

Overview

Over the past few years, RIPEC has analyzed national competitiveness rankings produced by organizations such as the Tax Foundation, the Beacon Hill Institute, Forbes, CNBC, the Council on State Taxation, and Moody's Analytics. These rankings, which provide an opportunity to look at variables that impact business decisions to retain or grow jobs or investment in a geographic area, shed light on the policy reform options available to state and local governments. Business climate or cost-of-doing-business variables may include a location's:

- Tax climate;
- Housing costs and availability;
- Electricity prices;
- Labor costs;
- Office rental costs and availability; and
- Regulatory burden.

Several of the data sources that measure these factors are collected at the state level—not the county or Metropolitan Statistical Area (MSA). In an effort to begin benchmarking and understanding Providence's business climate, this brief summarizes the most appropriate level of data available for each of these variables.

Taxes

Taxes are one of the most significant components of the costs-of-doing-business in a geographical area, and are a policy area in which Rhode Island has some of the most opportunity for improvement.

Tax Foundation and KPMG, “Location Matters: A Comparative Analysis of State Tax Costs on Business”

This study by the Tax Foundation and KPMG aims to provide an “apples-to-apples” comparison of corporate tax costs in each state for the following taxes paid by business: corporate income, property, sales, unemployment insurance, capital stock, inventory, and gross receipts. The model analyzes data for seven model firms twice in each state: once for new firms eligible for tax incentives, and once for mature firms not eligible for incentives (mature firms are categorized as those that are at least ten years old). It includes four ways to evaluate tax competitiveness: tax burden or total effective rate (TETR); the impact of incentives; relative measures of which states have lowest and highest average tax costs; and relative measures of which industries and firm-types have the lowest and highest tax burdens.

This study includes “two tiers” of geographies to help control for the fact that location plays a role in industry location decisions. Tier One sites are major cities, while Tier Two sites are mid-size cities with populations of less than 500,000. Under this categorization, of the seven model firms, three are in Tier One sites and four are in Tier Two sites. It is important to note that, while every other state is divided into these tiers, Rhode Island is not. [Due to RI's small size, all analysis relates to the Providence metro area.] The seven model firms include: a corporate HQ or

regional managing office; a scientific R&D facility; an independent clothing store; an independent telemarketing or call center; a distribution warehouse; a capital-intensive manufacturer, such as a steel company; and a labor-intensive manufacturer, such as a bus or truck company.

The tables below list each New England state's TETR, index score, and rank for new operations and mature operations. This study defined TETR as including corporate net income taxes, capital taxes, unemployment taxes, sales taxes, property taxes, gross receipts taxes, and other general business taxes. The index shown is the effective tax rate divided by the national average within that firm type. A number above 100 in the index indicates that that state has an effective rate higher than the national average. The rank shown is based on an ordered list of the average index scores across the seven firm types for each state.

Rhode Island's Profile

In terms of newly established firms, Rhode Island ranks 44th overall—higher than its ranking for mature operations (46th). In both categories, Rhode Island ranks lower than every other New England state. For newly established firms, on average, Vermont ranked highest (12th), followed by Maine (20th), New Hampshire (22nd), Connecticut (30th) and Massachusetts (43rd).

Rhode Island ranked highest for newly established capital-intensive manufacturing operations (12th), more than 20 positions better than every other Rhode Island category and better than every other New England state.

This study classifies capital-intensive manufacturing firms as those with initial capital investment of \$300 million and approximately 200 employees (including management, administrative, installation, maintenance, production, transportation, and materials). The study estimates that on average, the revenue of these types of firms is

