these unexpected payouts; according to San Diego's mayor, the immediate payments will make it "even more difficult to complete projects in the pipeline and pay former redevelopment obligations." A Redlands spokesman commented that his city had to borrow money from its utility fund, and that it filed its payment under protest. City governments are not the only ones concerned about AB 1484; Standard & Poor's placed its investment-grade California tax increment bonds on watch for possible downgrades, claiming that the new legislation "could lead to further confusion and potential cash-flow disruptions."

Property Management Plans to the Rescue?

Although AB 1484 hastens the schedule of AB 26 and increases the pain for successor agencies, it also offers benefits to local government that pass a series of audits. All Successor Agencies are required to submit two "Due Diligence Review" audits, the second of which is due by December 15, 2012. If the Department of Finance approves the audits, it will issue a Finding of Completion.

Successor Agencies then have six months to prepare and submit a Long-Range Property Management Plan (PMP) which outlines the process of disposing of real estate. It is in these PMPs that Successor Agencies can enjoy benefits that were not previously available through AB 26, including allowances to keep some property under the City's ownership and "public" use, and some properties that may be kept for future development if such purpose was once contemplated in a redevelopment plan.

"The Successor Agencies responsible for dissolving redevelopment assets and their host cities have a tough test to take, but if they pass, there can be significant rewards", said Kosmont. "There is nothing preventing agencies from starting on the PMP early, and in fact, it may help with the audit process. Cities need to know there may be assets they can salvage and protect from the State's imposed redevelopment wind-down. These properties are the quickest way back to restarting economic development projects for over 400 cities in California."

City and county governments, as well as private entities, are still trying to understand and predict the implications of AB 26 and AB 1484. The uncertainty associated with the dissolution process will certainly cost cities money due to increased litigation and compliance costs. Without redevelopment, California municipalities no longer have local property tax increment, an important economic development revenue source that is still used in 48 other states. California leaders will therefore need to find creative new ways to effectively finance economic development activities that benefit the entire community.

The dissolution of redevelopment agencies, though, leaves open the possibility that cities will find effective ways to achieve more targeted redevelopment and investment goals in the future. Kosmont remains somewhat optimistic. "The wind down of redevelopment activities is a critical point in a constant tug-of-war in which the State looks to survive fiscally, and in turn, moves to erode local city rights by grabbing local revenue or increasing service burdens. However, new funding tools are likely to emerge out of necessity as police and fire departments begin to feel the cuts and the reality hits home with voters. We think this means that tax increment needs to become usable again in California."

Table 3: The Cities of Los Angeles County, CA

City Name	Retail Business License Fee	Property Tax	Cost Rating
AGOURA HILLS	8	8	$
ALHAMBRA	42	17	$$$$
ARCADIA	37	60	$$$$
ARTESIA	56	1	$$$
AZUSA	39	29	$$$$
BALDWIN PARK	27	57	$$$
BELL	60	73	$$$$$
BELL GARDENS	12	38	$$
BELLFLOWER	18	18	$$$$
BEVERLY HILLS	71	52	$$$$$
BURBANK	20	6	$$$$
CALABASAS	1	8	$$$$
CARSON	53	38	$$$
CERRITOS	16	1	$
CLAREMONT	59	5	$$$$
COMMERCE	25	38	$$
COMPTON	52	72	$$$$$
COVINA	22	23	$$$$
CUDAHY	45	38	$$$$$
CULVER CITY	69	38	$$$$$
DIAMOND BAR	7	34	$$
DOWNEY	51	19	$$$$
DUARTE	17	26	$$
EL MONTE	49	68	$$$$$
EL SEGUNDO	74	32	$$$$$
GARDENA	62	38	$$$$$
GLENDALE	1	4	$$$$
GLENDORA	30	23	$$
HAWTHORNE	68	38	$$$$$
HUNTINGTON PARK	58	69	$$$$$
INDUSTRY	1	74	$$$
INGLEWOOD	70	63	$$$$$
IRWINDALE	57	57	$$$$$
LA MIRADA	29	12	$$
LA PUENTE	21	27	$$
LA VERNE	48	13	$$$$

