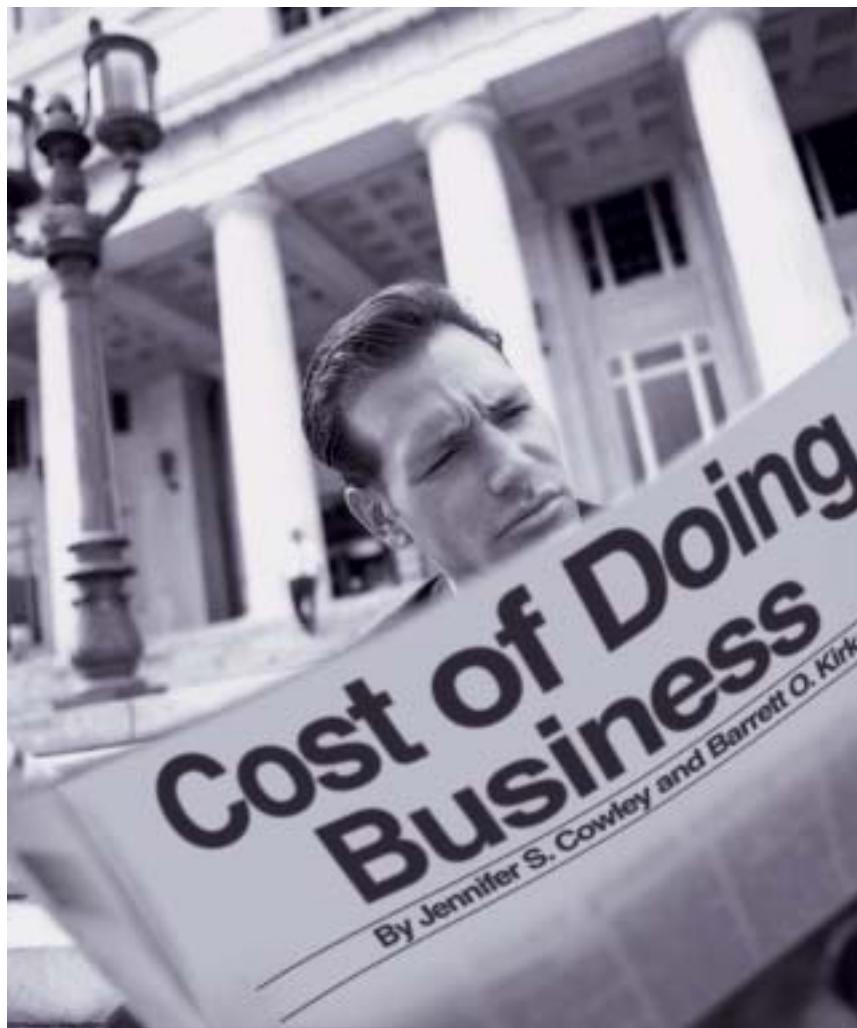


A Reprint from *Tierra Grande*, the Real Estate Center Journal



**E**conomic development. It's the lifeblood of the real estate industry, producing the jobs and population growth that fuel a hot market. In today's global marketplace, economic developers face the daunting task of wooing new business away from other cities, states and countries equally intent on boosting their local economies. The costs of doing business in a particular community may make companies say "I do" or send them running into the arms of another suitor.

The Real Estate Center created a fictitious medium-sized manufacturing company, Hypothetical, Inc., for purposes of comparing the costs of doing business in four Texas border communities — El Paso, Sherman, Longview and Texarkana — with those in cities across the state line in Las Cruces, New Mexico; Ardmore, Oklahoma; Shreveport, Louisiana; and Texarkana, Arkansas.

Cities were compared on basic business costs — utility expenses (water and electricity) and taxes (unemployment insurance, property, corporate income, franchise and personal income). Costs for land and labor were assumed to be equal for purposes of this comparison, though they would in fact vary from location to location.

Water prices are the least expensive in El Paso and the most expensive across the border in Las Cruces, New Mexico. Electricity costs varied

widely, with Hypothetical paying the least (\$25,782) in Texarkana, Arkansas, and the most (\$98,758.80) in Las Cruces, New Mexico.

**E**ach of the states in the comparison sets its own unemployment insurance tax rates. Only Arkansas has a higher unemployment insurance tax rate than Texas.

