



Kosmont Companies
Real Estate and Economic Advisory

Renaissance Community Fund
Revitalization & Development Projects



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*The Kosmont Companies and
the Rose Institute of State and Local
Government*

*2008 Cost of Doing
Business Survey*

Presentation to the Los Angeles Chamber of Commerce

Thursday, February 19th, 2009

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Kosmont Companies**

Research and Compilation by:
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- **2008 Kosmont-Rose Cost of Doing Business Survey**
- **Business Climate: California & LA County**
- **Business Unfriendly California**
- **Looking Ahead**

2008 Kosmont-Rose Cost of Doing Business Survey



Kosmont-Rose Institute Cost of Doing Business Survey

- The Kosmont Companies first published the Survey in 1994.
- 2008 edition of the Survey covers 402 cities across all 50 states.
- Provides ranking of cities in terms of their relative cost of doing business and divides them into five groups called “Cost Ratings”:
 - **(\$)** Very Low Cost
 - **(\$\$)** Low Cost
 - **(\$\$\$)** Average Cost
 - **(\$\$\$\$)** High Cost
 - **(\$\$\$\$\$)** Very High Cost



Kosmont-Rose Institute Cost of Doing Business Survey

- Survey ranks cities on:
 - Business Taxes
 - Utility User Taxes
 - Property Taxes
 - Sales Tax
- Survey contains additional information on:
 - Economic Incentives
 - Waivers, Reductions, Reimbursements
 - Special Zones
 - Incentives, Services, Notable Public/Private Transactions
 - Development Impact Fees
 - Other Fees



Typical City Profile

City of LOS ANGELES

Los Angeles County, California

Cost Rating	200 North Spring Street Los Angeles, CA 90012 www.ci.la.ca.us	Administrative Office	(213) 485-2121
\$\$\$		Business Licenses	(213) 626-9271
\$\$	Population (2005) 3,849,378	Economic Development	(213) 978-0781
	Crime Index Total (2004) 73,537	Finance	(213) 473-5901
	Taxable Retail Store Sales (2005) \$27,012,981,000	Planning Department	(213) 678-1247
		Public Works	(213) 978-0259
		Redevelopment Agency	(213) 977-1600
		Tax Assessor	(888) 807-2111

BUSINESS TAXES

Designation/Rate Code	No. Tax or Fee (Check Applicable Boxes)					Annual tax for the first \$100,000 in receipts or the first 100 employees, as applicable. Other assumptions may apply.
	General Office	Professional Office	Retail	Wholesale	Manufacturing	
General Office	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$55,000 0.550%
Professional Office	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$55,000 0.550%
Retail	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$13,700 0.137%
Wholesale	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	\$10,900 0.109%
Manufacturing	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	\$10,900 0.109%
Personal Service	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$38,500 0.385%
Commercial Property	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$13,700 0.137%
Residential Property	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$27,600 0.276%

PROFESSIONS: \$99.00 for the first \$10,000 or less of gross receipts plus \$5.50 for each additional \$1,000 or fractional part thereof in excess of \$10,000.	PERSONAL PROPERTY RENTAL: \$165.00 for the first \$10,000 or less of gross receipts plus \$2.76 per \$1,000 or fractional part thereof in excess of \$10,000.
RETAIL SALES: \$102.75 for the first \$75,000 or less of gross receipts plus \$1.37 per \$1,000 or fractional part thereof in excess of \$75,000.	COMMERCIAL PROPERTY RENTAL: \$102.75 for the first \$75,000 or less of gross receipts plus \$1.37 per \$1,000 or fractional part thereof in excess of \$75,000.
WHOLESALE SALES: \$109.00 for the first \$100,000 or less of gross receipts plus \$1.09 per \$1,000 or fractional part thereof in excess of \$100,000.	CITY-WIDE MULTIMEDIA: \$109.00 for the first \$100,000 or less of gross receipts plus \$1.09 per \$1,000 or fractional part thereof in excess of \$100,000.
MISCELLANEOUS SERVICES: \$46.20 for the first \$12,000 or less of gross receipts plus \$3.85 per \$1,000 or fractional part thereof in excess of \$12,000.	

BUSINESS TAX NOTES

City business tax ordinance specifies detailed requirements, special conditions, and apportionment rules.