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

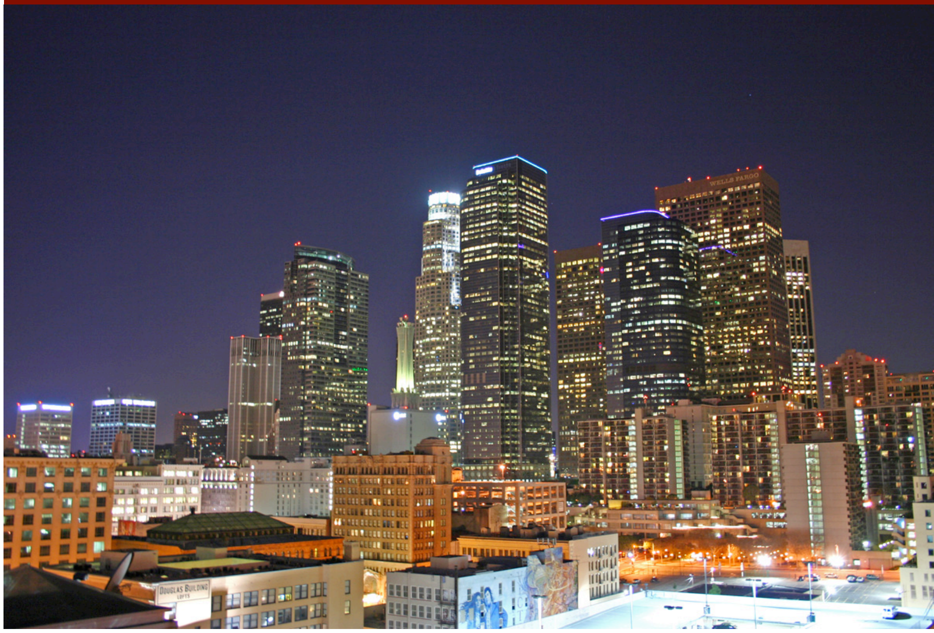
City Name	Retail Business License Fee	Property Tax	Cost Rating
LAKEWOOD	40	14	$$$$
LANCASTER	11	37	$$
LAWNDALE	28	11	$$$$
LOMITA	66	38	$$$
LONG BEACH	33	14	$$$$
LOS ANGELES	73	54	$$$$$
LYNWOOD	24	70	$$$$$
MANHATTAN BEACH	67	3	$$$
MAYWOOD	45	56	$$$$$
MONROVIA	34	61	$$$
MONTEBELLO	35	65	$$$
MONTEREY PARK	38	64	$$$$
NORWALK	36	19	$$$$
PALMDALE	15	67	$$$
PARAMOUNT	14	62	$$$
PASADENA	50	21	$$$$$
PICO RIVERA	55	25	$$$$
POMONA	63	34	$$$$$
REDONDO BEACH	43	7	$$$$
ROSEMEAD	9	51	$$
SAN DIMAS	31	34	$$
SAN FERNANDO	65	71	$$$$
SAN GABRIEL	32	66	$$$$$
SANTA CLARITA	1	50	$$
SANTA FE SPRINGS	19	30	$$$
SANTA MONICA	71	22	$$$$$
SIGNAL HILL	13	14	$$
SOUTH EL MONTE	44	57	$$$$
SOUTH GATE	54	38	$$$
TEMPLE CITY	26	55	$$
TORRANCE	64	38	$$$$$
Uninc. LOS ANGELES CO.	1	33	$$$$
VERNON	23	38	$$
WALNUT	10	28	$$
WEST COVINA	41	53	$$$
WEST HOLLYWOOD	61	38	$$$
WESTLAKE VILLAGE	1	8	$
WHITTIER	45	30	$$$$

California's Modest Growth

The tenuous growth in the economy remains a primary concern for California businesses in 2012. This year, the Los Angeles County Economic Development Corporation estimates economic growth of 1.5% in California. The UCLA Anderson Forecast also predicts "slow and steady gains" for 2012, citing an expected 1.9% growth. Some areas of the economy such as the job market and technology sector show potential for growth, though the UCLA Forecast predicts unemployment rates of approximately 10.6% through 2012, expected to drop to 9.7% in 2013.

