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PolicyReport

How Business-Friendly Are Tennessee's Cities?

A ranking of the business climate in the state's 50 largest communities

by Trey Moore and Jamie Salazer

EXECUTIVE SUMMARY

Every November, the Beacon Center of Tennessee compiles comprehensive data on Tennessee's 50 most populous cities. The information is then analyzed to determine which cities maintain atmospheres most friendly to business and which ones possess room for improvement.

As in years past, cities have been ranked in three major categories: Economic Vitality, Business Tax Burden, and Community Allure. Cities received a score for each category, itself comprised of a number of subcategories such as violent crime rate, tax rate, population growth, median household income, cost of living index, and high school graduation rate, among others.

Finishing in the top 10 this year are seven Middle Tennessee cities, two West Tennessee cities, and one East Tennessee city. Perennial contender and last year's runner-up, Brentwood, broke through to claim the title of Tennessee's Most Business-Friendly City. Brentwood's Williamson County neighbor, Franklin, jumped one spot from its third place finish a year ago to finish second. Farragut, Mount Juliet, and Spring Hill round out the top five for 2012.

At the other end of the rankings, Memphis took the last spot for the third consecutive year despite significant improvement in the Economic Vitality category. Joining Memphis at the bottom were Jackson, Elizabethton, McMinnville and Tullahoma. Notably, East Tennessee cities represent half of the bottom 10 in this year's rankings, as a number of West Tennessee cities improved considerably on their 2011 rankings.

This report outlines the overall rankings, as well as the methodology and results for each category.

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Introduction

National business associations, magazines, and media outlets consistently rank Tennessee among the nation's best states for business. In the past year, Tennessee has ranked 16th, eighth, and fourth in various national publications for its pro-business climate.¹ The state receives favorable marks for its low individual tax burden, right-to-work status, low cost of living, and quality infrastructure. While such policies are dictated at the state level, local governments also play a major role in creating and maintaining an attractive business atmosphere.

For the seventh consecutive year, the Beacon Center of Tennessee analyzed data and compared Tennessee's 50 most populous cities on the basis of business climate. The report considers a number of factors, including local tax burden, crime rate, residential population growth, cost of living, median household income, and public education marks, among others.

In 2011, Farragut became the first city to win the distinction of Tennessee's most business-friendly city twice since the inaugural publication of the report. This year, however, a perennial contender broke through to claim the top prize for the first time. In 2012, Brentwood officially owns the title of Tennessee's Most Business-Friendly City.

Three main categories comprise the report's makeup: Community Allure, Business Tax Burden, and Economic Vitality. In determining a score for each category, the Beacon Center culled data from sources such as the U.S. Census Bureau, Federal Bureau of Investigation, Tennessee Department of Revenue, Tennessee Department of Education, and Tennessee Comptroller of the Treasury. Subcategory scores were determined by each city's performance relative to its 49 peers included in the report. Subcategories are then weighted and combined with other subcategory scores to determine the city's score for each of the three categories. Category scores are then themselves weighted and compiled to determine the overall ranking.

This year, Williamson County claimed the top two spots, with Franklin finishing just behind Brentwood in the rankings. Farragut, the 2011 winner, came in third, edged out of second place by half a point. Mount Juliet, 2010's Most Business-Friendly City, and Spring Hill rounded out the top five.

Again, Middle Tennessee cities dominated the rankings, with Lebanon (6), Hendersonville (8), and Smyrna (10) contributing to give Middle Tennessee seven of the top 10 spots overall. The top 10 also saw two newcomers to the rankings. Memphis suburbs Arlington and Lakeland impressed in their debuts, finishing seventh and ninth, respectively. The West Tennessee cities saw a jump in population, which pushed them into the top 50 for the first time since Beacon began conducting the report.

West Tennessee gains were not limited to these two cities, however. One year ago, West Tennessee could claim only two cities in the top 20 overall. This year, it boasts five, with Germantown making a big jump from 22nd place to 11th. Although Collierville fell out of the top 10, the city had another strong showing, finishing at number 13. Bartlett slid as well, but finished 18th overall.

For the third consecutive year, the Least Business-Friendly City title belongs to Memphis. While the River City saw gains in its Economic Vitality score, it lost ground in the Community Allure and Business Tax Burden categories. This is due, in part, to the introduction of Memphis's low tax, low crime, neighbors—Lakeland and Arlington—into the rankings. Additionally, Memphis again had the highest crime rate, highest property tax rate, and lowest education marks among the state's most populous cities. This led Memphis to finish last across four subcategories.