UTILITY USER TAX RATES

Electric	12.50%	Electric Distributor(s):	
Telephone	10.00%	SCE (Southern California Edison)	
Cellular	10.00%		
Gas	10.00%		
Water	0.00%		
Cable	0.00%		
Special Note(s):		Retail Electric Rate 10.00% Telemarketing tax is 5%.	

SALES AND PROPERTY TAX RATES

Sales Tax Rate	8.25%
Estimated Ad Valorem Property Tax Rate	1.050202%
Property Tax Notes	

City of LOS ANGELES

Los Angeles County, California

OTHER TAX RATES

Transient Occupancy Tax Rate	14.0%
Parking Tax Rate	10.0%
Documentary Transfer Tax Rate	\$5.50 per \$1,000

ECONOMIC INCENTIVES

Industrial Development Bonds (IDBs)
WIN Consider Transaction - Citywide

Tenant Improvement/Relocation Subsidies
WIN Consider Transaction - Selected Areas

Office Infrastructure Subsidies
WIN Consider Transaction - Selected Areas

Business Tax, Permit or Fee Waiver/Reductions
WIN Consider Transaction - Citywide

Direct Project Land or Development Subsidies
WIN Consider Transaction - Selected Areas

Utility Tax Discounts
WIN Consider Transaction - Citywide

Redevelopment or TIF Financing/Reimbursements
WIN Consider Transaction - ADM

TRANSPORTATION AMENITIES

Limited Access Freeways
I-5; I-10; US-101; I-105; I-110; I-210; I-405; I-710; SR-2; SR-60; SR-134

Passenger Airports
LA Airport Complex (LAX, Long Beach, Burbank, Orange Co., Ontario)

Cargo Airports
LA Infil Airport; Ontario Infil Airport

Port Facilities
Port of Los Angeles

Bus Service
LACMTA; LADOT; Santa Monica Blvd. Bus Line; UCLA

Rail Transit Service
MetroLink or Metro Light Rail

Rail Freight Service
BNSF; Union Pacific

DEVELOPMENT IMPACT/EXACTION FEES

<input checked="" type="checkbox"/> Development Impact Fees	Note 1
<input checked="" type="checkbox"/> Public Facilities Fees	Note 1
<input checked="" type="checkbox"/> Scheduled Traffic Impact/Trip Fees	Note 2
<input type="checkbox"/> Signalization Fees	
<input type="checkbox"/> Major Thoroughfare/Bridge Fees	
<input checked="" type="checkbox"/> Art in Public Places Fees	Note 3
<input type="checkbox"/> Other Special Fees	

Note 1: Various Valuation Fee imposed.
Note 2: Applicable to 5 discrete specific plan areas (Westwood/West LA; Coastal; Ventura Blvd.; Warner Center; Central City West) \$2,110 - \$18,600 per trip or \$0.56 - \$5.18 per sq. ft. on Ventura Blvd.
Note 3: \$0.39 - \$1.57 per sq. ft. depending on use; maximum fee of 1.00% of valuation or fee per sq. ft. for-site public art in credit; applies to projects with value over \$500,000.
Fees may also be assessed for Construction permits, improvement plan preparation, utility and pole relocation, traffic signals, coverage facilities charges, street trees, and dedication processing.

SPECIAL ZONES

<input checked="" type="checkbox"/> Business Improvement District(s) (BIDs)	37 BIDs
<input checked="" type="checkbox"/> State Enterprise Zone(s)	Central City; Eastside; Greater Watts; Pasadena; San Pedro/Wide
<input checked="" type="checkbox"/> Foreign Trade Zone(s)	FTZ #252
<input checked="" type="checkbox"/> Other Special Business or Incentive Zone(s)	Fed. Empowerment Zone; Fed. Renewal Corridor
<input checked="" type="checkbox"/> Redevelopment Project Area/TIFs	1. Numerous Redevelopment Project Areas 2. 4 Redevelopment Assistance Projects 3. Community Redevelopment Areas

ECONOMIC DEVELOPMENT QUOTES

Special Incentive Programs and Services	1. Grants LA 2. Job Training and Development Assistance 3. City Tax Free Zone - Empowerment Zone 4. Commercial revitalization deduction 5. CRLA Facade Program
Notable Public and Private Transactions	1. Adams-La Brea Development 2. Infil Fe Development 3. Broadway/Manchester Development 4. Goodyear Tract Development 5. 5th and Grandview Development

2008 Survey – National Highlights

- **California continues to be a high cost state.**
 - 4 of top 20 most expensive cities in the country are located in California.
- **25 lowest cost cities nationwide are located west of the Mississippi River.**
- **Large population does not necessarily mean high overall cost of doing business.**
 - Houston, Dallas, and Las Vegas listed among top ten least expensive cities.