Unemployment remains a persistent area of concern, especially for Californians. As of October 2012, California's 9.8% unemployment rate was still significantly higher than the 7.9% national unemployment rate. California has the second-highest rate in the nation behind Nevada (11.8%) and has struggled to add new jobs since the Great Recession officially ended in 2009. However, California's unemployment rate has shown signs of improvement. In January 2012, California's unemployment rate fell below 11% for the first time in fifteen months, down from its October 2010 high of 12.4%. From June 2011 to June 2012, California's unemployment rate fell 1.2%, giving California one of the largest over-the-year improvements in the country.

An "East versus West" divide in economic prosperity continues as California recovers from the Great Recession. Coastal counties generally have much lower rates of unemployment, with Marin County having the lowest in the State at 5.8% in October 2012. The Bay Area has some of the lowest unemployment in the State, with San Mateo County at 6.3%, Napa at 6.9%, and San Francisco at 6.8%. Other coastal communities also have unemployment rates significantly below the state average, including Orange County (7.2%), Santa Barbara (7.3%) and San Luis Obispo (7.3% as well). Unfortunately, Los Angeles stands out among coastal communities due to its 10.3% unemployment rate which remains higher than the overall 9.8% State unemployment rate. Many of these



"The truth is, companies want to be in California."

-Larry Kosmont

counties are recovering well from the recession because they are home to companies in growing industries, including high-tech, healthcare, biotechnology, international exports and tourism.

In contrast, inland communities continue to deal with high unemployment rates. In the Inland Empire, the Counties of Riverside and San Bernardino had unemployment rates of 12.0% and 11.2%, respectively. The Central Valley faces even higher unemployment with Kern County at 12.2%, San Joaquin County at 13.6% and Fresno County at 13.9%. Imperial County had the highest unemployment rate in the State at 28.1%. California's inland counties tend to be less economically diverse than their coastal counterparts, and therefore more dependent on individual sectors of the economy such as agriculture and warehouse/distribution. Such economic dependence makes it much more difficult for these inland communities to bounce back from the economic recession, and economic disparities between East and West are likely to persist through the foreseeable future.

Some experts argue that the loss of 350,000 construction jobs and the State's struggling housing market contribute to California's high unemployment rate. Overall, the real estate sector has had a sideways year, though economists at UCLA are more optimistic about the outlook for 2013 and 2014, forecasting a 40% rise in permits in 2013 and a "dramatic rise to 130,000 permits in 2014, double the U.S. rate."

According to the California Association of Realtors (C.A.R.), first-time homeowners are eager to take advantage of low interest rates and home prices, and trade-up buyers are returning to the market. As of October 2012, home prices have made year-over-year gains in nearly every county in California, though the statewide median price declined 1.1% from the September 2012 median price of $345,000 to a new median price of $341,370. C.A.R also finds that the rate of home sales is increasing significantly. October saw an annualized home sale rate of 544,380 detached homes, 12.5% higher than September 2011 rates and 10.2 % higher than October 2011 rates. Home sales remain much stronger in the coastal areas while the market has continued to stall in the inland regions that experienced the fastest growth during the housing boom.

Despite good news on the housing front, California still had the fourth highest foreclosure rate in the nation for the first half of 2012. RealtyTrac reports that 1.56% of California housing units had a foreclosure filing, and that the State's June 2012 foreclosure rate was 18% higher than in June 2011. According to RealtyTrac, seven of the ten cities metropolitan areas with the highest foreclosure rates were in California, all in inland locations: Stockton, Modesto, Riverside, Merced, Bakersfield, Visalia-Porterville and Vallejo-Fairfield. The difference in foreclosure rates serves as another indicator of the general discrepancy in economic prosperity between eastern and western California.

Although California's economy continues to improve, the State's recovery continues to occur at a slower rate than some had anticipated as California's unemployment rate remains in the double digits and its rate for housing starts are one quarter of the national U.S. rate. Improvement in critical areas such as unemployment rates and the real estate market seem likely in the not-too-distant future, but in the end, 2012 will not witness the significant gains that some optimists had predicted back in 2010 and 2011.

“Raising taxes is the method of last resort for local government”

-Larry Kosmont

California’s Budget Trouble

California’s budget has long suffered a structural deficit as a result of government spending exceeding tax revenues across a business cycle. Given that the state relies on income and sales taxes for 83% of its revenues, the private sector enterprise is needed to close that gap. For example, by inducing private investment, the state could work to close the gap through job creation. Yet the state has eliminated key private sector facilitators such as redevelopment agencies without providing a viable replacement or an alternative economic development strategy. Moreover, bills seeking to address the budget deficit often focus on public infrastructure but these measures insufficiently cover the existing shortfall. In addition, ballooning pension costs put an increased burden on the state’s fiscal health.