2012 Tax Foundation and KPMG "Location Matters" Rankings								
Newly Established Operations								
	Tier Two				Tier One			Average
	MC	ML	CC	DC	CO	RD	RT	
Connecticut								
TETR	9.6%	10.3%	32.1%	0.40.2	20.0%	0.18.3	34.1%	--
Index	84.0	88.4	128.8	111.3	123.7	124.2	104.6	109.3
Rank	25	18	37	34	40	35	29	30
Maine								
TETR	8.3%	12.5%	19.2%	36.2%	17.1%	10.6%	25.1%	--
Index	73.2	106.4	76.9	100.0	105.7	71.6	77.1	87.3
Rank	19	32	13	31	28	12	9	20
Massachusetts								
TETR	7.9%	13.1%	38.5%	60.2%	19.8%	21.2%	0.41.9	--
Index	69.5	112.0	154.5	166.5	122.7	143.7	128.4	128.2
Rank	17	37	46	49	39	42	43	43
New Hampshire								
TETR	7.7%	12.8%	0.29.7	36.1%	12.9%	14.2%	21.0%	--
Index	67.8	109.8	119.4	99.8	80.0	96.3	64.2	91.0
Rank	16	36	33	30	16	19	5	22
Rhode Island								
TETR	6.0%	13.2%	39.0%	54.6%	19.3%	23.9%	45.4%	--
Index	57.6	112.4	156.5	151.0	119.5	162.1	139.4	128.4
Rank	12	38	48	46	37	47	47	44
Vermont								
TETR	10.7%	11.3%	13.8%	24.2%	13.6%	10.9%	27.2%	--
Index	94.1	96.8	55.3	66.9	84.4	73.7	83.5	79.2
Rank	32	25	9	8	19	14	13	12

MC= Capital-Intensive Manufacturing Operation; ML= Labor-Intensive Manufacturing Operation; CC= Call Center; DC= Distribution Center; CO= Corporate Headquarters; RD= Research and Development Facility; RT= Retail Store
SOURCE: Tax Foundation & KPMG

approximately \$200 million with 10 percent before-tax earnings. The Tax Foundation and KPMG suggest that these firms benefit from Rhode Island’s property tax abatement program.

For mature firms, on average, Connecticut ranked highest (21st); followed by New Hampshire (26th); Maine (27th); Vermont (31st); Massachusetts (44th); and Rhode Island (46th). Rhode Island’s average TETR index is 28.4 percent above the national average for newly established firms, and 29.1 percent above the national average for mature firms.

The Ocean State ranked lowest for mature call center operations. The study classifies these operations as “low-wage service businesses” that have 600 employees (including management, sales and administrative

employees), and revenue of approximately \$29 million. Before tax earnings of these firms is approximately 7 percent. The authors suggest that Rhode Island’s low ranking is due to the 9.0 percent corporate income tax rate and throwback rule. Property taxes and unemployment insurance rates also partially explain the state’s low ranking in this category.

COST and Ernst and Young’s “Competitiveness of State and Local Business Taxes on New Investment”

Methodology

The Council on State Taxation (COST), and Ernst and Young, compiled an index that compares state and local business marginal tax burdens as they would be incurred by companies doing business in a state. To do this, the model defines five facility investment types: headquarters, research and development facilities, office and call center facilities, durable manufacturing facilities, and non-durable manufacturing facilities. It also includes estimates of major state and

2012 Tax Foundation and KPMG "Location Matters" Rankings								
Mature Operations								
	Tier Two				Tier One			
	MC	ML	CC	DC	CO	RD	RT	Average
Connecticut								
TETR	8.1%	7.6%	24.5%	30.7%	17.8%	12.0%	0.17.6	--
Index	64.0	65.6	116.8	100.3	113.2	93.4	103.9	93.9
Rank	9	6	38	29	42	21	32	21
Maine								
TETR	1.8%	14.6%	14.9%	30.7%	15.9%	8.4%	16.4%	--
Index	143.5	125.3	70.8	100.0	101.2	65.1	97.1	100.4
Rank	45	41	6	28	29	9	26	27
Massachusetts								
TETR	15.3%	15.6%	28.3%	44.2%	16.2%	14.1%	20.3%	--
Index	120.4	133.6	134.7	144.2	103.4	109.4	119.6	123.6
Rank	38	44	46	44	31	33	41	44
New Hampshire								
TETR	12.9%	12.6%	24.6%	31.0%	11.9%	13.1%	15.6%	--
Index	101.9	107.8	117.0	101.1	75.9	101.9	92.2	99.7
Rank	29	33	39	31	6	27	23	26
Rhode Island								
TETR	14.7%	16.2%	30.5%	45.3%	17.6%	14.1%	22.7%	--
Index	115.7	138.9	145.4	147.9	112.2	109.4	134.3	129.1
Rank	33	46	49	45	41	33	46	46
Vermont								
TETR	16.4%	13.3%	18.4%	28.8%	15.0%	13.0%	17.7%	--
Index	128.9	114.3	87.5	93.8	95.7	100.9	104.9	103.7
Rank	41	35	20	25	24	25	34	31

