



WISCONSIN'S BUSINESS VOICE SINCE 1911

TO: WMC Executive Committee  
FROM: James Buchen, Vice President, Government Relations  
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RE: Preliminary State Business Climate Comparison

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Various groups and organizations analyze and rank state business climates. For the purposes of this analysis, we have chosen four of the most widely recognized and publicized state ranking reports. The top 10 states from each of the reports, along with Wisconsin, are shown below. We then identified those states that show up on three of the four lists for further analysis. They include Florida, Georgia, North Carolina, Utah and Virginia. We also included Texas because they lead the nation in job creation, and are so often cited as the most pro-business state in the country.

By way of comparison, Wisconsin ranks among the 10 worst business climates in virtually all of the studies we looked at.

**The Forbes Best States For Business** ranking measures six categories including: business costs, labor supply, regulatory environment, current economic climate, growth prospects, and quality of life. They factor in 33 different points of data and publish rankings in each of the six main areas outlined above, along with a composite rank.

**The CEO Confidence Index** is based on an annual survey of 543 top CEOs from across the country. As such, it reflects the opinions of key business leaders as to the relative friendliness of the various states' business climates. In the survey, the CEOs are asked to evaluate their own states on a range of issues including: regulation, tax policies, education, quality of living and infrastructure. They are also asked to grade all of the states on the following criteria: taxation and regulation, workforce quality and living environment.

**The Pollina Top 10 Pro-Business States** analysis evaluates and ranks the states based on 33 factors including: taxes, human resources, right-to-work legislation, energy costs, infrastructure spending, worker's compensation laws, economic incentive programs and state economic development efforts.

**The Tax Foundation's State Business Tax Climate Index** ranks the states based on an evaluation of the five major tax systems that impact business activities including: corporate, individual income, sales, unemployment insurance and property taxes. In general, state tax systems that levy low, flat rates on the broadest bases possible and treat all taxpayers the same, rank higher than those that don't meet these criteria.

	<i>Forbes</i> : The Best States for Business	CEO Confidence Index: The Best and Worst States for Job Growth and Business	Pollina Corporate: Top 10 Pro-Business States for 2009	Tax Foundation: 2010 State Business Tax Climate Index
1	Virginia	Texas	Virginia	South Dakota
2	Washington	North Carolina	Utah	Wyoming
3	Utah	Florida	North Carolina	Alaska
4	Colorado	Georgia	Wyoming	Nevada
5	North Carolina	Tennessee	South Carolina	Florida
6	Georgia	Nevada	South Dakota	Montana
7	North Dakota	Virginia	Kansas	New Hampshire
8	Texas	Arizona	Georgia	Delaware
9	Nebraska	South Carolina	Florida	Washington
10	Oregon	Colorado	Nebraska	Utah

The various rankings are an attempt to summarize the important business climate differences among the 50 states. Generally, they reflect variation in business costs attributable to factors that are directly or indirectly tied to public policy decisions. For example, the corporate income tax burden in a given state is a direct result of public policy decisions by a state legislature and governor. The relative cost of electricity is, in part, a result of public policy decisions such as whether or not to approve the construction of new generation, require a high level of renewable generation, or skew the rate structure toward industrial versus residential customers. Similarly, access to investment capital is affected by banking regulation and tax policy. Other important factors appear to include investment in infrastructure, the quality of education and training systems, and the presence of major research facilities, either public or private.

Taxes lead the list of factors that make up virtually all state business climate rankings, and are the only issue evaluated in the Tax Foundation ranking. Taxes are most often cited by business leaders when discussing variation among the states, probably because they are easily quantifiable and come directly off the bottom line so the impact is obvious. If taxes take a larger portion of profits, that cost is passed along to either consumers (through higher prices), workers (through lower wages or fewer jobs), or shareholders (through lower dividends or

share values). As a result, the level of taxation has a direct and immediate impact on the global competitiveness of business in a given state.

Another reason business climate analysis tends to emphasize the relative level of taxation, is that unlike changes to a state's health care, transportation or education systems, which can take decades to implement, changes to the tax code bring almost instantaneous benefits, or conversely detriments, to a state's business climate.

