

“THE 2014  
REGULATORY CLIMATE  
INDEX MEASURES  
THE REGULATORY COSTS  
OF DOING BUSINESS”

### SECTION III

# TECHNICAL SUMMARY & DETAILED CITY DATA

*Section III outlines the technical methodologies and desk research used to construct the Regulatory Climate Index. The following pages highlight the Technical Appendix, which describes the Index construction in detail, the rankings for all five areas of business regulation, and detailed city data for each procedure in all five areas of business regulation. This section of the report has the following agenda:*

#### TECHNICAL APPENDIX

##### 2014 Regulatory Climate Index Rankings

Starting a Business  
Dealing with Construction Permits  
Registering Property  
Paying Taxes  
Enforcing Contracts

##### Detailed City Data

Atlanta, Georgia  
Boston, Massachusetts  
Chicago, Illinois  
Dallas, Texas  
Detroit, Michigan

Los Angeles, California  
New York City, New York  
Raleigh, North Carolina  
San Francisco, California  
St. Louis, Missouri

**Technical Appendix**

The *2014 Regulatory Climate Index* (the *Index*) measures the regulatory costs of doing business imposed on small- and medium-sized enterprises in 10 cities across the United States. These cities were selected to be geographically distributed and represent a wide range of economic and demographic factors.

The overall index ranking is based on five areas of regulation for starting and operating a business across U.S. cities: Starting a Business, Dealing with Construction Permits, Registering Properties, Paying Taxes, and Enforcing Contracts. The regulatory burden of each area is measured by a combination of the required procedures, time, and costs for a small- and medium-sized enterprise to comply with the local government requirements. The *Index* ranks these 10 cities from 1 to 10, where 1 represents the city with lowest regulatory burden.

**Analytical Framework**

The *Index* adopts the analytical framework that is jointly developed by the World Bank and the International Finance Corporation (IFC) to measure and to rank the regulatory areas in the life cycle of a local small-to-medium-sized business. The World Bank and the IFC use the framework to compare the regulatory burden of doing business across 189 countries in its *Doing Business 2014* (global report) and across cities within a country (subnational report).<sup>53</sup> In its global reports, the World Bank and the IFC include 10 areas of regulation to compare the differences across countries. Federal regulations that are mandatory for all businesses across cities within a country are omitted in subnational reports. For example, *Doing Business in Italy 2013* compared 5 areas of regulations (Starting a Business, Dealing with Construction Permits, Registering Property, Paying Taxes, and Enforcing Contracts) in 13 cities and 7 ports in Italy. Similarly, *Doing Business in Mexico 2012* compared 4 areas of regulations (Starting a Business, Dealing with Construction Permits, Registering Property, and Enforcing Contracts) across 31 Mexican states and Mexico City.

**Definitions and Assumptions of Areas of Regulation**

The *2014 Regulatory Climate Index* assesses 5 areas of regulation across 10 cities in the United States. The assumptions of a typical company's size and financials are based on the U.S. Small Business Administration (SBA) classifications and actual data published by the U.S. Census Bureau and industry publications.

- **Starting a Business:** Required procedures, time, and costs for entrepreneurs to obtain all necessary licenses and permits from the city offices to start and to formally operate a domestically owned professional services firm. The business entity is a limited liability company (LLC) with more than one owner that provides professional services, such as information technology (IT) services. By the first year of operation, the LLC generates \$4 million annual revenues and has 20 employees. The LLC is not qualified for any special economic assistance.
- **Dealing with Construction Permits:** Required procedures, time, and costs for a construction company to obtain all necessary permits from relevant city offices to build a small commercial building. The building project is a new 3-story, 15,000-square-foot commercial office and construction costs are \$3 million. The commercial building is not located in any special economic zone; does not need additional special permits, such as historical zone and wetlands; and is free from environmental issues.
- **Registering Property:** Required procedures, time, and costs for all necessary documents for a business entity to buy a commercial building and to transfer the property title to the buyer's name. The office building has a value of \$4 million. The office building is not located in a special economic zone, and the building does not have any special regulatory requirements.