MC= Capital-Intensive Manufacturing Operation; ML= Labor-Intensive Manufacturing Operation; CC= Call Center; DC= Distribution Center; CO= Corporate Headquarters; RD= Research and Development Facility; RT= Retail Store
SOURCE: Tax Foundation & KPMG

local taxes (including corporate income and alternative business income taxes, as well as sales, property, and net worth taxes). It then determines which tax features should be incorporated for each tax (ex. base and rate definitions).

Using estimated tax rates for a thirty-year period, they calculate an effective tax rate (ETR) for each facility type. The ETR for each investment is then weighted by employment and capital expenditures to determine rankings. Weighting by capital investment elevates the importance of the tax rate on investments by capital intensive industries (e.g. manufacturing). Alternatively, weighting by the number of jobs created puts more emphasis on the effect of taxes on labor intensive industries. It is important to note that this study uses FY 2009 tax data, and, therefore, does not reflect Rhode Island’s recent individual income tax reforms.

2011 State and Local Business Tax Competitive Index				
	Weighted by Capital Investment		Weighted by Jobs	
	ETR	Rank	ETR	Rank
Rhode Island	11.5%	49	13.4%	49
Connecticut	8.9%	38	9.4%	32
Maine	3.0%	1	4.3%	1
Massachusetts	8.2%	32	9.7%	34
New Hampshire	5.4%	7	5.9%	6
Vermont	7.8%	31	9.0%	29

*Uses 2009 data
SOURCE: COST and Ernst & Young, 2011

According to this study, Rhode Island’s ETR is the 49th highest in the nation, either when weighted by capital investment (11.5 percent), or when weighted by jobs created (13.4 percent). This differential suggests that the tax burden on capital intensive industries is lower than labor intensive industries. Only New Mexico had higher ETRs (16.6 percent capital intensive and 17.9 percent labor intensive). The next highest ETR in New England was Connecticut’s at 8.9 percent for capital intensiv

e industries, and 9.4 percent for labor intensive industries.

Alternatively, Maine’s ETR was the lowest in the nation. Ernst & Young and COST attribute this to four factors: a single sales factor corporate income apportionment formula; an average property tax rate; a lack of a franchise tax; and a low combined state and local sales tax (5.0 percent compared to the national average of 6.2 percent).

Moody’s Analytics’ “U.S.-Cost-of-Doing-Business: Costs Fall in 2010”

The Moody’s Analytics cost-of-doing-business index compares state and metropolitan areas’ average business costs nationally. Indicators in Moody’s metropolitan comparison include labor, energy, tax costs, and office rents. This analysis measures the effective tax rate as the total tax revenue as a percent of total personal income in the geographic area, indexed to the national effective tax rate. Business contributions to unemployment and workers’ compensation programs are also included. Data from the Census Bureau’s Annual Survey of State Government Finances is the source of state and local tax revenue. Revenue

Moody's 2012 New England Metropolitan Area Relative Business Costs		
	State and Local Tax Burden	
	Index	Rank
Bangor, ME	115	15
Barnstable Town, MA	94	144
Boston, MA	93	150
Bridgeport, CT	113	18
Burlington, VT	113	17
Cambridge, MA	94	147
Hartford, CT	111	20
Lewiston, ME	115	16
Manchester, NH	81	270
New Haven, CT	111	21
Norwich, CT	112	19
Peabody, MA	93	153
Pittsfield, MA	94	146
Portland, ME	116	14
Providence, RI	103	71
Rockingham County, NH	81	273
Springfield, MA	93	152
Worcester, MA	92	158

*Uses 2010 data
SOURCE: Moody's Analytics

data for each metro area include the total of city and county revenues within metropolitan areas. Moody's calculates the aggregate local effective tax rate by calculating total relevant tax revenues divided by total personal income. According to this analysis, the Providence MSA's state and local tax burden is approximately 3.0 percent higher than the national average, placing it the 71st highest relative tax burden in the U.S.