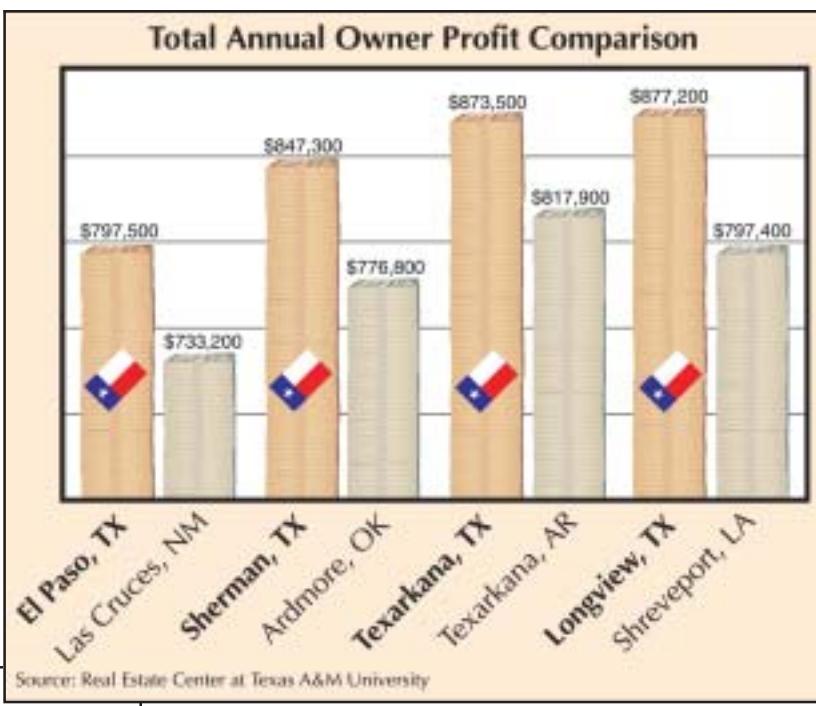
Texas has the highest property taxes. Hypothetical would pay \$70,327 in property tax in El Paso compared with only \$5,654 in Texarkana, Arkansas. Texas also has the highest franchise tax (see Texas' Franchise Tax, p. 20). However, Texas does not have a corporate or personal income tax while surrounding states do.

The Center's comparison shows that Hypothetical, Inc., earns greater profits by locating in the Texas cities rather than in their counterparts across the border. Longview is the best Texas city to locate this manufacturing business (see Longview market profile, p. 19). Texarkana, Arkansas, is the best non-Texas city. Las Cruces is the most expensive city for Hypothetical.

There is a 16 percent difference between the most profitable city, Longview, and the least profitable, Las Cruces. That extra 16 percent means an additional \$140,000 in Hypothetical's plus column.

## Portrait of Hypothetical, Inc.

Assets	\$10 million
Liabilities	\$5 million
Annual revenue	\$3 million
Ownership	Sole proprietorship
Employees	40
Wage scale	\$12 per hour
Water use	4.8 million gallons per year or 400,000 gallons per month using a two-inch water meter.
Electricity use	90,000 kilowatts per month with a maximum 15-minute demand of 300 kilowatts.
Unemployment insurance tax	Maximum tax rate used.
Property taxes	Value of real property = \$2 million; personal property = \$500,000. Inventory is eligible for a freeport exemption (exported out of state within 175 days). Taxable value is a percentage of the total in most states but are full value in Texas.
Corporate income tax	Not applicable to Texas.
Personal income tax	Not applicable to Texas.
Franchise tax	(See Texas' Franchise Tax, p. 20) In Texas, it was assumed Hypothetical, Inc., paid 0.25 percent of taxable capital. Flat fees or graduated taxes apply in other states.



Economic development incentives, including tax abatements, infrastructure support, land availability and employee training, also influence a decision to locate a business. These are negotiated on a case-by-case basis at the city level and depend largely on the company's long-term commitment to the community. They were not considered in the comparison.

Texas cities have an advantage because state-enabling legislation allows local communities to adopt as much as a  $\frac{1}{2}$  percent sales tax for economic development. Of the four Texas cities studied, only Texarkana did not have an economic development sales tax. Among the out-of-state cities, only Ardmore had such a sales tax.

Factors such as workers compensation insurance, employee pay raises, health care and sales taxes, which also would affect profit, were not considered in the study. Results also would vary depending on the business type, ownership structure, profit, number of employees, wages and amount of real estate and inventory owned.

The bottom line is that Texas has a competitive advantage when it comes to enticing businesses to make the state their home. Operating a business here can cost less than in other states. That can prove to be the foundation of a beautiful relationship. ■

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## Comparison of Business Expenses

City	Water	Electric	Unemployment Insurance Tax	Property Tax	Corporate Income Tax	Franchise Tax	Personal Income Tax	Total
El Paso	\$5,270.64	\$92,031.60	\$22,572.00	\$70,327.93	\$0.00	\$12,500.00	\$0.00	\$202,702.17
Las Cruces	\$14,858.88	\$98,758.80	\$19,404.00	\$25,692.50	\$45,944.69	\$50.00	\$63,693.07	\$268,401.94
Sherman	\$11,466.96	\$41,216.64	\$22,572.00	\$66,547.50	\$0.00	\$12,500.00	\$0.00	\$154,303.10
Ardmore	\$7,998.00	\$62,442.00	\$21,168.00	\$22,981.40	\$53,220.64	\$1,108.76	\$55,875.48	\$224,794.28
Texarkana, TX	\$8,245.56	\$27,324.00	\$22,572.00	\$57,425.00	\$0.00	\$12,500.00	\$0.00	\$128,066.56
Texarkana, AR	\$8,245.56	\$25,782.00	\$23,040.00	\$5,654.00	\$59,967.10	\$109.00	\$60,854.15	\$183,651.81
Longview	\$6,515.40	\$27,324.00	\$22,572.00	\$55,441.00	\$0.00	\$12,500.00	\$0.00	\$124,352.40
Shreveport	\$7,294.80	\$31,500.00	\$21,046.00	\$19,361.25	\$70,041.84	\$2,317.19	\$49,622.34	\$201,183.42

Source: Real Estate Center at Texas A&M University



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