California’s budget deficit represents a major concern for the State’s economic future. As of November 2012, California’s budget shortfall is projected to be $1.9 billion, down from the $16 billion projected in May. The nearly $14 billion decrease in the shortfall has been attributed to sweeping tax increases including the passage of Prop 30 along with other budget cuts. Other sectors of California's economy, such as new home construction, failed to achieve the optimistic improvements that lawmakers predicted when calculating the initial budget projection. State Controller John Chiang also reported that California had exceeded spending by $2.1 billion, though Governor Brown claims that court rulings and other actions prevented California from enacting many of his proposed cuts.

Facebook’s public stock offering illustrates several of the problems with Brown's initial budget deficit estimates, including the danger of relying on overly optimistic scenarios. In May 2012, the Legislative Analyst’s Office estimates that Facebook’s IPO would generate between $1.6 and $2.1 billion in revenue for the State of California. This projection assumed that Facebook's stocks would be trading at $35 a share in November. However, Facebook's stocks dropped to $19.90 a share at the end of July, almost half the $38 IPO price. According to the Legislative Analyst's Office, “[if] lower share prices persist through November and December, hundreds of millions of dollars of income tax revenue assumed in the state budget plan are at risk."

As part of his plan to reduce the budget, Governor Brown placed and passed an initiative on the November ballot to raise taxes. Proposition 30 increases the sales tax by 0.25 percentage points, raising California’s state sales tax rate from 7.25% to 7.5% for the next four years. Proposition 30 also imposes higher income tax rates for the next seven years on California residents that make over $250,000 a year. Residents earning $250,000 to $300,000 will pay 10.3%; those earning $300,000 to $500,000 will pay 11.3%; and residents earning over $500,000 will pay 12.3%. As a result of Prop 30, top earners in California will pay the highest state income tax rate in the country.

Estimated revenue from the sales and property tax increases varies. California's Legislative Analyst’s Office has estimated that Proposition 30 would raise $6.8 billion in revenue, while Governor Brown optimistically estimates that the State would take in approximately $9 billion. California’s Department of Finance has estimated that the measure will generate $6.9 billion toward the 2012-2013 budget, with the majority, $5.8 billion, coming from the income tax increases on high-income earners.

Proposition 30 allocates 89% of revenue to K-12 schools and the remaining 11% to community colleges. Governor Brown's budget projections assumed that Proposition 30 would pass; opponents of Proposition 30 criticized Governor Brown for basing his budget on the uncertain assumption that Californians would pass his initiative and agree to pay more in taxes. In 2012 and going into 2013, California finds itself once again in a financially precarious position. Officials continue to base California's budget on optimistic assumptions which leaves the State in a difficult position when predicted revenues fail to appear. Governor Brown reliance on Californians to approve new taxes further increases the tax burden in one of the most taxed states in the country. The governor's decision to turn to the voters highlights Sacramento's inability to effectively resolve California's budget problems and permanently resolve the State's structural deficit in the near future.

A key outcome of the November election, however, may finally ease California's long-term polarization and loosen up the political logjam in Sacramento. For the first time since 1933, one party has a "supermajority" in both houses of the Legislature with Democrats now comprising greater than 66% of the votes in the Senate and the Assembly. Historically, the majority party commonly comprised between 51% and 66%, allowing the minority party to gain significant concessions in order to enable taxes or certain legislation to be passed. These concessions often weakened the laws that were passed and hindered significant changes in policy. One party will soon have the ability to exceed the two thirds vote threshold required to raise taxes. Add to this newfound political power the Governor's party affiliation as a Democrat and sweeping policy changes, as well as new taxes, are now both a greater possibility. It will interest to see how this legislative super-majority acts without the modulation delivered by the minority party in past years, particularly the key areas of taxes and budget. It is possible that the new form of tax and fee "adult supervision" will come from newly elected conservative democrats, populating seats from more "balanced" districts created by citizen commissions under the State's new redistricting laws.

