

Doing Business in L.A. Grew Tougher This Year

COMMERCE: Survey sees costs jumping even higher in 2016 with new taxes.

By **HOWARD FINE** Staff Reporter

It might not be what local business owners want to hear, but the cost of doing business in Los Angeles has gone up yet again and will likely jump even more next year, according to a survey to be released this week.

The annual Kosmont-Rose Institute Cost of Doing Business Survey has classified 46 of the 74 Los Angeles County cities surveyed as either “high cost” or “very high cost” in terms of tax and fee rates for businesses in 2016. That’s up from 45 last year and 44 the year before that, representing a steadily increasing trend.

Even worse, eight area cities – including Los Angeles, Beverly Hills, Santa Monica, and Culver City – rank among the 20 most expensive cities in which to do business in the Western United States. That’s also up one from last year.

These increases are trifling compared with what could be coming next year, thanks to recent election results.

“With dozens of L.A. County cities climbing on the new tax bandwagon in recent elections, businesses face ongoing increases in their cost of doing business,” said **Larry Kosmont**, an L.A. economic development consultant who started the Cost of Doing Business Survey 20 years ago.

Voters countywide this month approved a half-cent sales tax increase for transportation projects, while dozens of cities have approved either more sales taxes or new marijuana taxes.

That’s not to mention school bonds and parcel taxes, which are also paid by businesses. All these tax and assessment



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Taxing Situation: Mobul’s Wayne Slavitt at his Long Beach health product retailer.

increases will be taking effect next year – some as early as January, but most midyear.

Expansion guide

The survey, which is produced by Kosmont’s firm, **Kosmont Cos.**, in partnership with the Rose Institute of State and Local Government at **Claremont McKenna College**, looks at the cost of operating a business – focusing especially on taxes and fees – in 305 cities throughout nine Western states.

Businesses considering expanding or relocating often use the survey to compare operating costs in different cities. It also has become an essential marketing tool for lower-cost cities to recruit businesses from higher-cost cities in California.

Los Angeles has traditionally been a high-cost region, especially when it comes to taxes on retail sales, hotel beds, and business

licenses. But the trend has been exacerbated in recent years as cities facing the double whammy of the recession and the loss of redevelopment dollars have scrambled to find revenue sources. On top of all this are mandated annual local and statewide minimum-wage increases that will take the wage up to \$15 an hour for all businesses in the state by 2022; some cities, including Los Angeles, are running a year ahead of that schedule.

This year, though, the story has been the willingness of voters to approve tax hikes, principally on sales of retail products and marijuana, the use of which has now been legalized in California.

On the sales tax front, 70 percent of county voters supported Measure M, the half-cent sales tax hike to fund billions of dollars in transit construction. Sales tax increases of either a half-cent or a full cent also passed

Pricey Business

Ten most expensive cities in Los Angeles County for doing business:

1. Los Angeles	6. Bell
2. Santa Monica	7. El Segundo
3. Culver City	8. Pomona
4. Inglewood	9. Hawthorne
5. Beverly Hills	10. Compton

Source: 2016 Kosmont-Rose Institute Cost of Doing Business Survey

in Downey, Long Beach, Lynnwood, Santa Monica, and other cities.

In addition, on just this month’s ballot alone, more than 30 bond and parcel tax assessments passed, with the overwhelming majority going to school districts. Those assessments are paid by both commercial and residential property owners.

Finally, taxes on marijuana sales passed in Carson and Long Beach.

The tax increases will be most keenly felt in cities that have significantly higher tax rates than nearby cities.

Wayne Slavitt, chief executive of **Mobul**, a Long Beach retailer specializing in home health and mobility equipment such as scooters and wheelchairs, said he expects his sales to take a beating. In Long Beach, voters have sent the sales tax rate next year soaring to 10.25 percent, one of the highest levels in all of Southern California.

Slavitt said many customers might flee a couple of miles into Orange County, where the sales tax will be as low as 7.75 percent.

“If our customers are asking us, Why should I buy this from you when I can go to Seal Beach and pay so much less in sales tax? then we’re going to have to lower our prices to compete,” he said. “And that in turn will mean less profit for us.”

