

Special Report

The Best States For Business

Kurt Badenhausen, 09.23.09, 6:00 PM ET

The carnage of the economic downturn is everywhere with bankruptcies, foreclosures and unemployment soaring nationwide. None of the 50 states are immune. Only two, Alaska and North Dakota, are expected to see employment gains this year. Maryland, North Dakota and Virginia (by a hair) are the only states where the economy is projected to expand in 2009. Housing? Every state saw a decline in median home prices last year.

The recession has shaken up our fourth-annual ranking of the Best States for Business with some big movers up (North Dakota, Oregon and Iowa) and some former high-fliers on the way down (Florida, Nevada and Arizona).

In Pictures: Where All The States Rank

Amid this mess, Virginia nabbed the top spot with the best business climate in the country for the fourth straight year. Virginia's economy has deteriorated, with the number of unemployed soaring 60%, while gross state product is flat and household incomes are expected to fall 4%, according to West Chester, Pa.-based research firm Moody's Economy.com.

Relative to the rest of the country though, Virginia is booming. Its 6.5% unemployment rate is fifth lowest in the country with the four states ahead of it all having dramatically smaller economies and employment bases. Virginia is the only state ranked in the top 20 in each of the six broad categories we examined. The state finished in the top three in half of those categories (labor supply, regulatory environment and quality of life). Virginia's \$325 billion economy is expected to be the 10th largest in the U.S. in 2009.

The state benefits from a highly educated workforce that is expected to expand over the next five years. Energy costs are 30% below the national average. The state's tort environment ranks fifth best in the country, according to California think tank Pacific Research Institute. The state government's finances are in good shape--it's held on to a top AAA rating from Moody's since 1971. Eleven public companies with more than \$10 billion in revenues call it home, including Altria, General Dynamics and Capital One Financial.

Smart incentives help, too. Each year Park Ridge, Ill.-based Pollina Corporate Real Estate does a study that compares states' economic development departments and programs. This year Virginia topped the Pollina study after finishing second last year.

"Virginia's economic development department truly understands what global competition is all about," says Brent Pollina, who authored the study. The Virginia Jobs Investment Program, for example, is open to both new and existing companies and offers flexible and customized employee recruiting and job training for businesses. The program has helped more than 2,400 companies over the past five years recruit and train 75,000 Virginians.

"We believe we offer a unique proposition because companies know the business climate is going to remain friendly," says Jeff Anderson, head of the Virginia Economic Development Partnership. In February, Hilton announced it would move its corporate headquarters from Beverly Hills to Fairfax County. Last year Canon revealed plans to expand its Virginia operations with a \$600 million investment that will create 1,000 new jobs. Overall companies announced plans to spend \$5.1 billion to relocate or expand in Virginia in 2008, which is expected to create more than 20,000 new jobs.

Our Best States ranking measures six vital categories for businesses: costs, labor supply, regulatory environment, current economic climate, growth prospects and quality of life. We factor in 33 different points of data to determine the ranks in the six main areas. Business costs, which include labor, energy and taxes are weighted the most heavily. We relied on nine different data providers. Moody's Economy.com is the most-utilized resource.

A common theme with our top-ranked states is an expanding, educated workforce. The three states that followed Virginia in the

rankings (Washington, Utah and Colorado) also ranked in the top four along with Virginia in our labor supply category, which looks at high school and college attainment, as well as net migration and projected population growth. "When we talk to prospective clients, their No. 1 issue every time is workforce," says Virginia's Anderson.

Three of the biggest drops in our ranking were states where the housing boom and population surges once fueled rapid economic growth. In our 2007 ranking, Arizona, Florida and Nevada were the top three states in several areas including: five-year net migration, projected population growth, gross state product growth and five-year projected job growth. With the collapse of the housing market, the outlook is far less rosy. People are expected to continue to flock to these three states, but the employment and economic forecast has worsened considerably in all three locales. Each of these states fell at least 10 spots in the current ranking.

New Jersey also had a big fall. Over three years, the state's ranking plunged from 19th to 34th to 45th this year. High business costs have been a long-time problem (12% higher than the national average) with taxes being a major gripe. The Tax Foundation dubs New Jersey the worst state when it comes to its business tax climate. Fed up, residents are fleeing. Net migration out of New Jersey was the seventh worst among all states over the past five years. The Garden State also ranks poorly for job growth, income growth and economic growth over the past five years.

While New Jersey slides, our bottom three states from last year (Alaska, Louisiana and West Virginia) all climbed at least four spots. On the strength of an improved economic and employment outlook relative to the rest of the country, West Virginia moved up to 46th place after two straight years at the bottom of our list. Alaska is projected to have the strongest job growth of any state over the next five years and ranked 42nd, up six spots from last year.

Louisiana is making a comeback from the damage inflicted during Hurricanes Katrina and Rita in 2005. The state moved up five spots to 44th place. Louisiana launched a workforce development reform plan last year that borrows heavily from labor programs in Texas and Georgia, both among our top 10. "Louisiana FastStart has changed the perception of Louisiana's workforce from a concern to a top selling point," says Stephen Moret, head of Louisiana Economic Development. Moret cites the program as central to attracting business expansions by a new green car company, V-Vehicle, and manufacturer Gardner-Denver.

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