



November 18, 2013

No. 13-03

PolicyReport

How Business-Friendly Are Tennessee's Cities?

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

by Lindsay M. Boyd and Riley Westmoreland

EXECUTIVE SUMMARY

During every fall season, the Beacon Center of Tennessee conducts an extensive research effort to build a comprehensive database of economic and social factors that distinguish Tennessee's 50 most populous cities. These cities are scrutinized and subsequently ranked in descending order, based on their positive appeal in three major categories: Economic Vitality, Business Tax Burden, and Community Allure. Based on a litany of subcategories, such as violent crime rate, tax rate, population growth, unemployment, median household income, cost of living index, and high school graduation rate, these 50 cities receive a final score from the Beacon Center for their friendly, or in some cases unfriendly, business environments.

Without further adieu, Tennessee's Most Business-Friendly City in 2013 goes to: Brentwood, Tennessee. A Business-Friendly Cities Report bulwark of top earnings, Brentwood has once again proven to be the example for others looking to entice businesses and families to their area. Brentwood, a perennial contender and 2011 runner-up, remains at the top of the list for the second consecutive year. Farragut, last year's third-ranking city, rebounded to claim the second spot in 2013. Brentwood's local rival Franklin, the renowned quaint district outside of Nashville, rounds out the top three, less than one-tenth of a point behind Farragut.

As we applaud these cities for their achievements in providing citizens and small businesses with an atmosphere that better fosters economic growth, we must also recognize those at the bottom of the totem pole for business *un*friendliness. Memphis, a previous lowest score holder for three consecutive years, will unfortunately make that four years running as 2013's most unfriendly city to business. Although Memphis continues to struggle, particularly with high unemployment and low job creation, neighboring West Tennessee's Dyersburg and Union City to the north should take caution, lest they become challengers for Memphis' infamous title in 2014.

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

Beacon Center of Tennessee

P.O. Box 198646 ★ Nashville, Tennessee 37219 ★ (615) 383-6431 ★ info@beacontn.org ★ www.beacontn.org

Founded as the Tennessee Center for Policy Research

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 been named the 4th best state in the nation for business by *Chief Executive Magazine*, the 3rd best-managed state in the country by *Barron's Magazine*, 2nd in lowest cost of living by CNBC, and the top state in the nation for retirement by Bankrate.com. Tennessee continues to receive national recognition for the state's low individual tax burden, right-to-work status, and quality infrastructure. While impressive in its own right, local governments provide Tennesseans with a critical "first line of defense" in this business friendliness, and it is important to analyze how cities themselves fare for their business environment.

For eight consecutive years, the Beacon Center of Tennessee's Business-Friendly Cities Report has provided a thoroughly researched, yet readable index for Tennesseans in communities across the state to assess whether local elected officials are being the good stewards with their vested powers.

Three main categories comprise this report's makeup: Economic Vitality, Business Tax Burden, and Community Allure. 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. These subcategories are then weighted and combined with other subcategory scores to determine the city's final score for each of the three primary categories. The primary category scores are then themselves weighted and compiled to determine the overall ranking based on a 100-point scale.

The 2013 Report found that several trends from previous reports continue, such as Williamson County's dominance at the top of the charts—having claimed the top two spots in 2012 with Franklin finishing just behind Brentwood in the rankings. This year, Franklin lands in third, less than a tenth of a point behind second place Farragut, the 2011 winner and 2012's third highest points earner. However, new trends also emerged, bringing good news to many in East Tennessee and an ominous warning to high-unemployment regions of West Tennessee. The largest jumps were the eastern cities of Cleveland and Elizabethton, up eleven and thirteen spots respectively. Nashville and Johnson City continued to build upon their notable improvements from the prior year. However, Crossville and Dyersburg fell significantly, with the biggest fall of all experienced by Union City, going from 34 to 49 in the overall rankings.

Memphis remains firmly at the caboose amongst the 50 cities and has much work ahead of it in the next year to overcome this bottom billet. The River City continues

to be plagued by a diminishing community allure, coming in with the highest individual tax burden, highest crime rate per capita, and lowest average high school ACT scores. Altogether, Memphis scored poorest in two of the three primary categories—with Lawrenceburg at the bottom of the rung for Economic Vitality, and just a handful of others separating Memphis from a complete sweep of all three of the main category’s bottom slots.