California Pensions

California's enormous pension liability is a central factor in the State's budgetary woes. This year, California will pay out $3.7 billion in state employee pensions. These funds are typically diverted from important higher education, transportation, parks and other programs to help fulfill the State's pension obligations to former employees who no longer provide services to California residents. According to a recent Stanford University report, pension costs have risen 11.4% per year since 1999. City and county governments feel the burden of these significant payouts as well. The City of Los Angeles's pension costs were 8.5% of total city expenditures in 1999 and in 2011, costs ballooned to 13.7% of total expenditures. Pension spending has grown at a rate faster than the city's spending on health and public protection. Moreover, disproportionate pension costs have been cited as a significant factor in the recent bankruptcy of several large Californian cities including Stockton and San Bernardino.

Table 5: The Cities of San Bernardino County, CA

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

For counties, pension costs have risen from 3.2% of total county expenditures in 1999 to 6.0% in 2011 while overall county revenues have declined. California's unfunded pension obligations are estimated to total around $500 billion over the next 16 years. Stanford's research estimates that the City of Los Angeles alone faces $27 billion in unfunded pension obligations. These pension obligations have clearly contributed to the City's $238 million budget shortfall that is projected for fiscal year 2012-13.

Revising pension systems has been a topic of discussion for Californian budget reform across all levels of state government. In 2011, Governor Jerry Brown developed a 12-point plan for pension reform. The plan included changing the retirement age of new employees from 50 or 55 to 67 and developing a hybrid plan for new employees' retirement benefits. On September 12th, 2012, the governor signed a bipartisan plan for pension reform that fell slightly short of the plan he proposed last October. Provisions excluded from the plan would have instated a 401(k)-type plan, a reduction in retiree health care costs, and more autonomy for the board overseeing the state's pension fund. There is speculation among Republican lawmakers that the deal rolling back the plan for reform was made with public employee unions bent on maintaining the established plan. Public employee unions, to which approximately 85% of California government employees belong, have substantial political clout in Sacramento, and its clout is often successfully used to exert pressure on state and local governments and their elected leaders. As a result, California's long road back to a balanced budget will not be measurably shortened by pension reform, primarily because public employee unions will seek to limit cost cutting measures only to future employees and programs. The result is that taxpayers are left to foot the bill from the years of nearly unbridled escalations in benefits and dismal portfolio performance by CalPERS, CalSTRS and other local pension funds. Accordingly, it should be no surprise that cities and counties will continue to seek tax increases from their local constituents. When passed, the local added tax burdens will impact the cost of doing business in many communities.

Table 6: The Cities of Riverside County, CA

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

2012, The Year of the Tax: With No Help From The State, Local Tax Elections Flourish

As a result of the November elections, 171, or approximately 71% of the 240 tax/revenue measures on California ballots passed. Of the 240, 124 were initiatives that would increase or expand local taxes. Eighty-three of these 124 passed, including increases in sales and use taxes, transient occupancy taxes (TOT), utility user taxes and businesses license taxes across the state. These tax increases can take many forms such as add-on sales tax measures earmarked for specific purposes such as Measure T and Measure A that were approved in Napa and Marin County, respectively. Voters approved all except three add-on sales tax proposals in 24 cities and three counties. Similarly, voters across California approved 15 out of 18 measures to increase transient occupancy taxes; 8 out of 10 changes in utility user taxes, including 3 measures that will increase or expand utility user taxes; and 6 out of 8 measures on business license taxes.

Many of these increases will be reflected in the 2013 *Cost of Doing Business Survey* as the new levies are being installed locally. But beyond the impact on the cost of doing business in California, this wave of increases represents a continuing attitude that seems intent on increasing the tax burden of business. Moreover, 2012 does not represent the end for tax increases in California. In the City of Los Angeles, for example, a proposal to increase the city's sales tax from 9% to 9.5% has been preliminarily approved. Voters will decide on the proposal on the March 2013 ballot. Pervasive tax increases, the dismantling of the redevelopment agencies, and an inability to budget for problems like pension liabilities, spell difficulties for California businesses in the future. "Raising taxes is the method of last resort for local government", remarks Kosmont. "However, business remains the path of least resistance and is the first place cities and counties go to pay their bills. In 2012 and in the years that follow, business will be forced to carry this burden more than ever before."

Findings for the Golden State

Los Angeles County

Table 3 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.