2008 Survey – National Highlights

California has 4 of the 20 Most Expensive Cities in US

City, State	Population Ranking	Business License Fee Ranking	Property Ranking	Cost Rating
AKRON, OH	13	1	5	\$\$\$\$\$
CHICAGO, IL	3	12	3	\$\$\$\$\$
CINCINNATI, OH	8	17	9	\$\$\$\$\$
CLARKSBURG, WV	20	5	13	\$\$\$\$\$
COLUMBUS, OH	6	18	10	\$\$\$\$\$
CULVER CITY, CA	19	19	16	\$\$\$\$\$
GILBERT, AZ	16	13	8	\$\$\$\$\$
JERSEY CITY, NJ	11	7	1	\$\$\$\$\$
LOS ANGELES, CA	2	10	12	\$\$\$\$\$
MESA, AZ	7	14	11	\$\$\$\$\$
MOBILE, AL	14	11	15	\$\$\$\$\$
NAPERVILLE, IL	17	9	20	\$\$\$\$\$
NEW YORK, NY	1	3	4	\$\$\$\$\$
NEWARK, NJ	10	7	7	\$\$\$\$\$
PHILADELPHIA, PA	4	2	6	\$\$\$\$\$
RICHMOND, VA	15	8	14	\$\$\$\$\$
ROCHESTER, NY	12	20	2	\$\$\$\$\$
SAN FRANCISCO, CA	5	4	17	\$\$\$\$\$
SANTA MONICA, CA	18	16	18	\$\$\$\$\$
TOLEDO, OH	9	15	19	\$\$\$\$\$

...and 0 of 20 Least Expensive Cities in US

City, State	Population Ranking	Business License Fee Ranking	Property Ranking	Cost Rating
ANCHORAGE, AK	6	13	5	\$
AURORA, CO	5	4	13	\$
BILLINGS, MT	14	7	2	\$
CENTENNIAL, CO	13	15	6	\$
CHEYENNE, WY	20	19	20	\$
DALLAS, TX	2	16	4	\$
EUGENE, OR	11	20	19	\$
EVERETT, WA	15	6	10	\$
FEDERAL WAY, WA	18	12	14	\$
FORT WORTH, TX	3	18	15	\$
GRESHAM, OR	16	8	3	\$
HENDERSON, NV	7	3	18	\$
HOUSTON, TX	1	17	7	\$
KENT, WA	17	11	11	\$
LAS VEGAS, NV	4	2	16	\$
RENO, NV	9	1	12	\$
SCOTTSDALE, AZ	8	9	17	\$
SIOUX FALLS, SD	12	14	1	\$
VANCOUVER, WA	10	10	8	\$
YAKIMA, WA	19	5	9	\$

Note: Lists are arranged in alphabetical order

Survey Highlights: California & LA County



2008 CODB Survey Highlights – California

LA County has 5 of the 10 Most Expensive Cities in California

City	Cost Rating
Berkeley	\$\$\$\$\$
Beverly Hills	\$\$\$\$\$
Culver City	\$\$\$\$\$
Inglewood	\$\$\$\$\$
Los Angeles	\$\$\$\$\$
Monterey	\$\$\$\$\$
Oakland	\$\$\$\$\$
San Bernardino	\$\$\$\$\$
San Francisco	\$\$\$\$\$
Santa Monica	\$\$\$\$\$