Lincoln Land Institute's "50-State Property Tax Comparison Study"

This study reports relative property tax burdens across the U.S. by comparing effective property tax rates for homestead, commercial, industrial and apartment properties. This study holds the value of property constant over time but allows the rate to vary year to year. While this is a useful comparison; the study's limitations should be noted up front. For example, local governments deliver varied

	\$100,000		\$1,000,000		\$25,000,000	
	Amount	ETR	Amount	ETR	Amount	ETR
New England	\$3,108	2.6%	\$31,076	2.6%	\$776,900	2.6%
Mid-Atlantic	\$2,803	2.3%	\$28,759	2.4%	\$730,972	2.4%
South	\$2,135	1.8%	\$21,604	1.8%	\$540,968	1.8%
Midwest	\$3,304	2.8%	\$33,749	2.8%	\$846,625	2.8%
Southwest	\$2,076	1.7%	\$21,686	1.8%	\$553,651	1.8%
West	\$1,712	1.4%	\$17,118	1.4%	\$427,960	1.4%
U.S. Average	\$2,528	2.1%	\$25,676	2.1%	\$645,247	2.2%

ETR= Effective tax rate
 SOURCE: Lincoln Institute of Land Policy; Minnesota Center for Fiscal Excellence

levels of public services, resulting in different revenue demands, and this study does not control for these differences in expenditures. Furthermore, this study does not factor in income-sensitive property tax relief programs (i.e. "circuit breakers").

In terms of the commercial rate comparison, this study compares effective tax rates for commercial urban properties at the \$100,000, \$1,000,000, and \$25,000,000 levels. At each of these urban property levels, New England has the second-highest effective tax rate, at 2.6 percent. Moreover, of the 53 urban communities ranked in this study, Providence, Rhode Island has the highest payable personal property taxes, as, on average, the city assesses \$5,085 in property taxes on a \$100,000 property, \$50,850 on a \$1,000,000 property, and \$1,271,250 on a \$25,000,000 property.

Providence's property taxes on homestead or industrial properties are not outliers. However, this comparison ranked Providence the fourth highest for urban apartment property taxes (\$22,339 in payable taxes for a \$600,000 value apartment).

Housing Costs and Occupancy

The Census Bureau's American Community Survey published a 2013 analysis of rental market conditions by MSA, comparing 2009 and 2011 data. During this time period, the Providence-New Bedford-Fall River MSA saw a \$40 decline in the median adjusted gross rent, which declined from \$889 to \$849. Alternatively, this MSA saw a 1.6 percent increase in its share of

renters spending 35.0 percent or more of their income on gross rent. This compares to a 1.7 percent increase across the Hartford MSA and a 2.0 percent increase across the Boston MSA. Moreover, the Providence MSA experienced a decline in its rental vacancy rate during this time period—from 7.25 percent in 2009 to 5.95 percent in 2011.

Another 2012 American Community Survey provides data on 2012 monthly housing costs by housing type across Providence County. On average, the median monthly cost for an occupied housing unit in Providence County was \$1,012 in 2012—lower than the average owner-occupied cost of \$1,403, but higher than the average renter-occupied cost of \$845.

Electricity Costs

The Energy Information Administration collects data on the various average retail prices (in cents per kilowatt hour), for each usage by state. The 2012 data includes a comparison of average retail electricity prices for end-use sectors such as residential, commercial, industrial, and transportation.