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 20 Very High Cost ($$$$$) cities, 22 High Cost ($$$$) cities, 14 Average Cost ($$$) cities, 15 Low Cost ($$) cities and only 3 Very Low Cost ($) cities. This means that fewer than 5% of Los Angeles cities are Very Low Cost, while over 25% are Very High Cost.

The Survey finds that Los Angeles is one of the most expensive areas in California and in the western United States in which to do business. Half of the twenty most expensive cities in California are in Los Angeles County. On the other hand, not a single city in Los Angeles County made the list of 20 least expensive California cities. Meanwhile, seven of the most expensive cities in the western United States are located in Los Angeles County: Bell, Compton, Culver City, 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 Culver City, Inglewood, Los Angeles and 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 $1,144. All seven cities have some of the highest utility tax rates in the state. Electricity rates, for instance, range from 9% in Pomona to 12.5% in Los Angeles. Property tax exceeds 1.20% in six of the seven cities, and runs as high as 1.547% in Bell and Compton.

Los Angeles remains such an expensive area in part because of its

Table 7: The Cities of San Diego County, CA

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

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

high sales and utility user taxes. Every incorporated city has a sales tax above 8.75%, while the California state median is 8.25%. Four cities have a sales tax of 9.25%, while two – Pico Rivera and South Gate – have a sales tax of 9.75%, the highest of all 305 cities in the Survey. These sales tax rates may still increase in the next several years, judging by the City of Los Angeles's decision to put a sales tax increase proposal on the March 2013 ballot that would temporarily raise it to 9.5%, a half cent above its post-Prop 30 level. In addition, while only 45% of all California cities have utility user taxes, 60% of Los Angeles cities tax at least one utility. Of the 44 cities with utility taxes, 22 have high electric taxes ranging from 6% to 12.5%.

Several Los Angeles cities also have very high property taxes. 10 cities have property taxes above 1.30%, among thirty highest tax rates in California. The City of Industry has the highest property tax rate in the state of California at 1.991%, nearly twice the Prop 13 limit of 1% and significantly higher than the state median of 1.14518%. Despite its high property tax, Industry remains an Average Cost city because it does not have any business license or utility taxes.

The City of Los Angeles is one of the most expensive cities in this expensive county. Los Angeles has high utility taxes ranging from 9% on telephone service to 12.5% on electricity, and a relatively high property tax rate of 1.2458%. 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 $10,100 and $50,700 a year. However, Los Angeles is surrounded by other High and Very High cost cities, many of whom also have high utility taxes and business license fees totaling several thousand dollars a year.

Agoura Hills, Westlake Village, and Cerritos the three Very Low Cost cities, are all located on the geographic extremes of Los Angeles County, along the border with 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 $100 a year in both Agoura Hills and Cerritos. All three cities have low property tax rates between 1.05 and 1.11%, and none has utility taxes.

San Bernardino County

Table 5 lists the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in San Bernardino County.

San Bernardino is a lower cost county, with three Very Low Cost ($) and nine Low Cost ($$) cities. However, the County also has three Very High Cost ($$$$$), two High Cost ($$$$), and two Average Cost ($$$) 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 three Very High Cost cities and has some of the highest taxes within the county. The City of San Bernardino, which imposes a 0.25% municipal sales tax, has the highest sales tax rate in the county at 8%. The gross receipts-based business license tax is also the highest in the county. A medium-sized retail business would pay $7,548.75 in San Bernardino, well above the state median of $1,144. 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.

San Bernardino County's property tax rates vary widely. With their 1.0536% property tax rate, Chino and Chino Hills have two of the 20 lowest property tax rates among all California cities surveyed. In contrast, Adelanto, Colton, Fontana, Grand Terrace, Loma Linda, Rialto, San Bernardino, Unincorporated San Bernardino County 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 1.14518%. 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. Thirteen 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 eight 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. 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.

Riverside County

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

Riverside County has a wide distribution of cost ratings, with seven Very Low Cost ($) cities, five Low Cost ($$) cities, two Average Cost ($$$) cities, seven High Cost ($$$$) cities and one Very High Cost ($$$$$) city. The City of Coachella, which has high taxes across the board, is the only Very High Cost city in the County. Coachella has the highest retail business license fees. A medium-sized retail business would pay $7,000 a year in Coachella, compared to $2,588 in Moreno Valley and $2,040 in Corona. Coachella also has 5% utility taxes and a property tax rate of 1.21462%.