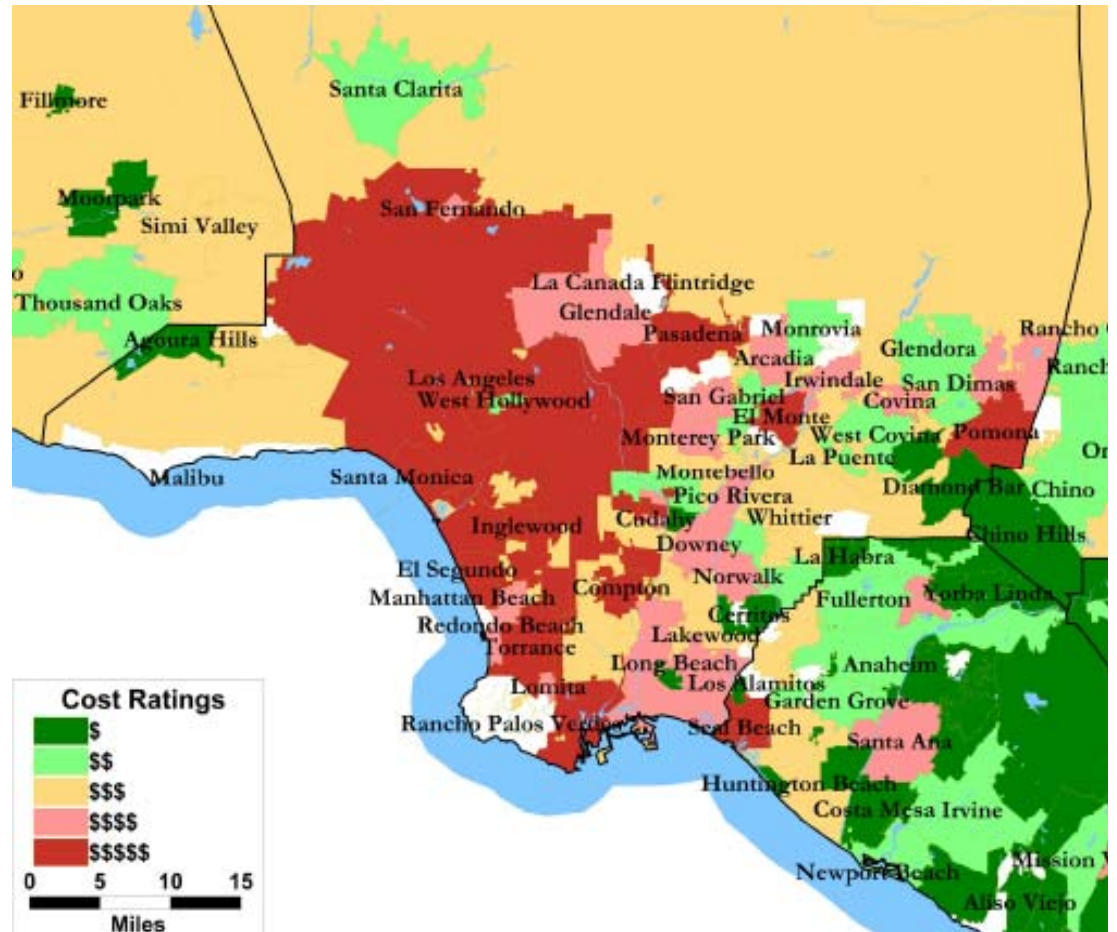
...and just 1 of the 10 Least Expensive Cities in California

City	Cost Rating
Apple Valley	\$
Costa Mesa	\$
Hesperia	\$
Moorpark	\$
Roseville	\$
Sutter Creek	\$
Unincorporated El Dorado County	\$
Unincorporated Lake County	\$
Unincorporated Merced County	\$
Westlake Village	\$