Middle Tennessee dominated the top 10 business-friendly cities this year, with eight of the 10 top points earners, including four of the top five: Brentwood (1), Franklin (3), Mt. Juliet (4), and Spring Hill (5). East Tennessee claimed the remaining two top spots with Farragut’s second place score and Sevierville coming in eighth overall. Germantown, West Tennessee’s top points earner, came in 12th, followed by Collierville at 14th.

Several cities experienced positive growth in 2012’s report only to relapse in 2013. Union City and Dyersburg made tremendous strides in last year’s rankings (+11 and +12 respectively), only to find themselves in the bottom three this year. Conversely, others that drastically plummeted in 2012’s overall rating were able to recover, if even just slightly, to climb back up the charts—specifically, Cleveland (-14 to +11) and Oak Ridge (-12 to +3).

Community Allure

Although Community Allure is given the least weight of the three categories, it is a strong indicator of how effective cities can be at attracting new businesses and high-dollar investors to their communities. Measured by factors such as cost of living, public education achievement, crime rates, and individual tax burdens, cities with the poorest community allure are unable to cultivate the friendliest business environments, while cities with strong allure tend to thrive.

In 2012, East Tennessee cities performed best in this category with Bristol, Farragut, and Maryville finishing first, second, and fourth respectively. This year, Middle Tennessee outpaced the eastern cities to overtake the majority of top 10 rankings. Spring Hill took the top spot, with Farragut finishing a close second, and Franklin coming in third. Maryville once again finished fourth, followed by Mt. Juliet in the fifth spot.

At the other end of the spectrum, Memphis lagged far behind the rest with the bottom overall score for the category, with Jackson, Springfield, Crossville, and Chattanooga rounding out the bottom five cities for poor community allure. Memphis finished last in three of the subcategories, claiming the highest individual tax burden and crime rate, and lowest ACT score, contributing to its last-place finish.

Business Tax Burden

Tax burdens placed on businesses are extremely important for a city's economic growth or lack thereof. In that regard, two key components make up this report's Business Tax Burden category: the city property tax rate and gross receipt sales tax. 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. In 2012, Farragut was the only city among the 50 most populous that did not impose this tax and thus received a perfect score of 100 in the Business Tax Burden category. In 2013, Farragut remained at the head of the pack, repeating its perfect score and establishing a model example for a business-friendly tax environment.

The 2013 results in this category largely mirror those from 2012, with the property tax ranging from zero in Farragut's case, to \$3.11 per \$100 as imposed in Memphis. The ensuing results render a repeat of 2012's top five, with Farragut retaining its perfect score, followed in the remaining top five by Mt. Juliet, Sevierville, Lebanon, and Franklin.

Memphis likewise repeated its disappointing rank as the least friendly business tax environment for 2013, as did the other bottom five cities of Knoxville, Oak Ridge, Chattanooga, and Tullahoma.

In all, there was very little change from 2013 in the Business Tax Burden category, as taxes remained relatively unchanged from year to year.

Economic Vitality

The Economic Vitality index remains a critical component to determining business-friendliness in cities across the state. Due to the lagging data provided by the federal government as a result of the recent shutdown, our 2013 Report replaces the subcategory of "job growth" with the "unemployment rate," a slight deviation from past measurement tools. However, unemployment represents a similar and important measurement for gauging a city's business climate. Population growth and median household income are two other sub-categorical indicators used to evaluate a community's economic pulse. Population growth indicates a surging consumer base able to support growing businesses. Likewise, income levels represent a community's ability to attract and support a growing economy.

In 2013, Brentwood repeated its standing as the top performing economically vitalized Tennessee city, with Franklin (2) and Germantown (4) again amongst the top five highest points earners. However, both Mt. Juliet and Spring Hill were able to

break into the elite five, generating a positive track for their communities in the coming years.

Franklin's rise to second place from fifth and Brentwood's continued strong standing at the top of the list are also good news for the Middle Tennessee region. Other Middle Tennessee cities that exhibited notable improvement include Hendersonville (up seven points from 14th), Nashville (a 15 point jump to 9th place), Tullahoma (up 12 points), and Goodlettsville (up 12 points to finish 10th). Notwithstanding, the largest increases were seen in East Tennessee, with Johnson City moving from 40th to 21st, Sevierville from 31st to 13th, and Cleveland jumping out of the bottom five and up 17 spots to No. 30. Likewise, Elizabethton shot out of last place, rising to 36th, due in large part to a relatively lower unemployment rate.