Table 8: The Cities of Orange County, CA

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

Property tax rates in Riverside County vary widely and range from 1.03197% to 1.39072%. Fifteen of the twenty-one cities have property tax rates above the state median of 1.14518%. Banning and Beaumont have two of the twenty highest property tax rates in California at 1.39072% and 1.36706%, respectively. Banning remains a Low Cost city, though, because it has no utility user taxes and a moderate retail business license fee of $330 for a medium-sized business.

Only nine of the twenty-one Riverside County cities featured in the *Survey* have retail business license fees over $1,000, and five areas have flat-rate fees that are $100 or less. Although every city charges a business license tax, the lowest fee is $30 in the unincorporated areas of Riverside, followed by $35 in Temecula. Twelve of the twenty-one cities have no utility user taxes at all, while two more only have taxes on three types of utilities, all of which are 5% or below. Conversely, Desert Hot Springs and Riverside have the highest utility taxes with rates of 7.0% and 6.5%, respectively.

The seven Very Low Cost ($) cities are Hemet, Lake Elsinore, Murrieta, Norco, Perris, San Jacinto and Temecula. None of them has utility taxes, and they have some of the lowest property tax rates, all below 1.20%, with Temecula having the lowest in the county at 1.03197%.

Table 9: The Cities of Ventura County, CA

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

San Diego County

Table 7 lists the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in San Diego County.

San Diego has historically been one of the lowest cost counties featured in the Survey, and this year it maintains its place as the least expensive overall county. San Diego is the only California county without any High or Very High Cost cities. Of the 16 cities surveyed, 6 are Very Low Cost ($), 8 are Low Cost ($$), and only 2 are Average Cost ($$$).

The City of San Diego is once again one of the least expensive big cities in California. San Diego is one of only two Low Cost Cities with a population over 250,000 (the other being Anaheim), and it is the only Low Cost City with a population over 500,000. San Diego stands out among these large cities 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, nearly half the state median of $1,144 and a fifth of the large city median of $3,016. Like most of the other cities in the county, San Diego does not have utility user taxes. However, San Diego does have the highest property tax rate in San Diego County, which helps explain why it earned a Low Cost rather than Very Low Cost rating.

El Cajon and Oceanside received the highest cost ratings in San Diego County, although both 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 only two cities with utility taxes con telecommunications. Oceanside, meanwhile, 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 $560 in the City of San Diego.

Table 10: The Cities of Alameda County, CA

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

Table 11: The Cities of Contra Costa County, CA

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

Orange County

Table 8 lists the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in Orange County.

Orange County remains a relatively low-cost county with low, business-friendly taxes and fees. Of the 28 cities featured in the Survey, 22 are ranked Average Cost or lower, with thirteen Very Low Cost ($) cities, six Low Cost ($$) cities and three Average Cost ($$$) cities. Of the remaining six cities, five are High Cost ($$$$) and only one, Seal Beach, is Very High Cost ($$$$$). Geographically, the more expensive cities are concentrated in northern Orange County, closer to the Los Angeles County, while every city south of Santa Ana is either Low or Very Low Cost.

Overall, Orange County's has low business license fees and sales tax compared relative to other California cities. Twenty-one of the 28 Orange County cities, or 75%, have business license taxes below the state median of $1,144 for a medium-sized retail business. Seven cities, or 25%, do not have any business license fees, and a retail business would pay less than $1,000 in twelve other cities. Twenty-seven of the 28 cities have sales tax of 7.75%, below the state median of 8.25%.

Orange County's low property tax rates also contribute to its status as a low-cost county. Twenty-three of the 28 featured cities have property tax rates below the state median of 1.14518%. Twelve of these cities have property tax rates below 1.10%. Mission Viejo and San Clemente have two of the ten lowest property tax rates in the entire *Survey*, including both California and non-California cities. Due to a high cost water bond, Rancho Santa Margarita has one of the highest property tax rates in California at 1.49501%. However, Rancho Santa Margarita remains a Low Cost ($$) city because it does not have any business license tax or utility user taxes.

Seal Beach is the only Very High Cost city in Orange County. Although it has very low business license fees (a flat rate of $207 in most business categories), Seal Beach has the highest utility taxes in the entire county at 11%. In fact, Seal Beach is tied with Culver City for the highest telephone tax rate in California, and only Los Angeles has a higher electricity tax rate at 12.5%.