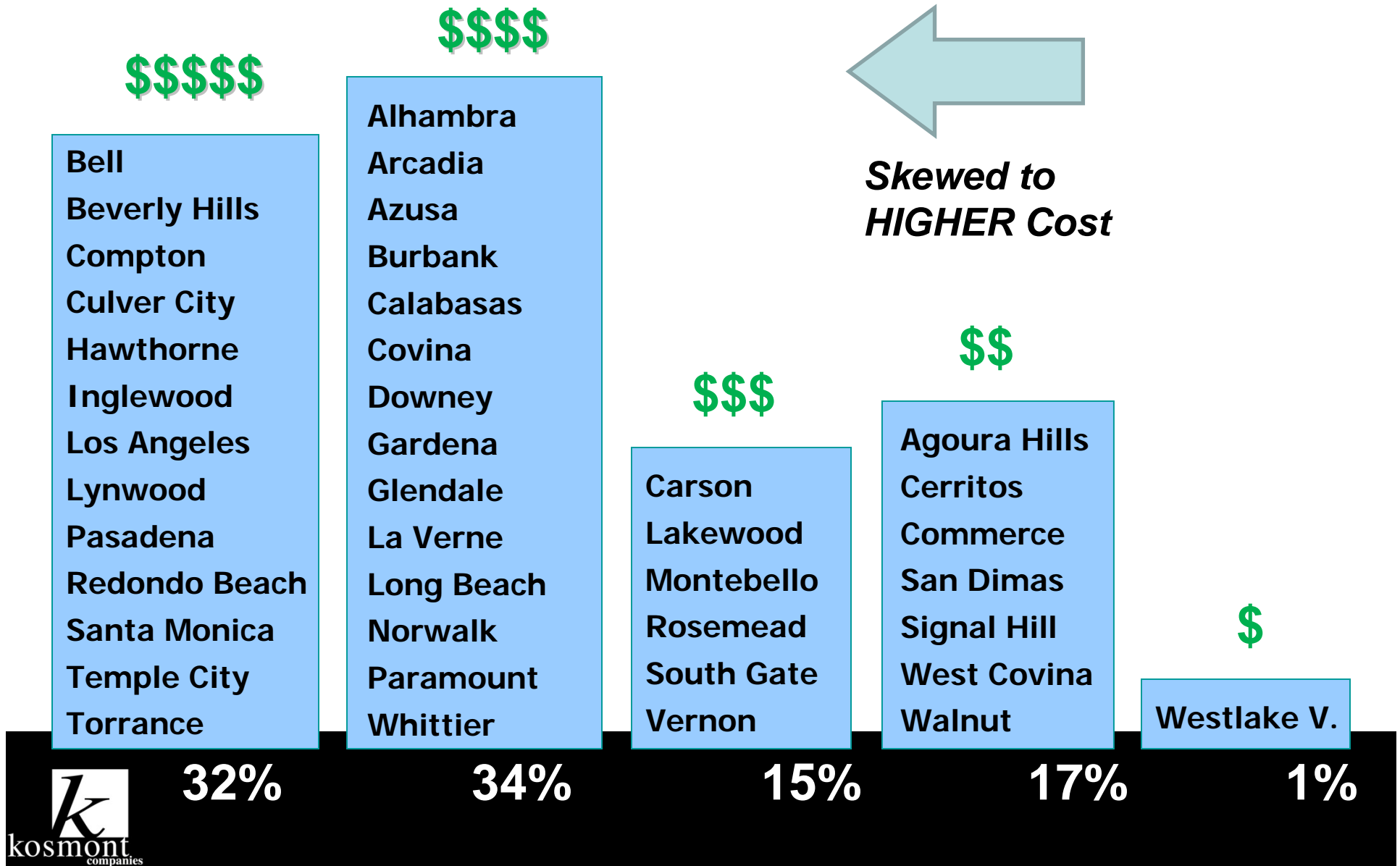


2008 CODBS Survey Highlights – LA County

- LA County more expensive than the neighboring counties
 - *Cities in LA County tend to place in higher cost categories than cities in other Southern California Counties*
- City of LA has the highest business license fee and second highest property tax in LA County

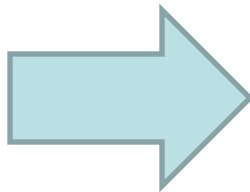


Cost Rating Distribution – LA County



Cost Rating Distribution – High Desert and Inland Empire

Skewed to LOWER Cost



\$\$

\$\$\$\$

\$\$\$

\$\$\$\$\$

\$



8%

24%

18%

34%

13%

*Business Unfriendly
California*

California Depends on Economic Development

California has *three* main sources of revenue: property, sales, and income tax



- Prop 13 severely limits property tax revenue and sales tax revenue is too sensitive to consumer behavior – that leaves income tax as biggest, stable fund source
- Top income earners sway the state budget precariously (those making over \$200K (1% of the population) comprise 50% of all income tax!)
- To generate new revenue, *local governments must develop & recycle land for new taxes and jobs*

State is in Trouble

- With State Legislature in deadlock over Budget, California expected to be out of cash soon.
- State Revenues are Down from Jan 08 – Jan 09:

<i>Retail Sales Tax</i>	<i>-40.7%</i>
<i>Personal Income Tax</i>	<i>-19.5%</i>
<i>All Sources</i>	<i>-22.1%</i>
- Salaries & pensions increasing due to aggressive pressure from public employee unions.