- **Paying Taxes:** Required dollar amounts and number of tax payments per year for mandatory business and employment taxes paid to local governments. The business entity is a professional services firm that has \$4 million annual revenues and 20 employees (half are singles and half are married). Profits are 15% and the labor share is 20%.
- **Enforcing Contracts:** Required procedures, time, and costs to comply with the court rules to resolve a commercial dispute between two business entities. The value of the dispute is \$1 million and the two business entities are located in the same city of the dispute. Professional fees for lawyers, experts, and other non-mandatory procedures by the court are excluded.
- A *procedure* is defined as any interaction between business owners and a government agency office to complete a mandatory requirement. Interactions within the business are not counted as procedures. Interactions within government agencies are also not counted as procedures. Interactions between the business and a third party on the behalf of the business are not counted as procedures. Any interaction by the third party on the behalf of the business is counted as a single procedure. Industry-specific procedures are excluded.
- **Time** is the number of days, including waiting time, that are required to complete a mandatory procedure, counted in business days. Each procedure is counted at least as one business day. Time to process each procedure, including waiting time, is counted as additional business days. A procedure is completed once the company has received the final document or notification. Where there is an option to expedite, the assumption is the company will choose the fastest option.
- **Costs**, measured in U.S. dollars, include administrative fees paid to the governmental offices. Only fees for legal and professional services that are required by law are included in the calculations. Any costs and fees associated with optional third parties are not included.
- **Taxes (Paying Taxes only)** represent the tax amounts and the number of tax payments per year that are required by local governments. Taxes paid to the government include corporate income tax, employment tax, operating tax, and license tax.

**Index Construction**

The *Benchmark Ranking* is the simple average of ranking of all five areas of business regulation in each city. Each of the five areas of business regulation is, again, the simple average of the normalized values of procedures, time, and costs. Each component in an area of business regulation is ranked relative to the other nine cities. The *Index* adopts the World Bank's methodology of *Business Distance to Frontier* in its *Doing Business* report.

The calculation of the *Benchmark Ranking* involves four steps:

*Step 1.* Normalize each component in each of the five areas of business regulation against the city with the lowest burden to fulfill the regulatory requirement for that particular component. The formula to normalize each component is as follows.

$$100 \times \frac{(\text{Maximum} - \text{Individual Performance})}{(\text{Maximum} - \text{Minimum})}$$

Maximum is the highest value of the component, Minimum is the lowest value of the component, and Individual Performance is the value of the individual city. For example, it takes 5 days (Individual Performance) in Boston to start a business, 4 days in St. Louis (Minimum), and 32 days in Chicago (Maximum). The normalized value of "time" component of "Starting a Business" in Boston is 96.4  $[100 \times (32 - 5) / (32 - 4)]$ .

*Step 2.* Calculate the score of each of the five areas of business regulation for each city. The value of an area of business regulation is the simple average of the normalized values of procedures, time, and costs of business regulation in each city. For example, the normalized value of Starting a Business in Boston is 75.4  $[(96.4 + 66.7 + 63.5) / 3]$ . The calculation is the simple average of three normalized values of procedures (66.7), time (96.4), and costs (63.2) in Starting a Business in Boston.

*Step 3.* Calculate the score of business regulation in each city. The value of business regulation in each city is the simple average of five areas of business regulation of the city. For example, the business regulation value for Boston is 73.3. The calculation is the simple average of five normalized values of Starting a Business (75.4), Dealing with Construction Permits (86.0), Registering Property (74.0), Paying Taxes (49.9), and Enforcing Contracts in Boston (81.1).

*Step 4.* Rank the scores of business regulation of 10 cities. Boston is ranked third among 10 cities. The lower the number, the less of a regulatory burden in that city.

#### Data Sources

The *Regulatory Climate Index* is based on local laws and regulations in each city. Information and values of procedures, time, and costs are collected mainly from official publications on local government websites that are available to the public. Our desk research results are then verified with phone calls and interviews with local city officials and experts for the common practice in each city. Local experts are referred by the trade associations and local chambers of commerce.

#### Index Rankings

The ranking is the simple average of all five areas of business regulation in each city. Below is the summary table that gives each city an average score, followed by a ranking from 1 to 10. Following this summary, each of the five areas of business regulation is, again, the simple average of the normalized values of procedures, time, and costs. The cities are ranked relative to each other. Summary findings can be seen below, including the total average scores and the average scores by area of business regulation.