2012 Total Electric Industry - Average Retail Price (cents/kWh)					
	Residential	Commercial	Industrial	Transportation	Total
Connecticut	17.34	14.65	12.67	9.69	15.54
Maine	14.66	11.53	7.98	.	11.81
Massachusetts	14.91	13.84	12.57	4.91	13.79
New Hampshire	16.07	13.36	11.83	.	14.19
Rhode Island	14.40	11.87	10.68	8.28	12.74
Vermont	17.01	14.32	9.98	.	14.22

SOURCE: Energy Information Administration 2012

For total average retail electricity prices, Rhode Island is the second cheapest in New England (Maine’s total average price is 11.81 cents/kWh, while Rhode Island’s is 12.74). Rhode Island also boasts the lowest residential retail prices, and the second-lowest commercial retail prices. Rhode Island has the third lowest industrial prices.

Labor Costs

The Moody’s Analytics’ U.S. Cost of Doing Business analysis referenced earlier also compared MSAs on their unit labor costs. According to Moody’s the most important expense in the cost-of-doing-business is the cost of labor. This index calculates labor compensation per dollar of output (to adjust for productivity). Compensation includes wages and salaries per employee. Output includes gross product per employee. These costs are then sorted by NAICS industry classification (though Moody’s eliminated some industries¹ that service local demand, and, therefore, are not influenced by relative costs-of-doing-business). Total unit costs were then developed by weighing the average of unit labor costs in each NAICS industry. Weighting is equal to the national share of employment in each industry.

¹ Industries that were excluded include retail trade, construction, real estate, services, and government. Also, Moody’s excluded any 3-digit NAICS industries with less than 100 employees.

Benefit Costs and Adjusted Total Compensation, US, New England and Rhode Island									
	US			New England			Rhode Island		
	Small*	Large**	Public	Small*	Large**	Public	Small*	Large**	Public
Paid Leave	\$2,962	\$5,056	\$4,625	\$3,314	\$5,656	\$4,823	\$2,927	\$4,995	\$5,034
Supplemental Pay	1,170	2,168	493	1,309	2,426	514	1,156	2,142	537
Insurance	3,490	5,527	7,399	3,904	6,184	7,717	3,448	5,461	8,054
Retirement & Savings	1,328	2,993	5,056	1,486	3,349	5,273	1,312	2,957	5,504
Legally Required	4,755	4,172	3,700	5,320	4,667	3,858	4,698	4,122	4,027
<i>Total Benefits</i>	<i>\$13,705</i>	<i>\$19,916</i>	<i>\$21,273</i>	<i>\$15,334</i>	<i>\$22,283</i>	<i>\$22,186</i>	<i>\$13,541</i>	<i>\$19,678</i>	<i>\$23,155</i>
<i>Wages</i>	<i>\$39,007</i>	<i>\$39,007</i>	<i>\$40,388</i>	<i>\$43,642</i>	<i>\$43,642</i>	<i>\$42,121</i>	<i>\$38,540</i>	<i>\$38,540</i>	<i>\$43,962</i>
Total	\$52,712	\$58,923	\$61,661	\$58,976	\$65,925	\$64,307	\$52,082	\$58,218	\$67,117

* Less than 99 employees
** More than 500 employees
SOURCE: BLS "Employer Costs for Employee Compensation", March 2011; CPS March Supplement, 2007-2010; RIPEC calculations

This analysis suggested that Providence's unit labor costs are 5 percent lower than the national average, and rank 281 of all MSAs included in the index. Of the New England MSAs listed here, Providence has the second lowest index score for its unit labor costs (Hartford has the lowest index score, which is 7 percent lower than the U.S. average).

Moreover, in 2011 RIPEC conducted a comparison of Rhode Island's wages and compensation relative to the region. This study found that even though between 2001 and 2010 the state experienced a 32.2 percent increase in private sector pay, in 2010 Rhode Islanders still received less private sector pay than averages in Connecticut, Massachusetts, and New Hampshire. This study also found that for small and large businesses (less than 99 employees, and more than 500 employees, respectively), Rhode Island had lower total benefits and wages than national and regional averages.