Source: California Department of Finance, 2008

...And The Cities Are in Trouble As Well

- Cities feeling the heat from significant drops in sales tax (autos and retail), property tax, frozen muni bond market, lower building permit fees and transfer taxes.
- Retail sales down: *sharp reductions in sales tax revenue*
- Foreclosures and falling RE values: *property tax revenue is dropping with transfer taxes way down*
- Big consumers of expensive energy
- Salaries & pensions increasing

- ***Pension Obligations forced City of Vallejo into BANKRUPTCY in May 2008. (2nd CA City to EVER declare "Chapter 9")***

...The Cities Are in Trouble

Retail Downturn Said To Hurt Local Government Budgets.

[USA Today](#) (2/17, O'Donnell) reports, "The timing and immensity of the current downturn in retail are dire, and not just for the employees who lose jobs ... The resulting store closures (150,000 are expected this year), steep declines in sales taxes

San Bernardino, California, Considers Budget Cuts.

The [San Bernardino \(CA\) Sun](#) (2/17, Edwards) reports, "It's D-Day - with 'D' standing for 'decision' - for a City Council that needs to decide whether or not to slice more than \$3 million from its current budget." While, "money woes have been on the minds of City Hall figures," they "took on special urgency earlier this month when interim City Manager Mark Weinberg

Oakland, California, May Limit Pay For City Executives.

The [San Francisco Chronicle](#) (2/17, Heredia) reports, "The Oakland City Council on Tuesday night will consider restricting pay and perks for newly hired executives. The salary ordinance proposal is in the pipeline as Oakland officials anticipate a deficit of \$50 million to \$70 million in next year's budget due to the downturn in the economy and dwindling tax revenues."

So the State's Solution... TAXES!

“Cut State Spending, Raise Taxes, and Borrow Heavily”

- Latest Budget Proposal includes:
 - 1 cent sales tax increase
 - Gasoline tax increase by 12 cents per gallon
 - Increase in Vehicle License Fee from 0.65% to 1.15%
 - Across the board increase in Personal Income tax
- **State of California asks state employees to take 2 days per month without pay – that's nearly a month per year.**

And the Cities' Solution... TAXES!

Nov 4, 2008 election: California voters decided on 239 measures concerning taxes, fees or bonds for cities, counties, special districts and schools.

Voters approved 46 of 65 general tax measures and 17 of 33 non-school special taxes. Approved measures include:

- 14 of 19 new sales tax add-ons (transactions & use tax-general purpose)
- all 14 measures to expand utility taxes
- 8 of 12 new hotel taxes
- 3 of 6 measures to revise and increase business license taxes

