

STATEWIDE ECONOMIC STUDY 2002



THE COST OF DOING BUSINESS IN ARIZONA

July 2002

Prepared for the Arizona Department of Commerce

by

Marshall J. Vest
Director, Economic and Business Research
Eller College of Business & Public Administration
University of Arizona
mvest@eller.arizona.edu

THE COST OF DOING BUSINESS IN ARIZONA

July 2002

Prepared by:

Marshall J. Vest
Director, Economic and Business Research
Eller College of Business & Public Administration
University of Arizona
mvest@eller.arizona.edu

Peer reviewed by the Technical Advisory Committee for Arizona Statewide Economic Study 2002:

Dan Anderson
Assistant Executive Director for Institutional Analysis
Arizona Board of Regents

Brian Cary
Forecast Consultant
Pinnacle West Energy Corporation

Jerry Conover, Ph.D.
Director, Bureau of Business and Economic Research
Northern Arizona University

James B. Nelson
Economic Development Manager
Salt River Project

William P. Patton, Ph.D.
Director of Economic Development
Tucson Electric Power

Tom Rex,
Research Manager
Center for Business Research, L. William Seidman Research
Institute, College of Business, Arizona State University

Carol Sanger
Assistant Deputy Director for Planning, Research and
Policy
Arizona Department of Commerce

Mary Lynn Tischer, Ph.D.
Director, Transportation Planning Division
Arizona Department of Transportation

© 2002 by the Arizona Department of Commerce. This document may be reproduced without restriction provided it is reproduced accurately, is not used in a misleading context, and the author and the Arizona Department of Commerce are given appropriate recognition.

This report was prepared for the Arizona Department of Commerce in conjunction with the 2002 Arizona Statewide Economic Study (SES) with funding from the Commerce and Economic Development Commission. Elements of the SES may be presented independently elsewhere at the author's discretion. The entire body of work comprising the SES will be available on the Internet for an indefinite length of time at <http://www.azcommerce.com/prop/ses.htm>. Inquiries about this report or the SES should be directed to the Office of Economic Information and Research, Arizona Department of Commerce, (602) 280-1300.

The Arizona Department of Commerce has made every reasonable effort to assure the accuracy of the information contained herein, including peer and/or technical review. However, the contents and sources upon which it is based are subject to changes, omissions and errors and the Arizona Department of Commerce accept no responsibility or liability for inaccuracies that may be present. THIS DOCUMENT IS PROVIDED FOR INFORMATIONAL PURPOSES ONLY. THE ARIZONA DEPARTMENT OF COMMERCE PRESENT THE MATERIAL IN THIS REPORT WITHOUT IT OR ANY OF ITS EMPLOYEES MAKING ANY WARRANTY, EXPRESS OR IMPLIED, INCLUDING THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, OR ASSUMING ANY LEGAL LIABILITY OR RESPONSIBILITY FOR THE ACCURACY, COMPLETENESS, OR USEFULNESS OF ANY INFORMATION, APPARATUS, PRODUCT, OR PROCESS DISCLOSED, OR REPRESENTING THAT ITS USE WOULD NOT INFRINGE PRIVATELY OWNED RIGHTS. THE USER ASSUMES THE ENTIRE RISK AS TO THE ACCURACY AND THE USE OF THIS DOCUMENT AND ANY RELATED OR LINKED DOCUMENTS.

THE COST OF DOING BUSINESS IN ARIZONA

July 2002

TABLE OF CONTENTS

Introduction	1
Methodology.....	1
Analysis	1
Business Costs.....	1
Is Arizona A Low Wage State?.....	3
References.....	5

THE COST OF DOING BUSINESS IN ARIZONA

July 2002

Marshall J. Vest, Director, Economic and Business Research, Eller College of Business and Public Administration, The University of Arizona

INTRODUCTION

This report addresses Arizona's cost of doing business. Presented are data comparing Arizona to other Western states as well as metro comparisons for selected cities with whom we compete for new business. The final section drills deeper into the issue of wages in Arizona.

