



San Diego found state's cheapest area for business

California taxes remain higher than neighboring states

By [Tanya Mannes](#)

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10 Most Expensive California Cities

1. Berkeley
2. Beverly Hills
3. Culver City
4. Inglewood
5. Los Angeles
6. Oakland

7. Rancho Santa Margarita
8. San Bernardino
9. San Francisco
10. Santa Monica

10 Least Expensive California Cities

1. Apple Valley
2. Costa Mesa
3. Dos Palos
4. Hesperia
5. Moorpark
6. Roseville
7. Sutter Creek
8. Unincorporated El Dorado County
9. Unincorporated Lake County
10. Unincorporated Merced County

10 Most Expensive U.S. Cities

1. Akron, Ohio
2. Chicago
3. Columbus, Ga.
4. Jersey City, N.J.
5. New York
6. Newark
7. Philadelphia
8. Phoenix
9. Portland, Ore.
10. San Francisco

10 Least Expensive U.S. Cities

1. Abilene, Texas
2. Austin
3. Cheyenne, Wyo.
4. Corpus Christi, Texas
5. Eugene, Ore.
6. Everett, Wash.
7. Fort Worth, Texas
8. Houston
9. Reno
10. Yakima, Wash.

Source: 2010 Kosmont-Rose Institute Cost of Doing Business Survey

San Diego County is the least expensive area of the state to do business, but taxes in California are high overall compared with those of neighboring states, says a nationwide analysis of business and property taxes released today.

The report — the 16th annual Kosmont-Rose Institute Cost of Doing Business Survey — tracks business tax rates in 413 major U.S. cities, and rates each city using a proprietary index.

The index includes business license fees and taxes, sales and property taxes, hotel taxes, development impact fees and economic incentives. Even Berkeley's uncommon parking tax is factored in. (The institute sells detailed profiles of individual cities to commercial brokers to help them advise clients on relocation.)

Rose Institute fellow David Huntoon said the survey focuses attention on how municipal tax policies affect businesses. "The folks in San Diego County, in general, get it," he said. "They understand that it's important to provide a healthy business-friendly environment for businesses in order to generate the sorts of tax revenue that you need to pay for city services."

Chicago, New York, Phoenix and San Francisco are among the most expensive cities in the nation for businesses. Austin, Reno and Houston are among the least expensive. In California, Los Angeles County and the Bay Area are among the most expensive areas in the state, while San Diego County remains the most affordable. Those relative rankings have barely changed in the past three years.

Not all areas were surveyed. Imperial County, for example, was not included because it's mainly an agricultural area.

The report — annual project of the Rose Institute of State & Local Government, a public policy research center at Claremont McKenna College — doesn't address important business factors such as labor or cost of living. It also doesn't consider utility costs such as electricity and water, although it does consider the utility tax rates.

While San Diego County as a whole is a low-cost area to do business, its individual cities didn't make the Top 10 list of least expensive cities in the state. The report notes that cities in San Diego frequently impose costly project-specific fees on new development, which affects their relative ranking.

Several commercial real estate brokers said that businesses consider local tax rates as part of choosing a location, but said most owners are more worried about state taxes.

"Clearly, business taxes fall into the category of cost that any prudent business needs to analyze before relocating in San Diego," said Joe Balla, president of Lee & Associates San Diego. "Our tax rates in California are among the highest in the nation and it's one reason, I believe, that many businesses have been lost to other states."

David Marino, a principal broker at Irving Hughes in San Diego, said that business owners tend to take a holistic view of an area. He said low taxes are among the region's many positives, which also include a highly educated workforce, reasonably priced housing, and good schools. "I think San Diego County competes very effectively, particularly as it relates to the Los Angeles area," Marino said.

All the cities in San Diego County had average or low tax rates. The report rates San Diego, Imperial Beach, La Mesa, El Cajon, Escondido, National City and Vista, as well as unincorporated areas of the county, as "low cost."

Encinitas, Poway, Lemon Grove, San Marcos and Santee are "very low cost" cities, the best possible rating. Carlsbad, Chula Vista and Oceanside are "average cost." Coronado, Solana Beach and Del Mar were not surveyed.

The report notes that California's corporate income tax rates (8.84 percent) are much higher than those of Arizona (4.63 percent), Colorado (6.97 percent) and Nevada, which doesn't have a state income tax. Further, California's basic sales tax rate is 8.25 percent, higher than Arizona's (5.6 percent), Colorado's (2.9 percent) and Nevada's (6.85 percent).

Joe Budano, CEO of Energy Innovations, moved his business early this year from Pasadena ("very high cost") in Los Angeles County to Poway ("very low cost"), but said local tax rates weren't the main factor.

Budano said that state taxes, workers' compensation, and regulations are more of a problem than local rates.

"I can't say we made a huge consideration of the tax rate (in Poway)," he said. "You kind of have to be out of your mind to even want to do business in California anyway."

Budano said that his solar-technology company chose the San Diego region largely because of its "clean tech cluster" and highly educated workforce. In Poway, he found an ideal building and a flexible landlord. He has 32 employees and expects to hire 200 more in the next two years.

Poway Mayor Don Higginson said that his city takes pride in being business friendly and has attracted interest recently from Lowe's Home Improvement, In-N-Out Burger and Sonic Drive-In. "We can't control capitalization; we can't control what they pay their landlord," Higginson said. "We can, however, control some things like fees."

Some fear that San Diego's traditional business-friendly climate is changing.

Vince Vasquez, senior policy analyst for the National University System Institute for Policy Research, noted that San Diego raised some business fees last year, and has placed a sales-tax measure on the November ballot. Chula Vista sought to raise the sales tax last year and Solana Beach attempted to raise business taxes this year; both efforts were defeated by voters.

"I think that there are beginning to be red flags that we are heading in a different direction," Vasquez said.

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