Source: California City Finance.com

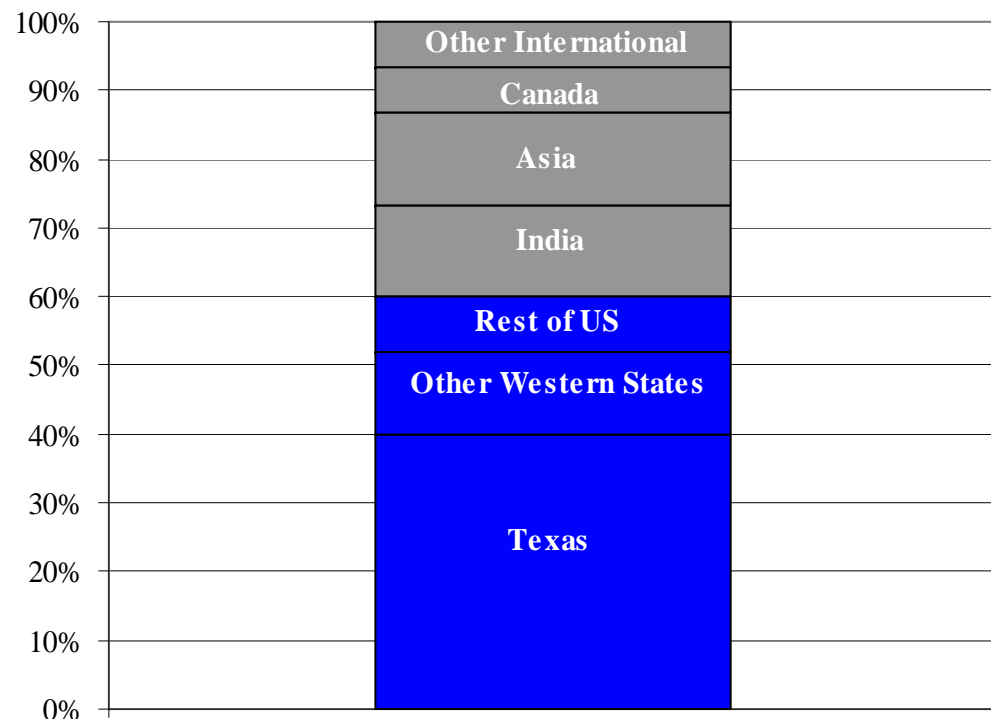
And Businesses To Suffer Again!

- Broader Sales Tax and Higher Utility Taxes Could Stifle Businesses.
 - Tax on rent checks and utility hikes will squeeze NOI for commercial property owners.
 - Small businesses could be significantly impacted as larger companies look to outsource more services.
- Business “Unfriendliness” is making employers to move out.
 - The tilt of corporate investment out of California is accelerating.
 - Many western states are launching aggressive efforts to poach jobs, talent and industry from California.

Result: California continues to lose businesses and jobs

- 60 percent of California's overall employment losses were to other states.
- Two-thirds of California's domestic losses went to Texas.
- Cities compete *regionally* for firms and labor.

Job Destination



Source: California Competitiveness Project 2007

Looking Ahead

What's in store for Cities and State of California

Federal Stimulus – Help on the way

- **American Recovery and Reinvestment Act (\$787 Billion)**
 - Tax Cuts: \$288 Billion
 - State and Local Fiscal relief: \$144 Billion
 - Infrastructure & Science: \$111 Billion
 - Protecting the vulnerable: \$81 Billion
 - Healthcare: \$59 Billion
 - Education & Training: \$53 Billion
 - Energy: \$43 Billion
 - Other: \$8 Billion

Estimated to create/save 396,000 new jobs in California in next 2 years.