METHODOLOGY

Data on business costs is taken from an annual report¹ prepared by Economy.com. Information for the costs of labor, energy, taxes and office space are included in the assessment. Weightings used to form the index are 65%, 15%, 10% and 10%, respectively, which reflect the importance of each in explaining long-term employment growth. For states, no office rent data is available, so the weights are 75%, 15% and 10%. The index uses a three-year moving average of each component in an effort to minimize volatility; for this report, data from 1998 to 2000 was used. Some 318 metro areas were included in the analysis. No data for non-metro counties is available.

Unit labor costs, defined as labor compensation per dollar of output, is used as the measure for labor costs. The energy component includes commercial and industrial electric rates. The effective tax index is calculated as the total tax burden as a percent of personal income. Included are tax revenues at both the state and local level for personal, property and corporate taxes, and charges, less severance taxes, education, hospital, and intergovernmental transfers. Business contributions to unemployment and workers' compensation programs are also included. Office rents reflect rates for class A office space.

Data for wages is available annually from the U.S. Bureau of Labor Statistics (see references at the end of this report). Published annually for states as well as metropolitan areas, these data are calculated by dividing total wage and salary disbursements by the number of wage and salary workers covered by the unemployment insurance (UI) program. The resulting calculation reflects the average annual wage per worker. These data give a different view of labor costs than the unit labor cost measure used by Economy.com.

ANALYSIS

BUSINESS COSTS

Data on business costs (average for 1998-2000 time period) shows that Arizona's costs are virtually identical to the national average, placing it 16th among all states. Arizona leads a closely-knit pack of five western states behind costly California (Figure 1).

Colorado's costs are roughly one half percent below the national average, followed by Washington, Utah and Nevada. Most western states rank in the bottom half. Five are in the lowest quintile. The lowest costs are in Wyoming (50th), where costs are 21% below the national average. Costs in California are 7.2% higher than nationwide, the 9th highest. Business costs are highest in the Northeast United States and lowest in the South.

¹ *North American Business Cost Review, 2002 Edition*, Economy.com, November 2001. Used with permission.

FIGURE 1

COST OF DOING BUSINESS INDEX								
Selected Western States								
(1998-2000 Averages, U.S. = 100)								
State	Business Costs		Unit Labor Cost		Energy Cost		State & Local Tax	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank
California	107.2	9	101.9	10	135.5	10	104.4	16
Arizona	99.9	16	98.7	19	108.4	13	96.5	30
Colorado	99.6	18	103.7	6	85.0	36	90.6	44
Washington	98.6	21	103.6	7	66.3	50	109.9	9
Utah	97.1	26	100.2	15	74.7	46	106.7	12
Nevada	96.5	27	96.6	29	95.4	22	97.3	27
Texas	94.8	32	96.7	27	91.7	25	95.4	47
Oregon	92.5	41	95.5	33	70.5	48	108.9	22
Montana	90.1	43	89.6	45	84.4	37	103.0	21
Idaho	89.4	45	92.5	38	61.5	51	107.4	11
New Mexico	82.8	48	76.1	50	102.1	16	103.9	18
Wyoming	79.0	50	78.5	49	72.8	47	92.1	41

Source: Economy.com

Arizona’s labor costs and state and local taxes are both below average, but are offset by high energy costs (13th highest). Arizona ranks 30th on state and local taxes, and is one of the lowest in the west².

Arizona’s “average” score reflects above average costs in both Tucson and Phoenix, while remaining areas of the state are well below average. Both Tucson (2.3% above average and a ranking of 67th) and Phoenix (1.1% and 76th) are saddled with higher costs than nationwide (Figure 2). Compared to other selected western metros, only the high-cost coastal California metros have higher costs than Tucson and Phoenix. Seattle, Denver, Salt Lake City, Las Vegas, Portland, Austin and Albuquerque have lower costs. Flagstaff and Yuma are both well below average – 3.6% and 4.5%, respectively.

