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Directorship Magazine

The Best States for Business

When the measures are tallied--labor costs, taxes, litigation, economy, education, and more--Texas rises to the top.

by [Joseph McCafferty](#)

When Research in Motion, the maker of the popular Blackberry phones, wanted to build out its U.S. headquarters, it selected Irving, Texas for the site of a 100,000-square-foot facility it expects will soon employ 1,000 people. In January, communications equipment maker Setcom decided to pick up stakes and move from its longtime home in Mountainview, California to Austin, Texas. In 2007, Comerica left Detroit for Dallas. At the time, chairman and CEO Ralph Babb cited Texas' economy, talented workforce, and central location as the reasons behind the move.

These companies are finding out what corporate giants such as Dell, Exxon Mobil, AT&T, and EDS have long known: that when it comes to business, Texas is number one.

What puts Texas first? It has a pro-business tax climate that ranks third, a low cost of living, a relatively solid economy, and a litigation environment that ranks 10th on our list. Texas also ranks first in the number of Fortune 500 companies located there.

The Lone Star state tops our first annual Boardroom Guide to the Best States for Business. The guide is an outgrowth of our annual Litigation Guide, which assesses the litigation climate in each of the 50 states (Page 28). We decided to produce a more comprehensive resource for boards by adding data on the economy, tax climate, cost of living, education, and other measures to arrive at the ranking.

What puts Texas first? It has a pro-business tax climate that ranks third, a low cost of living, a relatively solid economy, and a litigation environment that ranks 10th on our list. Texas also ranks first in the number of Fortune 500 companies located there. We used the Fortune rankings as one measure of attractiveness to large companies and an indication of strong infrastructure. Texas' central location and time zone also make it an ideal hub, especially for companies with a national distribution or customer footprint. Recently, companies such as Toyota and Caterpillar have located portions of their business in Texas.

“Our commitment to low taxes, predictable regulations, and a fair tort system are setting an example for the nation and creating a magnetic force for the businesses and jobs that are vital to maintaining Texas' competitive advantage in the global marketplace,” says Texas Governor Rick Perry.

“It’s not surprising that Texas does well in these types of rankings,” says Hartley Powell, national leader of the global location and expansion services practice at KPMG LLP. “They have been very successful over the years at broadening their base from energy into areas such as high tech and manufacturing.” Powell says Texas has a quality labor force and a good tax structure for business.

Rounding out the top five states overall are Virginia, Utah, South Dakota, and Nebraska, home to Warren Buffett’s Berkshire Hathaway. Virginia has recently become a favorite business destination. Last year, Computer Sciences Corp. left El Segundo, California, for Falls Church, Virginia. “Virginia is a very good state for business,” says Powell. “They have been aggressive and have done a good job attracting companies to the state.” In our ranking, Virginia is in the top 10 on quality of life, higher education, economy, and the state litigation ranking, making it a very balanced state across the board.

One up-and-coming state, according to some of the experts we talked to, is Tennessee. The Volunteer State ranks 9th on our list, with the lowest cost of living in the nation and a litigation climate that is third best. In 2005, Nissan moved its North American headquarters from California to a suburb of Nashville.

Tax Climate

One important component of any business relocation effort is the tax structure of states being considered. “In the last few years, tax climate has become more important as companies have become more cost conscious,” says Powell.

The rankings use a tax-climate measure put together by the Tax Foundation, a non-profit, nonpartisan research group that has been assessing tax conditions since 1937. Joseph Henchman, director of state projects at the Foundation, says the group’s rankings include more than 100 factors related to the tax structure and burden of each state. He says the factors measure how simple, neutral, transparent, and stable a state’s tax system is. At the top of the Tax Foundation’s list is Wyoming, which ranks 16th overall on our list. “Wyoming does well from a tax perspective, more for what it doesn’t have than for what it does,” says Henchman. The Equality State does not have a corporate income tax or a personal income tax. Two other states, Nevada and South Dakota, do not have a corporate income tax. “That tends to be a magnet for companies to want to do business there,” he notes.

Apart from low rates or the absence of certain taxes, Henchman says companies are looking for simplicity in complying with state tax laws. “Colorado has every tax, but it has low rates and they are broadbased,” says Henchman. Spending on compliance with state tax laws can be nearly as expensive as the taxes themselves, he says.

The Bottom Dwellers

States at the bottom of the list for tax climate include New Jersey, New York, and California. Companies doing business in these states are there for other reasons, such as access to capital or a skilled workforce. “Businesses have located there for other reasons, but increasingly they are leaving these states because of the tax and regulatory burden,” says Henchman. He says California is experiencing what he calls a “brain drain” to nearby states like Nevada and Arizona. States with complex state tax laws, according to the Tax Foundation, include Ohio, Michigan, California, and New York.

The lowest performing states in our ranking overall are West Virginia, Rhode Island, Kentucky, New Mexico, and Hawaii. To be sure, West Virginia does not have a lot going for it when it comes to attractiveness to business. The state ranked next to last on higher education—based on the percent of the population over age 25 who hold college degrees—the economy, and the state’s litigation climate. The lone bright spot for the Mountain State was cost of labor, where it ranked third. Another low-ranking state, Rhode Island, performed poorly on litigation and tax climate, but change may be coming. “Rhode Island has a high corporate income tax, but the legislature is working on trying to do something about it,” says Henchman.