The other leading factor common to most business-climate rankings is the relative level of regulation imposed on business. However, the variation in regulatory burden among the 50 states is harder to quantify. It is most often discussed in terms of the time it takes to get regulatory approval to site a new facility or expand existing operations. For example, one CEO responding to a business climate survey observed that in Texas "you can get a greenfield site if you choose, and be out of the ground in 10 to 12 months, with the shortest period of time less than six months" By contrast, in Wisconsin it typically takes 12 to 18 months to get a pre-construction permit, which is needed before a major potential source of air emissions can begin construction on a greenfield site. In addition, permit decisions involving major industrial expansions in Wisconsin are usually challenged in court by environmental groups, adding years to the overall process. Those states that lead the list in the regulatory burden category tend to have very aggressive programs to assist companies in getting necessary permits. Other important aspects of regulatory burden include the scope and complexity of the laws and regulations governing business activity, employment and land use.

Reflecting the relative importance of taxes and regulation, one economist involved in the development of the Pollina business climate ranking observed that: "The best method for attracting jobs would be for states to have across-the-board cuts in corporate taxes and elimination of unnecessary and costly regulations."

Beyond taxes and regulation, one of the most striking correlations in the underlying data is the relationship between the degree of unionization of the workforce and business climate. All of the states in our analysis have among the lowest unionization rates in the country. By contrast, Wisconsin has the 14<sup>th</sup> highest rate of unionization among the 50 states.

The relative strength of state economic development programs is not a major factor in 3 of the 4 rankings we considered. However, the Pollina study does consider the relative strength of economic development efforts and financial commitment to incentives in their analysis.

## **Florida**

Florida enjoys the obvious advantages of seacoast and climate. These factors result in a huge in-migration of retirees along with their capital. In the area of taxation, Florida is able to finance its government without levying a personal income tax. In addition, their corporate income tax rate is a flat 5.5 percent versus Wisconsin's 7.9 percent, and their property tax collections per capita and as a percentage of personal income, are lower than Wisconsin.

## **Georgia**

Georgia is ranked at the top of the *Forbes* list in the regulatory environment category. They also rank high in terms of workforce development, educational attainment, and training programs. They are one of the fastest growing states in the nation with a net in-migration of more than 1.3 million people between 2000 and 2007. By contrast, Wisconsin's population grew by 229,000 during the same period. Georgia also ranks low in corporate income taxation – 41<sup>st</sup> out of 50 on a per capita basis.

## **North Carolina**

North Carolina's ranking is often attributed to its strong research infrastructure, combined with a welcoming overall business climate. Its university system, Research Triangle Park and extensive private R&D infrastructure puts it at the forefront of technology related job creation. Overall it ranked second behind Texas in the CEO Survey and third in terms of regulatory environment in the *Forbes* ranking.

## **Texas**

Texas has a number of positive business climate factors. It is viewed as having a friendly regulatory environment with very short permitting timelines, and Texas is one of a handful of states that have no individual income tax and very low business taxes. It also has a strong technology sector driven by its research universities, government programs such as NASA, and certain industry clusters such as petrochemicals. The state also benefits from non-controllable factors such as the presence of extensive oil and gas reserves. As a result, the Houston area contains over 50 percent of the total US refining capacity for petrochemical products.

## **Utah**

Utah has one of the fastest growing populations in the country, increasing by more than 403,000 from 2000 – 2007, nearly double the growth in Wisconsin's population over the same period. They have also seen robust economic growth, increasing the number of jobs in the state by 24 percent over the last 10 years. Key business climate factors appear to be low levels of unionization, low electric rates and a favorable regulatory environment.

## **Virginia**

Virginia benefits from a highly educated workforce and leads the nation in terms of the proportion of its workforce employed in high tech industries. Energy costs in Virginia are 30 percent below the national average. The state's tort environment ranks fifth best in the country, according to the Pacific Research Institute. The state's finances are in good shape and it holds a AAA bond rating from Moody's. While it is not considered a low tax state (it ranks 15<sup>th</sup> in the Tax Foundation: Business Tax Climate Index) it does uniquely benefit from substantial Federal spending. For example, it leads the nation by some margin in defense spending per capita with more than 11 percent of the total Defense Department budget spent in the state ( Virginia - \$46 billion, Wisconsin - \$2.9 billion).

In conclusion, the main controllable differences between those that rank high in the various business climate rankings and Wisconsin are taxes, regulation and workforce issues. There are many other significant factors, however, some of which are completely beyond our control such as climate and geography, and others which may be influenced such as energy costs and Federal spending.