Looking at the four components, Tucson has low labor costs, very high energy costs, average taxes and very low office rents. Phoenix has average labor costs, high energy costs, low taxes, and low rents. Flagstaff and Yuma have high energy costs, average taxes, low rents and low (Flagstaff) or close to average (Yuma) labor costs. With regard to energy costs, both areas are served by Arizona Public Service (headquartered in Phoenix), and Economy.com’s index is based on the rates for the metro Phoenix area. Thus, the energy costs in the index may be overstated for Flagstaff and Yuma. Additionally, it should be noted that office rent costs are estimated by Economy.com for both communities based on costs in surrounding metro areas and the applicable US Census region. Due to the wide variation in economic activity in any given region in Arizona, this approach may understate office costs, particularly in Flagstaff.

Since these data are averages over the 1998–2000 period, recent wild swings in energy prices, particularly during the California energy crisis, are not included. Also missing are recent declines in regulated electric rates among Arizona utilities.

² For a detailed analysis of taxes, see “Business Taxes High, Personal Taxes Low in Arizona: A Current Assessment of Arizona’s Tax Competitiveness,” Arizona Business, Arizona State University, volume 47 number 3, March 2000.

FIGURE 2

COST OF DOING BUSINESS INDEX										
Selected Western Metros										
(1998-2000 Averages, U.S. = 100)										
Metro Area	Business Costs		Unit Labor Cost		Energy Cost*		State & Local Tax		Office Rent	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
San Francisco, CA	111.8	16	103.4	42	134.8	37	102.3	118	141.7	2
San Jose, CA	109.4	25	100.7	77	134.8	40	102.7	115	135.2	4
Los Angeles, CA	106.9	37	99.2	124	144.4	24	104.1	91	103.6	31
San Diego, CA	106.7	40	99.1	130	143.4	27	103.2	106	104.5	30
Tucson, AZ	102.3	67	96.4	200	143.9	26	100.0	32	80.6	86
Phoenix, AZ	101.1	76	99.9	99	114.4	79	94.5	188	95.5	41
Seattle, WA	100.7	80	103.4	41	89.7	187	109.3	48	91.0	46
Denver, CO	98.8	97	107.1	26	81.9	255	88.0	264	81.0	82
Salt Lake City, UT	98.3	103	104.2	35	74.1	286	105.2	80	88.7	52
Las Vegas, NV	97.2	111	95.1	255	95.0	142	97.8	155	113.6	9
Flagstaff, AZ	96.4	121	89.9	134	114.4†	80	102.8	114	47.2‡	270
Yuma, AZ	95.5	137	98.0	165	114.4†	81	99.1	140	47.2‡	271
Portland, OR	94.8	145	99.4	113	72.8	294	103.9	96	89.0	51
Austin, TX	93.9	166	96.4	201	85.4	231	88.2	263	96.0	40
Albuquerque, NM	84.3	303	75.1	315	116.2	77	104.2	90	76.6	98

Source: Economy.com

* Based on average commercial and industrial electricity costs.

† No data available. These areas are served by Arizona Public Service and the Economy.com calculation uses the rate for the metro Phoenix area. This may overstate the energy costs for both Flagstaff and Yuma.

‡ No data available. Economy.com estimates office costs for these areas based on office costs in the census region and surrounding metro areas. This may understate office rent, particularly for Flagstaff.

IS ARIZONA A LOW WAGE STATE?

Additional data on wages is available from the U.S. Bureau of Labor Statistics, which can be used to address the question of whether Arizona is a low wage state. Although eight percent less than the national average, Arizona’s wages rank near the middle of the pack at 22nd among all states, with \$32,606 average annual pay per worker for the year 2000. Among western states, California, Colorado and Washington rank above the national average (\$35,296). See Figure 3.