The bottom 10 contains five East Tennessee communities in Oak Ridge (42), Cleveland (43), Knoxville (44), Chattanooga (45), and Elizabethton (48). Columbia (41), Tullahoma (46), McMinnville (47), and Jackson (49) round out the ten least business-friendly cities.

Interestingly, the top 25 is largely devoid of East Tennessee cities, with Farragut (3), Sevierville (14), and Crossville (17) the three bright spots for this Grand Division. Generally speaking, East Tennessee cities performed well in the Community Allure category, claiming four of the top eight spots, but they performed poorly in the Economic Vitality category, with Farragut's 16th place finish representing the high water mark for East Tennessee.

Other trends of note indicate that smaller and non-suburban towns are on the rise throughout the state. Martin, Union City, Dyersburg, Crossville, Portland, and Sevierville saw sizable jumps from the previous year's rankings. This trend may bode well for the comeback of rural West Tennessee, with Martin (up 22 spots), Dyersburg (+12), and Union City (+11), finishing one, two, and three, respectively, in overall gains from a year ago. As noted, Germantown matched Union City with an improvement of 11 spots in 2012.

Conversely, the biggest overall drop was Clarksville, down 13 spots from 2011. Most of the other significant drops came from smaller East Tennessee towns such as Elizabethton (-14), Cleveland (-14), Oak Ridge (-12), and Soddy-Daisy (-12). Notably, this may indicate a shift in recent economic growth from East Tennessee to West, whereas previous years held the opposite.

Community Allure

This category is given the least weight among the main categories. Having said that, factors such as cost of living, public education achievement, crime rates, and

individual tax burdens all play key roles in any city's business climate and should be considered.

East Tennessee cities performed best in this category with Bristol, Farragut, and Maryville finishing first, second, and fourth on this measure. Franklin and Mt. Juliet complete the top 5 at third and fifth, respectively. Two more East Tennessee cities showed well, with Greeneville topping the graduation rate subcategory and Morristown besting all others in the cost of living ranking.

Memphis fared poorly in this category, finishing last in four of five subcategories: high school graduation rate, ACT score, individual tax burden, and violent crime rate.

Business Tax Burden

Two key components make up the Business Tax Burden category: the city property tax rate and gross receipt sales tax. The city property tax ranged from zero (Farragut) to \$3.11 per \$100 of assessed value in Memphis. The average property tax rate for Tennessee's largest 50 cities is \$1.30 per \$100 of assessed value.

Tennessee cities have the option of charging businesses a tax on gross annual sales. Those that impose this tax do so at the state's maximum rate of 15 cents per \$100 in gross receipts, depending on the type of goods and services provided by the business. Farragut remains the only city in the top 50 that does not impose such a tax.

Farragut received a perfect score of 100 in this subcategory. However, since it is the only city in the top 50 does not impose the gross receipts tax at the maximum rate, the methodology was slightly revised to reduce the gross receipts tax subcategory to 10 percent of the Business Tax Burden Category. This effectively minimizes the impact of the gross receipts tax, putting more emphasis on economic vitality comparisons. This slight change represents the only shift in methodology from our 2011 report.

The result, when combined with the property tax rate ranking, is that Farragut again finished with a perfect Business Tax Burden score, with Mt. Juliet, Sevierville, Lebanon, and Franklin rounding out the best five in this category.

Memphis finished last in the category, preceded by Knoxville, Oak Ridge, Chattanooga, and Tullahoma in the bottom five.

Economic Vitality

In keeping with our methodology from the previous two years, Economic Vitality remained a key factor in determining the most business-friendly cities in Tennessee. Job growth, population growth, and median household income are indicative of a community's economic pulse. Population growth indicates a surging consumer base able to support growing businesses. Likewise, job growth signifies business expansion, while above average income levels represent a community's ability to attract and support a growing economy.

Achieving the highest marks for Economic Vitality in 2012 are Brentwood, Germantown, Collierville, Arlington, and Franklin. This bodes well for existing and potential businesses in Williamson and Shelby counties.

Job growth—or loss—was the biggest factor for changes in this category from the previous year. Both Martin (+29 spots) and Memphis (+28) made impressive jumps in this category from 2011, while Germantown (+15) surged as well. Memphis's growth in this category was the result of population and job turnarounds, but it remains lackluster in each of the community allure categories, holding onto its bottom overall ranking.