Replicating trends seen in the other primary categories, Shelby County suburbs were hit the hardest, with Collierville, Germantown, and Bartlett all falling in economic vitality thanks to high unemployment rates. Memphis fell the furthest from 2012, moving from 13th to 44th, with nearby Union City also falling significantly from 23rd to 49th.

This year, despite measuring the unemployment rate instead of job growth, we generally see the same dichotomies occurring between those economically vital communities and those that continue to struggle along the bottom tier. In particular, Union City and Lawrenceburg, coming in at 49th and 50th, respectively, created a significant five-point differential between themselves and the next lowest scoring cities of Greenville and Dyersburg in this category.

Conclusion

The 2013 Business-Friendly Cities Report conveys some very important insights into the ingredients necessary for a community to thrive. Clearly, as seen with this year's Most Business-Friendly City of Brentwood, creating a strong economic environment with a drastically low business tax burden is sure to catapult a city's growth and prospects for future vitality. Middle Tennessee cities are catching up to East Tennessee's community allure and making even greater strides to invite entities to do business in their areas.

Unfortunately, West Tennessee continues to struggle in all three areas, with particular hurdles to overcome in median income and unemployment rates. Yet, the results indicate that the needle of high economic vitality is moving from the eastern regions of the state and now finding happier environments in Middle Tennessee, which may be good news for those West Tennessee cities looking for that trend to continue westward movement into 2014, especially if these cities can tackle high unemployment.

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, Farragut, Franklin, Mt. Juliet, and Spring Hill in the years to come.

The Business-Friendly Methodology

Community Allure (20% Overall)

Cost of Living Index¹ (25% of Category)

Education (25% of Category)

High School Graduation Rate² (12.5% of Subcategory)

ACT Score³ (12.5% of Subcategory)

Individual Tax Burden (25% of Category)

Property Tax⁴ (12.5% of Subcategory)

City Sales Tax⁵ (12.5% of Subcategory)

Violent Crime Rate per Capita⁶ (25% of Category)

Business Tax Burden (40% Overall)

Business Property Tax⁷ (90% of Category)

Gross Receipts Tax⁸ (10% of Category)

Economic Vitality (40% Overall)

Per Capita Income⁹ (25% of Category)

Residential Population Growth¹⁰ (25% Category)

Unemployment Rate¹¹ (50% Category)

-
- ¹ "Cost of Living Index, March 2012," <http://www.city-data.com>.
- ² "High school graduate or higher, percent of persons age 25+, State and County QuickFacts," U.S. Census Bureau. <http://quickfacts.census.gov/cgi-bin/qfd/lookup?state=47000>.
- ³ 2012 ACT Individual Years. "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.
- ⁴ "2011 Tennessee Property Tax Rates," Tennessee Comptroller of the Treasury, Division of Property Assessments (November 5, 2013).
- ⁵ "Local Option Tax Rates," Tennessee Department of Revenue (November 1, 2013). <http://www.tn.gov/revenue/pubs/taxlist.pdf>.
- ⁶ "Annual Violent Crimes." <http://www.neighborhoodscout.com/tn/crime/>.
- ⁷ "2011 Tennessee Property Tax Rates," Tennessee Comptroller of the Treasury, Division of Property Assessments (November 5, 2013).
- ⁸ "City and County Business Tax Comprehensive Listing," Tennessee Department of Revenue. <http://www.tn.gov/revenue/tntaxes/business.shtml>.
- ⁹ "Per Capita Income," <http://www.neighborhoodscout.com/tn/#data>.
- ¹⁰ "Population, percent change, April 1, 2010 to July 1, 2012, State and County QuickFacts," U.S. Census Bureau. <http://quickfacts.census.gov/cgi-bin/qfd/lookup?state=47000>.
- ¹¹ "Unemployment Rate, July 2013," <http://www.city-data.com>.