With the rankings, a caveat must be noted: States can vary dramatically from one part or city to the next, and, while a state might not perform well in the state-by-state rankings, there may be areas that are very attractive to specific industries. Alabama is a good example. While it only ranks 37th on our list, it has been extremely successful at luring auto manufacturing to certain areas of the state. “Companies don’t really locate business in a state, they locate them in a community,” says Powell.

Directorship's Boardroom Guide to the Best States for Business

State	Overall Rank	Components (See page 28 for the full Guide to State Litigation Climates)							
		Litigation Rank ¹	Fortune 500 ²	Tax Climate ³	Cost of Living ⁴	Cost of Labor ⁵	Economy ⁶	Quality of Life ⁷	Education ⁸
Texas	1	10	1	7	3	27	5	27	33
Virginia	2	8	10	15	27	39	8	6	6
Utah	3	4	35	11	24	22	17	8	16
South Dakota	4	15	40	2	2	1	14	22	31
Nebraska	5	6	25	42	7	13	24	9	21
North Dakota	6	1	35	30	17	6	22	6	25
Colorado	7	26	15	13	30	42	3	12	3
Indiana	8	2	22	14	11	19	40	23	42
Tennessee	9	3	18	17	1	15	38	39	42
Idaho	10	12	35	29	14	14	21	15	37
Oklahoma	11	19	25	18	4	7	24	37	41
North Carolina	12	11	12	39	20	21	18	34	31
Ohio	13	7	5	47	16	31	38	11	38
Georgia	14	20	12	27	9	30	32	31	23
Kansas	15	25	28	31	8	18	27	24	16
Wyoming	16	18	40	1	28	17	6	38	39
Wisconsin	17	9	17	38	22	29	36	16	30
Minnesota	18	30	9	41	31	38	14	4	11
New Hampshire	19	22	40	8	40	35	34	5	8
Delaware	20	23	35	10	33	40	4	29	20
Missouri	21	29	18	16	5	23	43	21	35
Washington	22	34	18	12	36	43	7	25	10
Iowa	23	24	30	44	13	10	27	13	36
Michigan	24	13	7	20	25	37	45	32	34
Illinois	25	47	4	23	23	41	10	18	15
Connecticut	26	33	15	37	44	49	13	3	4
South Carolina	27	17	28	26	15	9	46	43	39
Louisiana	28	14	30	33	19	8	26	49	45
Alaska	29	5	40	4	47	44	31	44	21
Massachusetts	30	45	14	32	42	50	11	2	1
Florida	31	39	11	5	34	24	30	33	28
Mississippi	32	16	40	19	10	2	50	46	47
Arizona	33	23	23	22	35	26	19	41	26
Montana	34	37	40	6	31	5	32	40	19
New Jersey	35	44	7	50	48	47	9	1	5
Nevada	36	27	30	3	38	25	20	47	45
Alabama	37	31	35	21	11	12	37	42	44
New York	37	46	2	49	46	48	1	17	9
Pennsylvania	37	50	6	28	29	32	35	7	27
Oregon	40	36	30	9	39	33	27	36	18
Maine	41	21	40	40	37	20	47	19	24
Maryland	42	42	21	45	45	45	16	14	2
Arkansas	43	32	25	35	6	4	44	48	48
California	44	43	3	48	49	46	2	28	14
Vermont	45	35	40	43	41	28	41	10	7
Hawaii	46	40	40	24	50	34	12	30	12
New Mexico	47	38	40	26	26	16	22	50	28
Kentucky	48	41	23	34	18	11	48	35	46
Rhode Island	49	48	30	46	43	36	41	20	13
West Virginia	50	49	40	36	21	3	49	45	49

¹ Litigation ranking compiled by the Foundation for Fair Civil Justice 2009, weighted 2X.

² Ranking of big business attractiveness and infrastructure based on number of *Fortune* 500 companies.

³ Tax climate from the Tax Foundation 2008

⁴ Cost of Living from CNBC's *America's Top States for Business, 2008*.

⁵ Cost of labor from Bureau of Labor Statistics Average Annual Wage, 2008.

⁶ Economy ranking based on combined state GDP per person from the Bureau of Economic Analysis and CNBC ranking of economic indicators

⁷ Quality of Life based on a *Forbes* ranking that considers schools, health, crime, and poverty rates

⁸ Education rank from the Census Bureau of percentage of the population over age 25 with college degrees

Methodology

The state rankings in the Boardroom Guide to the Best States for Business were compiled using eight major indices of attractiveness to business. The Litigation Climate ranking is our own measure, assembled with the help of the Foundation for Fair Civil Justice. Because of its importance to directors, this measure is weighted at twice the score of the other measures, which are equally weighted. The other components are: a measure of large-company attractiveness and infrastructure based on the presence of Fortune 500 companies; a measure of business tax climate conducted annually by the Tax Foundation; a cost-of-living ranking from CNBC Best States for Business 2008; a cost-of-labor ranking from the Bureau of Labor Statistics; an indicator of state economic performance from the Bureau of Economic Analysis; an indicator of higher-education prevalence by the Census Bureau; and measure of quality of life from Forbes. States were ranked from 1 to 50 on each measure and then scored based on the rankings.