Martin bested all other cities in job growth. East Ridge and Elizabethton suffered by reductions in all three subcategories to drop in economic vitality. Additionally, Oak Ridge, Cleveland, and Maryville gave up ground in this category. Finally, Bristol's decline was due to income and population reductions relative to other cities in the top 50.

Conclusion

This year's rankings represent some interesting trends. With the addition of Arlington and Lakeland to the rankings, West Tennessee witnessed a resurgence in business-friendliness. Results in the Economic Vitality rankings indicate a recent shift in economic growth from East Tennessee to the western part of the state.

Again, Middle Tennessee remains the standard bearer for business-friendly cities, holding on to seven of the top 10 spots in this year's rankings, with Williamson County's Brentwood and Franklin grabbing the first two spots.

Tennessee's most business-friendly cities maintain responsible, limited governance, favorable tax rates, quality school systems, low crime rates, and thriving economic growth. The purpose of these rankings is to foster competition among Tennessee's cities, and local policymakers seeking to make their cities more business-friendly should seek to emulate the policies of Brentwood, Franklin, Farragut, Mt. Juliet, and Spring Hill.

The Business-Friendly Methodology

Community Allure (20% Overall)

Cost of Living Index² (25% of Category)

Education (25% of Category)

High School Graduation Rate³ (12.5% of Subcategory)

ACT Score⁴ (12.5% of Subcategory)

Individual Tax Burden (25% of Category)

Property Tax⁵ (12.5% of Subcategory)

City Sales Tax⁶ (12.5% of Subcategory)

Violent Crime Rate per 10,000⁷ (25% of Category)

Business Tax Burden (40% Overall)

Business Property Tax⁸ (90% of Category)

Gross Receipts Tax⁹ (10% of Category)

Economic Vitality (40% Overall)

Median Household Income¹⁰ (25% of Category)

Residential Population Growth¹¹ (25% of Category)

Job Growth¹² (50% of Category)

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- ¹ See (1) "America's Top States For Business 2012." www.cnn.com July 10, 2012; (2) "Top U.S. Business Climates," *Site Selection Magazine*. November 2011; (3) "Best and Worst States," *Chief Executive Magazine*. www.chiefexecutive.net, May 2, 2102.
- ² "March 2012 Cost of Living Index," www.city-data.com.
- ³ "Report Card on Tennessee Schools 2012," Tennessee Department of Education. <http://www.tn.gov/education/reportcard/>. **County data is utilized where Special School Districts' Graduation Rates were not reflected on at the time of publication.
- ⁴ 2012 ACT Composite 3-year Average. "Report Card on Tennessee Schools 2012," Tennessee Department of Education. <http://www.tn.gov/education/reportcard/>. **County data utilized where Special School Districts' ACT scores were not reflected at the time of publication.
- ⁵ "2011 Tennessee Property Tax Rates," Tennessee Comptroller of the Treasury, Division of Property Assessments (November 5, 2012).
- ⁶ "Local Option Tax Rates," Tennessee Department of Revenue (November 1, 2012). <http://www.tn.gov/revenue/pubs/taxlist.pdf>
- ⁷ See (1) "Table 8 – Tennessee Offenses Known to Law Enforcement by City, 2011," Federal Bureau of Investigation; (2) "Table 10 – Tennessee Offensees Known to Law Enforcement by Metropolitan and Nonmetropolitan Counties, 2011," Federal Bureau of Investigation. <http://www.fbi.gov/about-us/cjis/ucr/crime-in-the-u.s/2011/crime-in-the-u.s.-2011/violent-crime/violent-crime>. **Arlington, Cookeville, Dyersburg, Farragut, Lakeland, and Smyrna do not report city violent crime numbers to the FBI. As such, county violent crime data and county population, less city population of reporting cities within such county, were used to determine the violent crime rate per 10,000.
- ⁸ "2011 Tennessee Property Tax Rates," Tennessee Comptroller of the Treasury, Division of Property Assessments (November 5, 2012).
- ⁹ "City and County Business Tax Comprehensive Listing," Tennessee Department of Revenue. <http://www.tn.gov/revenue/tntaxes/business.shtml>
- ¹⁰ See (1) "S1903 - MEDIAN INCOME IN THE PAST 12 MONTHS (IN 2011 INFLATION-ADJUSTED DOLLARS): 2011 ACS 3-Year Estimates," *American FactFinder*, U.S. Census Bureau. (2) "S1903 – Median Income in the Past 12 Months (2010 Inflation Adjusted Dollars 5-year) **3-Year Estimates utilized where available. American Community Survey where this represents the most recent data.
- ¹¹ "Table 3. Annual Estimates of the Resident Population for Incorporated Places in Tennessee: April 1, 2010 to July 1, 2011 (SUB-EST2011-03-47)," U.S. Census Bureau, Population Division; June 2012.
- ¹² "Recent Job Growth," *Sperling's Best Places*, <http://www.bestplaces.net/> November 5, 2011.