#### Benchmarking Index

City	Avg. Score	Ranking
Dallas	89.5	1
St. Louis	85.2	2
Raleigh	73.7	3
Boston	73.3	4
Atlanta	72.7	5
Detroit	64.9	6
Chicago	52.9	7
Los Angeles	47.9	8
San Francisco	41.3	9
New York City	34.7	10

#### Benchmarking Index

	Avg. Score					
	Starting Business	Construction	Registering Property	Paying Taxes	Enforcing Contracts	Overall
Dallas	80	92	98	100	77	89.5
St. Louis	98	90	100	56	83	85.2
Raleigh	85	99	76	63	45	73.7
Boston	75	86	74	50	81	73.3
Atlanta	86	65	77	58	78	72.7
Detroit	98	60	51	64	53	64.9
Chicago	11	61	71	38	83	52.9
Los Angeles	99	53	52	0	35	47.9
San Francisco	99	0	51	10	46	41.3
New York City	29	72	0	53	20	34.7

#### Area 1. Starting a Business

	Starting a Business						
	Procedures		Time		Cost		Avg. Score
	Number of Procedures	Score	Number of Days	Score	Cost	Score	
Atlanta	5	67	5	96	\$150	94	85.5
Boston	5	67	5	96	\$525	63	75.4
Chicago	7	0	32	0	\$900	33	10.9
Dallas	5	67	6	93	\$300	81	80.3
Detroit	4	100	4	100	\$150	94	97.8
Los Angeles	4	100	5	96	\$70	100	98.8
New York City	7	0	8	86	\$1,306	0	28.6
Raleigh	5	67	5	96	\$155	93	85.4
San Francisco	4	100	5	96	\$70	100	98.8
St. Louis	4	100	4	100	\$155	93	97.7
Max	7		32		\$1,306		
Min	4		4		\$70		

**Area 2.**  
**Dealing with Construction Permits**

	Procedures		Time		Cost		Avg. Score
	Number of Procedures	Score	Number of Days	Score	Cost	Score	
Atlanta	17	33	69	79	\$26,658	83	65.2
Boston	13	100	66	81	\$32,885	77	86.0
Chicago	17	33	82	70	\$29,830	80	61.1
Dallas	14	83	49	93	\$9,900	100	92.1
Detroit	17	33	73	77	\$40,218	69	59.7
Los Angeles	14	83	105	54	\$85,841	23	53.5
New York City	15	67	79	72	\$32,060	77	72.2
Raleigh	13	100	39	100	\$12,927	97	99.0
San Francisco	19	0	184	0	\$108,063	0	0.0
St. Louis	13	100	50	92	\$31,764	78	90.0
Max	19		184		\$108,063		
Min	13		39		\$9,900		

**Area 3.**  
**Registering Property**

	Procedures		Time		Cost		Avg. Score
	Number of Procedures	Score	Number of Days	Score	Cost	Score	
Atlanta	5	67	8	67	\$10,538	97	85.5
Boston	5	67	8	67	\$31,365	89	75.4
Chicago	5	67	8	67	\$55,888	79	10.9
Dallas	4	100	7	100	\$19,763	93	80.3
Detroit	5	67	10	0	\$40,355	85	97.8
Los Angeles	5	67	10	0	\$28,318	90	98.8
New York City	7	0	10	0	\$249,383	0	28.6
Raleigh	5	67	8	67	\$13,391	96	85.4
San Francisco	5	67	10	0	\$35,888	87	98.8
St. Louis	4	100	7	100	\$3,666	100	97.7
Max	7		10		\$249,383		
Min	4		7		\$3,666		

**Area 4.**  
**Paying Taxes**

	Paying Taxes					Avg. Score
	Procedures		Time		Avg. Score	
	Taxes Paid	Score	Number of Payments	Score		
Atlanta	\$208,880	66	33	50	57.9	
Boston	\$225,285	50	33	50	49.9	
Chicago	\$248,570	27	33	50	38.4	
Dallas	\$174,210	100	28	100	100.0	
Detroit	\$207,510	67	32	60	63.6	
Los Angeles	\$275,766	0	38	0	0.0	
New York City	\$219,024	56	33	50	52.9	
Raleigh	\$198,510	76	33	50	63.0	
San Francisco	\$255,337	20	38	0	10.1	
St. Louis	\$213,656	61	33	50	55.6	
Max	\$275,766		38			
Min	\$174,210		28			

**Area 5.**  
**Enforcing Contracts**

	Procedures		Time		Cost		Avg. Score
	Number of Procedures	Score	Number of Days	Score	Cost	Score	
Atlanta	20	60	167	93	\$333	94	78.0
Boston	18	100	332	48	\$240	63	81.1
Chicago	18	100	141	100	\$543	33	83.3
Dallas	20	60	180	89	\$325	81	77.2
Detroit	22	20	371	38	\$205	94	52.6
Los Angeles	23	0	305	56	\$545	100	35.1
New York City	20	60	511	0	\$880	0	20.0
Raleigh	22	20	313	54	\$470	93	44.8
San Francisco	23	0	205	83	\$500	100	46.3
St. Louis	19	80	258	68	\$205	93	82.8
Max	23		511		\$880		
Min	18		141		\$250		