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CNBC's Top States for Business 2011 - Texas Wins!

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They say everything in Texas is big, and that sure goes for its stature in business.

With the biggest point total in the history of our study, Texas posts a big victory as America's Top State for Business 2010.

Top Five

Texas reclaims the top spot from last year's winner, Virginia, which slips to No. 2. Texas was last on top in 2008, and Virginia took the crown in the inaugural year of our study, 2007. That leaves Texas and Virginia dead even in the battle for bragging rights at two wins apiece.

Rounding out the top five are No. 3 Colorado, No. 4 North Carolina, and No. 5 Massachusetts, which makes its first appearance among America's Top States for Business.

Scoring & Categories

Our fourth annual study of America's Top States for Business puts all 50 states to the test, measuring them on 40 different metrics in ten key categories of competitiveness. We developed these categories back in 2007 with the help of business groups including the National Association of Manufacturers. And we weight the categories based on how frequently states use them as selling points to attract business. That way, we hold the states to their own standards, and tell you how they measure up.

The categories and weightings, for a total of 2,500 points, are:

- * Cost of Doing Business (450 points)
- * Workforce (350 points)
- * Quality of Life (350 points)
- * Economy (314 points)
- * Transportation & Infrastructure (300 points)
- * Technology & Innovation (250 points)
- * Education (175 points)
- * Business Friendliness (175 points)
- * Access to Capital (50 points)
- * Cost of Living (25 points)

We use publicly available data on the metrics in each category to score the states, and then add up those scores to rank America's Top States for Business.

2010 Dynamic

Coming out on top is always an accomplishment, and never more so than this year. The national economy is anemic, and state budget pressures are growing across the country. In fact, even top-ranked Texas is struggling to make ends meet. The state faces a Texas-sized, \$4.6 billion budget shortfall for fiscal 2011, according to the non-partisan Center on Budget and Policy Priorities. That is more than 12 percent of the state budget.

Add to that a sluggish job market across the country, and even the top states cannot afford to rest easy.

In No. 3 Colorado for example, unemployment in May was a relatively low 8 percent. But KUSA-TV reporter Greg Moss in Denver says the unemployment rate does not tell the full story.

“Although ours is way below the national average, it’s remained pretty flat. So we’re seeing a lot of long-term unemployed,” Moss says.

In runner-up Virginia, which has a built-in cushion of technology and government jobs, particularly in the northern part of the state, the employment picture statewide is somewhat shaky.

“The recession of the past two years has hit manufacturing rather hard,” says reporter Tom Schaad of WAVY-TV.

“Here in Hampton Roads, International Paper in Franklin closed a major mill, putting 1,100 people out of work. That’s one example.”

What separates the top states from the rest is their ability to cope with those types of economic stress, offering environments that allow businesses to thrive even in a slowdown.

Texas By The Numbers

Texas powers past the tough times on the strength of its economy—top-ranked in our Economy category four years in a row. The Texas economy is the 15th largest in the world, according to government figures; larger, for example, than all the Scandinavian nations combined.

The Lone Star State is home to 64 Fortune 500 companies, more than any other state, in a wide variety of industries. So while the state’s last win in 2008 came with oil at a record \$145 a barrel—a natural tailwind for the largest industry in Texas—the state managed to do even better this year despite the fact that oil is trading at roughly half that price.

Texas has also managed to avoid the worst of the real estate crisis, according to reporter Ashanti Blaize of KXAS-TV. “While in other major cities we’ve seen condo high-rise projects either slowed or come to a screeching halt, in Dallas we’ve seen an influx of some of those projects,” says Blake.

However, that economic strength has a side effect. Rising commercial rents and high wages hurt the state in the all-important Cost-of-Doing-Business category, where it comes in at number 30.

Virginia Still Impresses

Virginia comes in second overall this year, but the Old Dominion State still has plenty for which to be proud.

In the Business Friendliness category, which measures the states' legal and regulatory climates, Virginia is second only to neighboring Delaware. And Virginia offers a diverse economy, making it chock-full of business opportunities, from imports and exports to government contracts in the state that is home to the Pentagon.

“Hampton Roads has the third largest port in the country. That, along with heavy military presence usually provides for a stable economy,” says WAVY-TV’s Schaad, who also notes that federal stimulus money, particularly in the area outside Washington, D.C., is keeping overall unemployment well below the national average.

Test Your Knowledge of The Top States

But with pockets of severe joblessness hampering growth—including in tourism-dependent Williamsburg—Virginia dropped four places to number 11 in the “Economy” category. Virginia also lost critical points in the “Education” category, dropping six places to number 13 as class sizes rose and school spending fell.

While Texas and Virginia duke it out for the top spot year after year and Colorado stays consistent at No. 3, the rest of the rankings are less predictable.

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Carolina Comeback

North Carolina, which finished a disappointing ninth in 2009, jumped to No. 4 in 2010. The corporate home of a number of giant financial institutions, including Bank of America and BB&T, North Carolina's business climate benefited from the easing of the financial crisis, according to WCNC-TV's Jeff Campbell in Charlotte.

"There are also lessons the state has learned from the recent crisis, and that's really helping the state diversify towards some other industries like clean energy and tourism," says Campbell.

As a result, North Carolina has seen a surge of investment, pushing the state to number 10 in our Access to Capital category, up from number 36 last year. That was enough to propel the Tar Heel State back into the top five overall for the first time since 2007.

Massachusetts Moves Up

Massachusetts never ranked among America's Top States for Business before 2010. Its ranking this year also marks the first time a northeastern state has finished among the top five.

But the Bay State has always been a contender—it finished No. 8 overall last year. Massachusetts' greatest strength is its schools. The state boasts the best performing K-12 schools in the country, as well as some of the top universities in the world, placing it at the top in the Education category.

The strong education system helps Massachusetts capture near top rankings in Technology & Innovation (number three, up from number five last year) and Access to Capital (number two for the second year in a row). Even in Business Friendliness—not generally considered a hallmark of New England states—Massachusetts finishes a respectable 14th.

Notable Mention

This year's most improved state is Pennsylvania, which jumped a whopping 13 places to No. 20 overall, from number 33 last year. However, it is unclear whether the Keystone State truly bettered itself, or if others simply got that much worse. Pennsylvania's best category was Economy, where the state improved to number 15 compared to a 37th place ranking in 2009. Yet the state still faces persistent unemployment and a \$4.1 billion state budget shortfall.

The biggest drop came in Vermont, which fell seven places overall to No. 37. While economic conditions have

improved in the Green Mountain State, business costs have gone up and the quality of the workforce has declined according to our study.

Two states drop out of the top five in 2010.

Iowa falls to No. 6 from No. 4 last year, and Utah, a consistent player in previous years, moves into a tie for eighth place with Minnesota.

Our study scores all 50 states, so if there are going to be Top States, it stands to reason that there will also be bottom states. Alaska is America's bottom state for business again this year, hampered by its high cost of living, relatively high cost of doing business, and a weak infrastructure.

After Alaska, there is a big change among the also-rans. Rhode Island drops to No. 49 overall, following its 48th place finish in 2009. The Ocean State is among the least friendly to business, and ties with Nevada for the worst overall economy.

Rhode Island's drop is good news for those other islands—Hawaii, which climbs to 48th place overall. No great surprise, the Aloha State is number one for Quality of Life. Unfortunately, you get what you pay for. Hawaii ties with California as the most expensive state in which to live, and is second only to New York in the cost of doing

business.