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

		Community Allure	Business Tax Burden	Economic Vitality	Tennessee Region	Overall Score
1	Brentwood	68.5	82.4	88.9	Middle	82.2
2	Farragut	75.0	100	65.6	East	81.2
3	Franklin	73.1	84.2	82.2	Middle	81.2
4	Mount Juliet	70.1	89.3	75.1	Middle	79.7
5	Spring Hill	75.5	71.8	71.8	Middle	75.1
6	Hendersonville	68.3	76.4	65.2	Middle	70.3
7	Lebanon	58.3	85.1	57.5	Middle	68.7
8	Sevierville	50.4	86.1	58.0	East	67.8
9	Nashville	46.6	77.2	61.2	Middle	64.7
10	Smyrna	57.3	73.2	59.2	Middle	64.4
11	Goodlettsville	59.2	70.1	60.5	Middle	64.0
12	Germantown	61.6	52.5	72.7	West	62.4
13	White House	56.6	66.1	59.0	Middle	61.4
14	Collierville	63.0	54.0	65.2	West	60.3
15	La Vergne	53.9	66.4	56.6	Middle	59.9
16	Gallatin	63.9	66.6	49.8	Middle	59.4
17	Portland	59.4	62.6	55.6	Middle	59.2
18	Clarksville	54.2	59.5	55.3	Middle	56.8
19	Dickson	47.9	69.2	46.1	Middle	55.6
20	Murfreesboro	50.9	58.6	54.8	Middle	55.6
21	Springfield	40.2	69.5	48.8	Middle	55.3
22	Bartlett	60.4	52.3	55.7	West	55.3
23	Cookeville	60.8	69.2	37.6	Middle	54.9
24	Soddy-Daisy	58.7	66.4	40.6	East	54.5
25	Crossville	40.6	79.8	35.9	East	54.4
26	Johnson City	66.6	48.1	49.0	East	52.2
27	Red Bank	53.5	56.3	37.8	East	48.4
28	Morristown	57.4	64.9	25.6	East	47.7
29	Athens	55.9	63.1	28.0	East	47.6
30	East Ridge	49.6	54.2	38.9	East	47.2
31	Maryville	70.1	32.8	47.4	East	46.1
32	Cleveland	45.3	52.3	40.3	East	46.1
33	Millington	51.4	59.8	27.9	West	45.4
34	Kingsport	56.3	40.3	40.5	East	43.5
35	Elizabethton	59.6	44.0	33.4	East	42.9
36	Columbia	56.8	57.5	20.8	Middle	42.6
37	Bristol	68.5	32.3	39.3	East	42.3
38	Tullahoma	63.2	29.4	42.9	Middle	41.6
39	Oak Ridge	58.4	26.5	47.8	East	41.4
40	Lewisburg	57.5	53.5	20.2	Middle	41.0
41	Shelbyville	50.1	47.7	29.5	Middle	40.9
42	Knoxville	51.8	24.5	43.2	East	37.5
43	Jackson	39.8	38.6	28.1	West	34.6
44	Lawrenceburg	49.4	54.2	6.5	Middle	34.2
45	Chattanooga	44.2	28.8	32.9	East	33.5
46	Greeneville	57.5	41.7	11.8	East	32.9
47	McMinnville	46.9	35.1	18.7	Middle	30.9
48	Dyersburg	55.3	33.7	13.9	West	30.1
49	Union City	55.3	34.0	6.8	West	27.4
50	Memphis	31.4	5.9	20.2	West	16.7

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

Community Allure		
1	Spring Hill	75.5
2	Farragut	75.0
3	Franklin	73.1
4	Maryville	70.1
5	Mount Juliet	70.1
6	Brentwood	68.5
7	Bristol	68.5
8	Hendersonville	68.3
9	Johnson City	66.6
10	Gallatin	63.9
11	Tulahoma	63.2
12	Collierville	63.0
13	Germantown	61.6
14	Cookeville	60.8
15	Bartlett	60.4
16	Elizabethton	59.6
17	Portland	59.4
18	Goodlettsville	59.2
19	Soddy-Daisy	58.7
20	Oak Ridge	58.4
21	Lebanon	58.3
22	Lewisburg	57.5
23	Greeneville	57.5
24	Morristown	57.4
25	Smyrna	57.3
26	Columbia	56.8
27	White House	56.6
28	Kingsport	56.3
29	Athens	55.9
30	Union City	55.3
31	Dyersburg	55.3
32	Clarksville	54.2
33	La Vergne	53.9
34	Red Bank	53.5
35	Knoxville	51.8
36	Millington	51.4
37	Murfreesboro	50.9
38	Sevierville	50.4
39	Shelbyville	50.1
40	East Ridge	49.6
41	Lawrenceburg	49.4
42	Dickson	47.9
43	McMinnville	46.9
44	Nashville	46.6
45	Cleveland	45.3
46	Chattanooga	44.2
47	Crossville	40.6
48	Springfield	40.2
49	Jackson	39.8
50	Memphis	31.4