Moody's 2012 New England Metropolitan Area Relative Business Costs		
	Unit Labor Cost	
	Index	Rank
Bangor, ME	100	182
Barnstable Town, MA	115	11
Boston, MA	121	6
Bridgeport, CT	115	10
Burlington, VT	113	16
Cambridge, MA	125	2
Hartford, CT	93	302
Lewiston, ME	98	211
Manchester, NH	107	42
New Haven, CT	97	244
Norwich, CT	103	98
Peabody, MA	107	43
Pittsfield, MA	115	12
Portland, ME	103	113
Providence, RI	95	281
Rockingham County, NH	103	112
Springfield, MA	101	150
Worcester, MA	104	73

*Uses 2010 data
SOURCE: Moody's Analytics

Office Space

Other factors in the cost of doing business in Providence are the availability and cost of office space. According to the research department of Cushman, Wakefield, Hayes and Sherry, quarter-over-quarter overall office vacancy rates increased in the third quarter of 2013 to 14.5 percent in Providence. However, the current overall vacancy rate remains lower than the 17.8 percent vacancy rate that existed in the third quarter of 2012. Providence's trends are somewhat in line with Connecticut cities such as Hartford and New Haven. In terms of availability, Hartford's third quarter 2013 overall vacancy rate was 17.5 percent—2.1 percentage points lower than its third quarter 2012 rate, but higher than Providence's current 14.5 percent. New Haven's third quarter overall vacancy rate was also 17.5 percent. Alternatively, the greater Boston area's total overall vacancy for all classes of commercial space was 14.8 percent in the third quarter of 2013—lower than the vacancy rates of Hartford, and New Haven but slightly higher than that of Providence.

In terms of cost, Boston's direct average rental rate was \$27.66 per square foot. Providence's overall net rental rate has remained steadily above \$17.00 per square foot per year since 2010, and increased over the past year by 2.7 percent (from \$17.20 per square foot to \$17.67 in 2013). Hartford County's overall direct average rental rate is \$19.47 per square foot, and New Haven County's is \$20.60.

Regulatory Climate

The assessment of relative burdens of states' or metropolitan areas' regulatory climate is not commonly included in national business climate rankings. However, the Forbes "Best States for Business" ranking does include a "regulatory environment" variable in its overall index. This variable, which measures "metrics influenced by government" relies on data from a George Mason University report that factors in labor regulations, health-insurance coverage mandates, occupational licensing, the tort system, and right-to-work laws. This Forbes variable also incorporates data on tax incentives, economic development efforts, and bond ratings on general obligation debt. Over the past three years, Rhode Island has ranked the worst in the nation on this variable. RIPEC is not aware of any national rankings that compare metropolitan areas on their relative regulatory burdens.

Category	Connecticut			Maine			Massachusetts			New Hampshire			Rhode Island			Vermont		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Cost-of-Doing-Business	47	47	47	44	40	40	50	49	49	45	44	44	40	41	41	43	45	45
Labor Supply	19	23	17	28	34	33	18	9	6	8	20	19	38	38	37	15	19	22
Regulatory Environment	42	37	39	45	46	45	23	42	35	48	41	46	50	50	50	47	49	47
Economic Climate	17	35	37	42	44	43	14	8	7	34	22	27	49	49	49	38	31	23
Growth Prospects	36	31	26	50	49	49	17	16	15	12	29	18	17	28	28	44	46	45
Quality of Life	2	3	2	17	17	24	1	1	1	5	6	7	18	18	13	15	14	20
Overall Ranking	35	39	33	50	50	50	18	17	13	27	32	31	48	49	48	45	44	43

SOURCE: Forbes.com

Though there is little data available to compare Providence's municipal regulatory burden with other cities, it is important to highlight the work that has been accomplished on this topic statewide. Currently, there is a state law that requires each state agency to review 25 percent of its regulations each year for four years until all existing regulations have been evaluated for any adverse impacts on small businesses. The state's newly created Office of Regulatory Reform (ORR) has worked with various state agencies and municipalities to complete this review. The ORR has issued two "look back" reports informing the public of its progress in making the state's regulatory system clearer, more predictable, and more reliable.

Moreover, the city of Providence recently made progress with its regulatory system, by debuting an interactive online portal and application process for the city's Department of Inspections and Standards. This new online process will allow business members, construction and industry professionals to access project files with an online dashboard of applications. Applicants will be able to view their applications and respond to staff requests online.