Ventura County

Table 9 lists the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in Ventura County.

Ventura is a fairly low-cost county, as Table 9 illustrates. Of the nine cities surveyed, two are Very Low Cost ($), three are Low Cost ($$), two are Average Cost ($$$) and two are High Cost ($$$$). Ventura County does not have any Very High Cost ($$$$$) cities. Geographically, the more expensive cities, including Oxnard, Port Hueneme, and Ventura are along the coast, while less expensive cities – Fillmore, Moorpark, Camarillo, Simi Valley, and Thousand Oaks – are further inland.

Compared with the rest of California, Ventura County cities tend to have lower sales tax rates. All nine cities have 7.25% sales tax, below the state median of 8.25%. 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 $35 in Moorpark and $258 in Fillmore.

Alameda and Contra Costa Counties

Tables 10 and 11 list the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in Alameda and Contra Costa Counties, respectively.

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. Along with neighboring Santa Clara County, it is one of only two California counties without any Very Low Cost ($) cities. Most of these Very High Cost cities are concentrated along the water, close to San Francisco. Ten of the 12 Alameda County cities featured in the *Survey* have property tax rates above the Bay Area median of 1.14225%, and every city has a sales tax rate at least 0.5% above the state 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.

Very high business license fees greatly contribute to Alameda County's high cost ratings. Eleven of the 12 cities have business license fees above the Bay Area median of $2,009 and well above the state median of $1,144. Berkeley and Oakland, in which a medium-sized business would pay $12,000 a year, are among the 10 cities with the highest retail business license fees in the state. Dublin, in contrast, is the least expensive city in Alameda County and the only one with a business license tax below the state median. While every other city in the County calculates 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*, one is Very High Cost ($$$$$), three are High Cost ($$$$), two are Average Cost ($$$), three are Low Cost ($$) and one is Very Low Cost ($). Two of its four most expensive cities, Richmond and San Pablo, are located closest to San Francisco and to Very High Cost cities in Alameda County, while most of the lower cost cities are further away from San Francisco. 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 1.3978% and 1.2578% respectively.

Table 12: The Cities of San Mateo County, CA

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

Table 13: The Cities of Santa Clara County, CA

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

San Mateo and Santa Clara Counties

Tables 12 and 13 list the cost ratings, business license fee rankings, and property tax rankings for the cities surveyed in San Mateo and Santa Clara Counties, respectively.

San Mateo is an Average Cost county, with two Very Low Cost ($) cities, one Low Cost ($$) cities, four Average Cost ($$$) cities, one High Cost ($$$$) city and one Very High Cost ($$$$$) city. All nine cities featured in the *Survey* have low property taxes ranging from 1.0909% to 1.1306%, below the state median of 1.14518%.

San Mateo County, like most of the Bay Area, 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 $1,144. Daly City has the highest retail business license tax rates in the County, and one of the 20 highest in California. Businesses in this county pay 0.1% of their gross receipts in taxes. Colma and Burlingame, the two Very Low Cost cities, both have flat rate fees. While a retail business making $10,000,000 in gross receipts would pay $10,000 a year in Daly City, it would only pay $25 in Colma and $100 in Burlingame.

Santa Clara County is a higher cost county than San Mateo, with no Very Low Cost ($) cities, four Low Cost ($$), three Average Cost ($$$) and five High Cost ($$$$) cities. Santa Clara cities all have higher property tax rates than San Mateo County cities. Eleven of the 12 cities have property tax rates above the state median, with Gilroy and San Jose having the highest in the county at 1.2065% and 1.2827% respectively. Santa Clara cities also have higher utility user taxes. While only three San Mateo cities have any utilities taxes, eight Santa Clara cities have taxes on electricity, gas, and telecommunications ranging from 2% to 5%. The median utility tax, 2.2%, exceeds the Bay Area median of 1.55%.

However, Santa Clara County has lower retail business license fees than San Mateo County with a median of $634.50 compared to $2,750. There are eight Santa Clara cities where a medium-sized retail business would pay less than $1,000 a year. In contrast, there are only two such cities in San Mateo County. Mountain View only charges a $30.00 flat fee for most types of business while Palo Alto does not have any business license tax. 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.

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