Appendix A. Overall Ranking (Rounded to the Nearest Tenth)

		Community Allure	Business Tax Burden	Economic Vitality	Tennessee Region	Overall Ranking
1	Brentwood	65.5	85.9	82.4	Middle	80.4
2	Franklin	71.3	87.7	69.2	Middle	77.0
3	Farragut	72.1	100.0	55.2	East	76.5
4	Mount Juliet	70.5	92.8	63.0	Middle	76.4
5	Spring Hill	70.3	81.6	66.2	Middle	73.2
6	Lebanon	62.8	88.6	56.5	Middle	70.6
7	Arlington	68.3	69.9	69.3	West	69.3
8	Hendersonville	67.0	79.9	56.5	Middle	68.0
9	Lakeland	57.1	74.1	67.1	West	67.9
10	Smyrna	59.4	76.7	57.7	Middle	65.7
11	Germantown	58.2	56.0	75.3	West	64.1
12	Goodlettsville	58.5	80.3	50.1	Middle	63.9
13	Collierville	60.1	57.5	71.4	West	63.6
14	Sevierville	56.5	89.6	40.8	East	63.5
15	La Vergne	54.8	69.9	60.3	Middle	63.0
16	Gallatin	66.8	70.1	51.7	Middle	62.1
17	Crossville	48.1	82.7	44.0	East	60.3
18	Bartlett	57.8	55.8	65.8	West	60.2
19	Portland	62.0	66.1	53.3	Middle	60.2
20	Nashville	43.2	80.7	46.7	Middle	59.6
21	Clarksville	56.4	63.0	53.8	Middle	58.0
22	Murfreesboro	50.2	62.1	56.7	Middle	57.6
23	Springfield	48.1	73.0	46.1	Middle	57.2
24	Cookeville	68.4	74.1	34.3	Middle	57.0
25	Dickson	50.6	72.7	43.5	Middle	56.6
26	Martin	65.2	56.2	52.6	West	56.6
27	Soddy-Daisy	56.7	69.9	42.8	East	56.4
28	Red Bank	52.3	67.0	39.5	East	53.1
29	Kingsport	60.6	45.5	53.1	East	51.6
30	Athens	61.0	66.6	28.7	East	50.3
31	East Ridge	47.5	57.7	40.2	East	48.7
32	Morristown	61.7	68.4	20.5	East	47.9
33	Johnson City	69.1	51.6	30.0	East	46.5
34	Union City	55.1	37.8	48.0	West	45.3
35	Dyersburg	68.9	41.5	37.1	West	45.2
36	Maryville	71.0	36.3	40.0	East	44.7
37	Bristol	72.9	35.8	39.1	East	44.5
38	Shelbyville	59.3	51.2	28.4	Middle	43.7
39	Greeneville	66.5	45.2	29.1	East	43.0
40	Lewisburg	67.8	59.5	12.3	Middle	42.3
41	Columbia	59.8	61.0	10.2	Middle	40.4
42	Oak Ridge	60.6	30.0	40.7	East	40.4
43	Cleveland	46.2	55.8	19.9	East	39.5
44	Knoxville	52.7	28.0	41.2	East	38.2
45	Chattanooga	43.5	32.3	40.8	East	38.0
46	Tullahoma	62.3	32.9	30.8	Middle	37.9
47	McMinnville	56.7	38.6	26.0	Middle	37.2
48	Elizabethton	65.5	47.5	8.1	East	35.4
49	Jackson	43.7	42.1	21.2	West	34.0
50	Memphis	24.9	9.4	56.7	West	31.4

Appendix B. Category Rankings (Rounded to the Nearest Tenth)