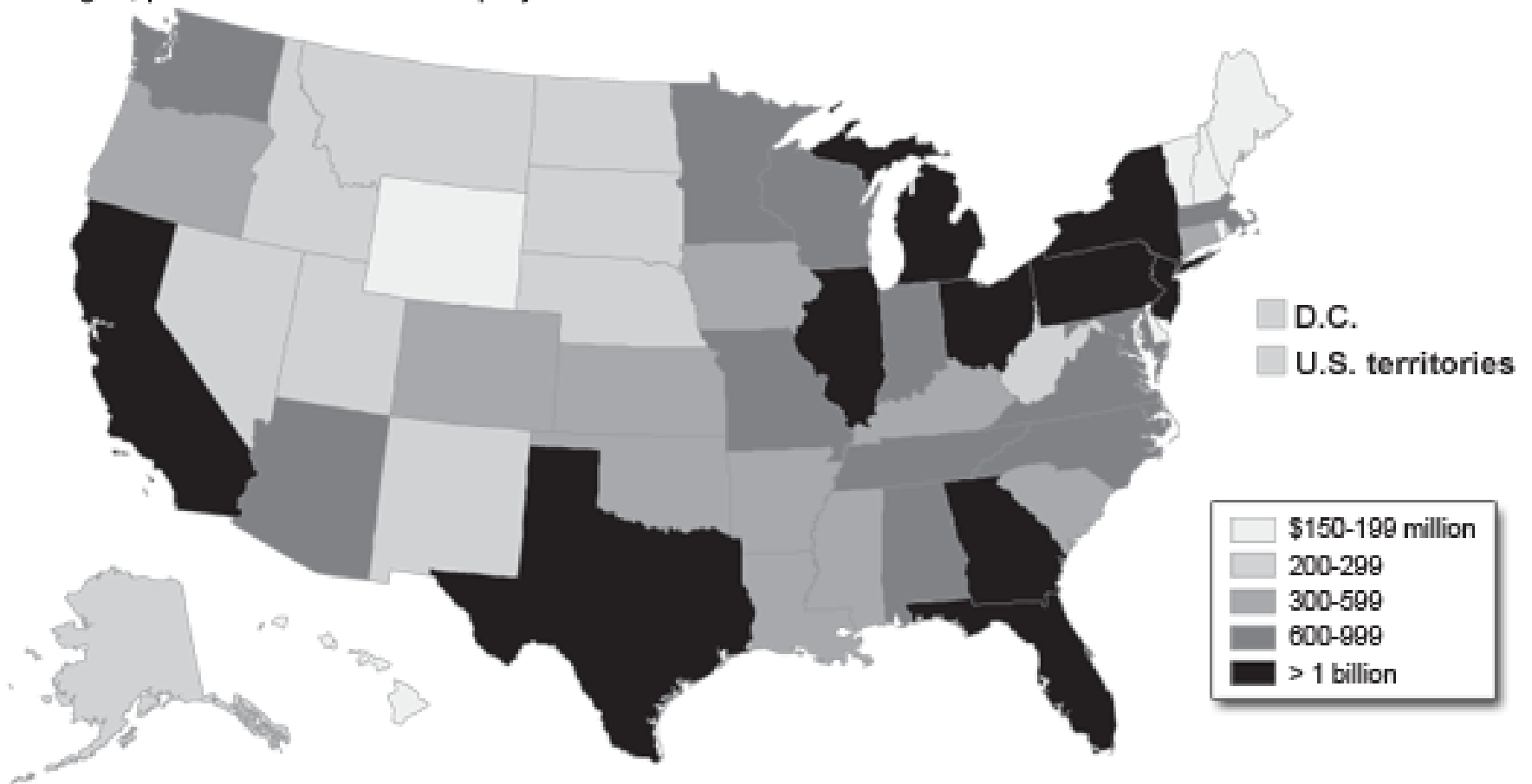
Source: www.recovery.gov

Additional Federal Rescue Programs

- **Troubled Asset Relief Program (TARP)**
 - Part 1 was spent with little oversight (\$350B)
 - Part 2: Financial Stability Plan
 - The reworked rescue plan is worth nearly \$ 2 trillion and proposes to set up a public-private fund to purge toxic assets from the banking system.
 - Money for homeowners and cities
- **Term Asset-Backed Securities Loan Facility (TALF)**
 - Intended to unfreeze for small business and consumer loans
 - May be used to help commercial real estate mortgages

States' Stimulus Benefits

The economic stimulus plan lays out \$38.1 billion for infrastructure, including money for highways and bridges, public transit and water projects.



Source: House Committee on Transportation and Infrastructure, www.cbsnews.com

Federal Stimulus

Some states react swiftly...

February 17, 2009

MoDOT announces major project after signing of stimulus

The CBS Evening News (2/17, story 3, 1:50, Reid) reported that "in Missouri, the reaction was instantaneous. As the bill was signed, **within minutes** highway commissioners signed a contract, cut a check, and work began on the first project in the nation.

...and California's response

Amid Crisis, California Yanks Bond Projects

Senate One Vote Short of Budget Pact

Wednesday, February 18, 2009

- 2009 Will Be A Unique and Challenging Time
 - California is expensive and problematic to begin with.
 - Too much government regulation.
 - Legislature is not business friendly.
 - Taxes continue to be high and rising.
 - High costs of health care and labor.

Conclusions

- But there is still hope:
 - California continues to be one of the leading states in innovation/research and development.
 - Most populous state - availability of large and lucrative markets for businesses.
 - Great Climate.
 - Quality of Life.

Key Fixes for California

- Legislature needs to be revamped.
- State needs an Economic Development Strategy.
- Governments should focus more on incentivizing and helping businesses rather than taxing them.
- Los Angeles needs to streamline its processes, create targeted incentive programs for businesses and take another run at reducing business taxes.
- The Public Sector and Private Sector face different challenges and need each other more often than not.



***This presentation is available
online at***

www.kosmont.com

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