The Phoenix-Mesa metro area ranked 52nd (of some 323) for average annual pay in 2000 (Figure 4). Its average wage of \$34,915 was 5.6% below the average for all metro areas. Compared to other selected western metros, Phoenix-Mesa has lower wages than the large west-coast metros, Denver and Austin, but higher than Las Vegas, Salt Lake City and Albuquerque.

Tucson’s wages were nearly eight percent below the nation at \$29,204, giving it a ranking of 167. Flagstaff ranks 294th with \$24,673, and Yuma has one of the lowest wages in the nation (a 316 ranking) with only \$21,487.

FIGURE 3

AVERAGE ANNUAL PAY FOR 1999 AND 2000 AND % CHANGE IN PAY FOR ALL COVERED WORKERS				
<i>Selected Western States</i>				
National Ranking	State	Average Annual Pay (\$)		Change 1999-2000
		1999	2000	
6	California	37,577	41,194	9.6
8	Colorado	34,191	37,167	8.7
9	Washington	35,736	37,059	3.7
	UNITED STATES	33,340	35,296	5.9
16	Texas	32,898	34,948	6.2
20	Oregon	30,872	32,765	6.1
22	Arizona	30,525	32,606	6.8
24	Nevada	31,213	32,276	3.4
33	UTA	27,895	29,226	4.8
40	Idaho	26,044	27,709	6.4
44	New México	26,267	27,498	4.7
47	Wyoming	25,647	26,837	4.6
52	Montana	23,260	24,264	4.3

Source: U.S. Bureau of Labor Statistics, <http://www.bls.gov/CEW>

FIGURE 4

AVERAGE ANNUAL PAY FOR ALL COVERED WORKERS				
<i>Selected Western Metros</i>				
National Ranking	Metropolitan area	Average Annual Pay (\$)		Percent change 1999-2000
		1999	2000	
	Metropolitan areas	34,890	36,986	6.0
1	San Jose, CA	61,117	76,076	24.5
2	San Francisco, CA	50,125	59,314	18.3
11	Seattle-Bellevue-Everett, WA	43,925	45,171	2.8
19	Denver, CO	38,115	41,413	8.7
20	Austin-San Marcos, TX	38,940	41,012	5.3
25	Los Angeles-Long Beach, CA	37,788	39,671	5.0
31	San Diego, CA	34,722	37,516	8.0
34	Portland-Vancouver, OR-WA	34,382	37,043	7.7
52	Phoenix-Mesa, AZ	32,430	34,915	7.7
103	Las Vegas, NV-AZ	30,632	31,663	3.4
118	Salt Lake City-Ogden, UT	29,498	30,960	5.0
132	Albuquerque, NM	28,935	30,397	5.1
167	Tucson, AZ	28,203	29,204	3.5
294	Flagstaff, AZ-UT	23,815	24,673	3.6
316	Yuma, AZ	20,362	21,487	5.5

Source: U.S. Bureau of Labor Statistics, <http://www.bls.gov/CEW>

REFERENCES

“Business Taxes High, Personal Taxes Low in Arizona: A Current Assessment of Arizona’s Tax Competitiveness,” Arizona Business, Arizona State University College of Business, volume 47 number 3, March 2000, <http://www.cob.asu.edu/seid/cbr>

Markey, Francis X. and Michael Burt, *North American Business Cost Review, 2002 Edition*, Economy.com. <http://www.economy.com/default.asp>

U.S. Department of Labor, Bureau of Labor Statistics; “Average Annual Pay By State and Industry,” published September 11, 2001, <http://www.bls.gov/news.release/annpay.nr0.htm>

U.S. Department of Labor, Bureau of Labor Statistics; “Average Annual Pay In Metropolitan Areas, 2000,” published September 28, 2001, <http://www.bls.gov/news.release/anpay2.toc.htm>