Community Allure		
1	Bristol	72.9
2	Farragut	72.1
3	Franklin	71.3
4	Maryville	71.0
5	Mount Juliet	70.5
6	Spring Hill	70.3
7	Johnson City	69.1
8	Dyersburg	68.9
9	Cookeville	68.4
10	Arlington	68.3
11	Lewisburg	67.8
12	Hendersonville	67.0
13	Gallatin	66.8
14	Greeneville	66.5
15	Brentwood	65.5
16	Elizabethton	65.5
17	Martin	65.2
18	Lebanon	62.8
19	Tullahoma	62.3
20	Portland	62.0
21	Morristown	61.7
22	Athens	61.0
23	Kingsport	60.6
24	Oak Ridge	60.6
25	Collierville	60.1
26	Columbia	59.8
27	Smyrna	59.4
28	Shelbyville	59.3
29	Goodlettsville	58.5
30	Germantown	58.2
31	Bartlett	57.8
32	Lakeland	57.1
33	McMinnville	56.7
34	Soddy-Daisy	56.7
35	Sevierville	56.5
36	Clarksville	56.4
37	Union City	55.1
38	La Vergne	54.8
39	Knoxville	52.7
40	Red Bank	52.3
41	Dickson	50.6
42	Murfreesboro	50.2
43	Crossville	48.2
44	Springfield	48.1
45	East Ridge	47.5
46	Cleveland	46.2
47	Jackson	43.7
48	Chattanooga	43.5
49	Nashville	43.2
50	Memphis	24.9

Business Tax Burden		
1	Farragut	100.0
2	Mount Juliet	92.8
3	Sevierville	89.6
4	Lebanon	88.6
5	Franklin	87.7
6	Brentwood	85.9
7	Crossville	82.7
8	Spring Hill	81.6
9	Nashville	80.7
10	Goodlettsville	80.3
11	Hendersonville	79.9
12	Smyrna	76.7
T13	Lakeland	74.1
T13	Cookeville	74.1
15	Springfield	73.0
16	Dickson	72.7
17	Gallatin	70.1
T18	La Vergne	69.9
T18	Soddy-Daisy	69.9
T18	Arlington	69.9
21	Morristown	68.4
22	Red Bank	67.0
23	Athens	66.6
24	Portland	66.1
25	Clarksville	63.0
26	Murfreesboro	62.1
27	Columbia	61.0
28	Lewisburg	59.5
29	East Ridge	57.7
30	Collierville	57.5
31	Martin	56.2
32	Germantown	56.0
33	Bartlett	55.8
34	Cleveland	55.8
35	Johnson City	51.6
36	Shelbyville	51.2
37	Elizabethton	47.5
38	Kingsport	45.5
39	Greeneville	45.2
40	Jackson	42.1
41	Dyersburg	41.5
42	McMinnville	38.6
43	Union City	37.8
44	Maryville	36.3
45	Bristol	35.8
46	Tullahoma	32.9
47	Chattanooga	32.3
48	Oak Ridge	30.0
49	Knoxville	28.0
50	Memphis	9.4

Economic Vitality		
1	Brentwood	82.4
2	Germantown	75.3
3	Collierville	71.4
4	Arlington	69.3
5	Franklin	69.2
6	Lakeland	67.1
7	Spring Hill	66.2
8	Bartlett	65.8
9	Mount Juliet	63.0
10	La Vergne	60.3
11	Smyrna	57.7
12	Murfreesboro	56.7
13	Memphis	56.7
14	Hendersonville	56.5
15	Lebanon	56.5
16	Farragut	55.2
17	Clarksville	53.8
18	Portland	53.3
19	Kingsport	53.1
20	Martin	52.6
21	Gallatin	51.7
22	Goodlettsville	50.1
23	Union City	48.0
24	Nashville	46.7
25	Springfield	46.1
26	Crossville	44.0
27	Dickson	43.5
28	Soddy-Daisy	42.8
29	Knoxville	41.2
30	Chattanooga	40.8
31	Sevierville	40.8
32	Oak Ridge	40.7
33	East Ridge	40.2
34	Maryville	40.0
35	Red Bank	39.5
36	Bristol	39.1
37	Dyersburg	37.1
38	Cookeville	34.3
39	Tullahoma	30.8
40	Johnson City	30.0
41	Greeneville	29.1
42	Athens	28.7
43	Shelbyville	28.4
44	McMinnville	26.0
45	Jackson	21.2
46	Morristown	20.5
47	Cleveland	19.9
48	Lewisburg	12.3
49	Columbia	10.2
50	Elizabethton	8.1

About the Authors

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