Business Tax Burden		
1	Farragut	100.0
2	Mt Juliet	89.3
3	Sevierville	86.1
4	Lebanon	85.1
5	Franklin	84.2
6	Brentwood	82.4
7	Crossville	79.8
8	Nashville	77.2
9	Hendersonville	76.4
10	Smyrna	73.2
11	Spring Hill	71.8
12	Goodlettsville	70.1
13	Springfield	69.5
T14	Cookeville	69.2
T14	Dickson	69.2
16	Gallatin	66.6
T17	La Vergne	66.4
T17	Soddy Daisy	66.4
19	White House	66.1
20	Morristown	64.9
21	Athens	63.1
22	Portland	62.6
23	Millington	59.8
24	Clarksville	59.5
25	Murfreesboro	58.6
26	Columbia	57.5
27	Red Bank	56.3
28	East Ridge	54.2
29	Lawrenceburg	54.2
30	Collierville	54.0
31	Lewisburg	53.5
32	Germantown	52.5
33	Bartlett	52.3
34	Cleveland	52.3
35	Johnson City	48.1
36	Shelbyville	47.7
37	Elizabethton	44.0
38	Greeneville	41.7
39	Kingsport	40.3
40	Jackson	38.6
41	McMinnville	35.1
42	Union City	34.0
43	Dyersburg	33.7
44	Maryville	32.8
45	Bristol	32.3
46	Tulahoma	29.4
47	Chattanooga	28.8
48	Oak Ridge	26.5
49	Knoxville	24.5
50	Memphis	5.9

Economic Vitality		
1	Brentwood	88.9
2	Franklin	82.2
3	Mt Juliet	75.1
4	Germantown	72.7
5	Spring Hill	71.8
6	Farragut	65.6
7	Hendersonville	65.2
8	Collierville	65.2
9	Nashville	61.2
10	Goodlettsville	60.5
11	Smyrna	59.2
12	White House	59.0
13	Sevierville	58.0
14	Lebanon	57.5
15	La Vergne	56.6
16	Bartlett	55.7
17	Portland	55.6
18	Clarksville	55.3
19	Murfreesboro	54.8
20	Gallatin	49.8
21	Johnson City	49.0
22	Springfield	48.8
23	Oak Ridge	47.8
24	Maryville	47.4
25	Dickson	46.1
26	Knoxville	43.2
27	Tulahoma	42.9
28	Soddy Daisy	40.6
29	Kingsport	40.5
30	Cleveland	40.3
31	Bristol	39.3
32	East Ridge	38.9
33	Red Bank	37.8
34	Cookeville	37.6
35	Crossville	35.9
36	Elizabethton	33.4
37	Chattanooga	32.9
38	Shelbyville	29.5
39	Jackson	28.1
40	Athens	28.0
41	Millington	27.9
42	Morristown	25.6
43	Columbia	20.8
44	Memphis	20.2
45	Lewisburg	20.2
46	McMinnville	18.7
47	Dyersburg	13.9
48	Greeneville	11.8
49	Union City	6.8
50	Lawrenceburg	6.5

About the Authors

Lindsay M. Boyd is the director of policy at the Beacon Center of Tennessee. Riley Westmoreland is a research associate at the Beacon Center.

About the Beacon Center of Tennessee

The Beacon Center of Tennessee is an independent, nonprofit, and nonpartisan research organization dedicated to providing expert empirical research and timely free market solutions to public policy issues in Tennessee. The Center's mission is to change lives through public policy by advancing the principles of free markets, individual liberty, and limited government.

Guarantee of Quality Scholarship

The Beacon Center of Tennessee is committed to delivering the highest quality and most reliable research on Tennessee policy issues. The Center guarantees that all original factual data are true and correct and that information attributed to other sources is accurately represented. The Center encourages rigorous critique of its research. If an error ever exists in the accuracy of any material fact or reference to an independent source, please bring the mistake to the Center's attention with supporting evidence. The Center will respond in writing and correct the mistake in an errata sheet accompanying all subsequent distribution of the publication, which constitutes the complete and final remedy under this guarantee.



Copyright © 2013 by the Beacon Center of Tennessee, Nashville, Tennessee
P.O. Box 198646 · Nashville, Tennessee 37219 · (615) 383-6431 · Fax: (615) 383-6432
info@beacontn.org · www.beacontn.org

Permission to reprint in whole or in part is hereby granted, provided that the Beacon Center of Tennessee is properly cited.