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*Several factors determine a state's business climate.*

*Tax rates play an important role.*

*A well-educated workforce can be an important draw.*

## Examining State Business Climates

*By Erica Michel and Luke Martel*

Many states are focusing on how to improve their business climate to attract new firms and create more jobs. A combination of factors determine a state's business climate including operation costs, workforce skills, taxes and regulations, as well as the quality of life and cost of living. State lawmakers often focus on lowering taxes and reducing regulations. Although these factors can and do influence business actions, several other important issues are often overlooked.

Factors that may play a role in a company's decision to expand in or move to a state:

- **Taxes:** Business leaders agree that tax rates play an important role. It may not be necessary for a state to have the lowest tax rates in the country, but it is essential to be competitive. Louisiana, for example, has eliminated sales taxes on equipment and investment as part of a broader tax reform initiative. It was no coincidence that Louisiana was *Site Selection Magazine's* most competitive state for business in 2010, a "powerhouse in the making" according to the magazine.
- **Regulations:** An easily navigable regulatory system is important to businesses. Often, states that streamline regulations and minimize red tape receive high rankings for being attractive to businesses. According to state officials, Utah avoids regulations that will "inhibit the private sector from expanding and having a profitable bottom line." *Forbes Magazine* ranked Utah as the "Best State for Business and Careers" in 2010.
- **Workforce Quality:** A well-educated workforce can be a more important draw than slightly lower taxes. Companies want a high quality workforce to draw from. Massachusetts was ranked eighth in *CNBC's* Top States for Business in 2009, but it jumped to number four in 2010, largely due to its high-performing education system. According to *CNBC*, the state slipped to sixth place in 2011, in part because of larger class sizes relative to other states.
- **Infrastructure Development:** According to the Corporation for Enterprise Development, improved and well-maintained state highways, ports, public transit systems and airports are indicators of a state's potential for supporting long-term and sustainable business growth. The condition of a state's infrastructure can also affect quality of life, which also factors into business location decisions.
- **Financial Incentives:** Although they are usually not the primary reason a company chooses a particular state, when incentives are well-designed they can tip the scales in one state's favor. Incentives can be difficult to design. They must target the right industries, such as companies already located in the state looking to expand or industries that may benefit from a state's unique resources. States must be careful, however, not to give away more in incentives than they will gain in return.

**Business Climate Rankings.** Several organizations regularly release business climate studies. The rankings vary depending on the scoring and categories of each study, but can provide valuable insight into state policies that foster attractive business climates. It is important to note that a business climate can vary widely, even within a state, and a state's rank can change from year to year.

Organization/Publication	Ranking Criteria	Top States*
<i>Forbes</i> 2010 Best States for Business and Careers	Cost of doing business, labor supply, regulations, economic climate, growth prospects, quality of life	<b>Utah, Virginia, North Carolina, Colorado,</b> Washington, Oregon, <b>Texas, Georgia, Nebraska,</b> Kansas
<i>Chief Executive</i> magazine Best/Worst States for Business 2011	Taxation and regulation, workforce quality, living environment	<b>Texas, North Carolina, Florida, Tennessee, Georgia, Indiana, Virginia, South Carolina, Utah,</b> Nevada
<i>CNBC</i> America's Top States for Business 2011	Cost of doing business, workforce, quality of life, economy, cost of living, transportation and infrastructure, technology and innovation, education, access to capital, business friendliness	<b>Virginia, Texas, North Carolina, Georgia, Colorado,</b> Massachusetts, Minnesota, <b>Utah,</b> Iowa, <b>Nebraska</b>
<i>Site Selection</i> magazine 2011 Top State Business Climate Rankings	Executive survey responses, new and expanded facilities, projects per million population, competitiveness, tax policy	<b>Texas, Georgia, North Carolina, Virginia, South Carolina, Indiana, Louisiana, Tennessee,</b> Ohio, <b>Florida</b>
<i>Business Facilities</i> magazine Best Business Climate 2011	Economic growth and potential for future growth	<b>Utah, Texas, Virginia, Florida, South Carolina, Indiana, Louisiana, Tennessee, Georgia,</b> South Dakota

\*States are listed in order of rank; those in bold appear on more than one climate rankings list.

Each state's resources influence which businesses lawmakers target. States with highly educated workforces and friendly business climates have been successful in attracting more finance and technology companies. States interested in attracting manufacturing can focus on the cost of labor. Regardless of the type of industry policymakers are looking to attract, economic development consultants say states can focus on their marketing strategies, emphasize their strengths, and recognize their weaknesses. Legislatures may choose to address any deficiencies.

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