Judge Rebuffs City’s Bid to Seize Water System

UTILITY: Tentative ruling questions advances under Claremont’s ownership.

By **HOWARD FINE** Staff Reporter

The city of Claremont has been dealt a setback in its effort to take over **Golden State Water Co.’s** local operations under a tentative ruling this month that could have far-reaching implications as California water utilities attempt to fend off government takeovers.

The city has been trying for two years to wrest local operations from Golden State because of residents’ concerns about high water rates. That effort was dealt a serious blow with the tentative Nov. 10 ruling by Los Angeles Superior Court Judge **Richard Fruin**, who found Claremont failed to make a case that it could provide water at



Kruger

lower rates while maintaining water quality and repairing an aging pipe system.

Golden State, a subsidiary of publicly traded **American States Water Co.** of San Dimas, is facing similar takeover attempts of its systems in Ojai and Los Osos. Other investor-owned utilities have had their water systems targeted with eminent domain proceedings, though the Claremont case is the first to have gone to trial.

“The main argument proponents put forward is that the private water utilities

are charging too much and that public agencies can do it at lower rates,” said **Jack Hawks**, executive director of the **California Water Association**, which represents investor-owned water utilities regulated by the state Public Utilities Commission. “This trial and this ruling really call that claim into question.”

Claremont and Golden State Water have until just after Thanksgiving to present arguments to Fruin before he makes the tentative ruling final.

If the ruling holds, City Manager **Tony Ramos** said in a statement on Claremont’s website that the city intends to appeal.

Golden State executives welcomed the decision.

“From the outset of the trial, we have maintained that the city’s claims were without merit and continued to demonstrate that Golden State Water has operated transparently and in the best interest of the community,” said **Denise Kruger**, the company’s senior vice president of regulated utilities.

American States Water’s shares, which had dipped on the New York Stock Exchange prior to the Nov. 10 ruling, closed up 6.7 percent for the week ended Nov. 16 at \$42.26, their highest level since August.

Takeover vote

The Claremont case stems from overwhelming voter approval two years ago of a measure authorizing the city to issue



Wading In: Backers of taking over Golden State Water.

\$135 million in bonds to finance a takeover of Golden State’s water system there.

The company, which has operated for more than 80 years, provides water to about 255,000 customers in 76 communities spread across 10 counties from Northern to Southern California. Claremont’s plan called for the neighboring city of La Verne, which has its own municipal water agency, to provide water service instead.

Golden State has steadfastly refused to sell, forcing a trial over the use of eminent domain. Each side reportedly spent about \$3 million to make their case.

Claremont officials said municipal control would ensure more transparency and community input in setting rates. Golden State argued at trial that La Verne would not be able to operate the system effectively while charging lower rates and that La Verne had its own challenges in meeting federal and state water-quality standards.

Fruin’s ruling against the use of eminent

domain, if upheld on appeal, would effectively nix the takeover attempt.

Ripple effects

Hawks said Fruin’s ruling raises the bar for municipal agencies to prove they can do a better job than private water utilities in providing high-quality water at lower rates.

“Other municipalities thinking of doing this will have to think and look longer and harder at absorbing all those legal costs and the risk if they lose,” he said.

The takeover attempt in Ojai is furthest along. Voters in that Ventura County city authorized the neighboring Casitas Municipal Water District to buy the water system there from Golden State three years ago, using eminent domain if Golden State did not want to sell.

Golden State’s Kruger declined to comment on the implications of the recent ruling for the takeover attempt in Ojai.

Hawks said the burden of proof will likely be much higher on the Casitas water district to show it can deliver water at lower cost while meeting clean-water standards and replacing aging pipes. For utilities such as Golden State, he said, the Public Utilities Commission’s rate-setting process already takes all this into account, granting them a minimal profit margin.

It’s almost impossible for a municipal water agency to charge less while still delivering clean water and replacing pipes, Hawks said.

In Fruin’s ruling in the Claremont case, he slammed Claremont City Manager Ramos for admitting in testimony that “lower water rates were not likely to be realized from the city’s exercise of eminent domain over the Claremont water assets.”