

**How Rhode Island Measures Up:  
A Review of the State's Business Climate Rankings**



**RIPEC**

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## Introduction

Since the 1970s, research organizations and media outlets have published rankings of each state's business climate. These "competitiveness rankings", in which business climate became linked to the concept of a state or city holding a comparative advantage over another, have gained in popularity since their introduction and are often used as the basis for changing public policy as it relates to business growth and development. At the same time, there continues to be debate about whether these rankings have a material effect on business location decisions, or are related to a state's long-run economic growth and a number of studies have taken to broadening their indices to include measures such as quality of life, school quality and transportation.

While there does not appear to be consensus on the best way to measure whether a state has a business-friendly climate, and which factors should be evaluated, there is no doubt that rankings affect public perception and that their usage has become increasingly widespread over the past decade. The studies in and of themselves may not be able to predict whether a state is likely to experience economic growth, particularly growth vis-à-vis another state; however, perception is a key factor when promoting economic growth. Further, a state may be able to selectively focus on areas in which changes need to be made by examining whether they consistently rank low across a number of analyses.

This RIPEC report provides an overview of how Rhode Island fares in five of these recent business climate studies – two by research organizations (the Tax Foundation's "2010 State Business Tax Climate Index" and the Small Business and Entrepreneurship Council's "Small Business Survival Index 2009") and three by media outlets (CNBC's "Top States for Business 2010", *Forbes's* "Best States for Business 2009", and *Chief Executive* magazine's "Best/Worst States for Business 2010"). The report summarizes how Rhode Island competes on a national scale and against other New England states in terms of overall business climate and notes specific areas in which Rhode Island may be able to improve.

Rhode Island tends to finish near the bottom in these rankings – the result of a taxation and regulatory environment that businesses consider to be among the nation's most burdensome, as well as the high cost of doing business, poor transportation infrastructure, and weak economy in the Ocean State. While these are not the only factors that come into play in business location decisions, the negative perceptions surrounding Rhode Island's business climate may have a negative impact on the State's ability to grow its economy in an increasingly competitive market. At the same time, Rhode Island has an ability to address these issues and has taken steps, such as reforming the income tax and working on the regulatory environment, that may positively affect the State's relative position in the rankings and, thus, economic climate.

## Executive Summary and RIPEC Comments

A state's economic viability depends on its ability to attract, retain and grow businesses. One of the most frequently-noted variables that affect businesses is a state's tax climate; however, a number of other factors contribute to whether a state is a good place to start or grow a business, including the regulatory environment, quality of the workforce, transportation systems, and quality of life. How state and local governments and communities support business development through a variety of policies ultimately affects what kind of businesses choose to locate within a region or state. Not all factors that affect these decisions are within governments' control, as governments may be limited in their ability to affect change in utility costs, for example. At the same time, there are steps that can be taken to improve their business climate, or how their state's business climate is perceived.

In general, a good business climate enables businesses to operate with a minimum of interference, while accessing a variety of quality inputs, and reaching a maximum number of customers, with minimal costs. No business climate will be the ideal for every business enterprise, and there are a number of reasons why businesses relocate or start in a particular area; the needs of manufacturers may be different from the needs of a law office. Further, attempts to quantify and qualify the components of a "good" business climate vary from analysis to analysis. However, there are some common themes that run through the majority of studies that rank states' business climate that are worth examining in greater depth.

A number of organizations produce surveys that rank the perceived "business climate" of the 50 states. This review of national studies summarizes the findings of five national surveys, two from research organizations (The Tax Foundation and the Small Business and Entrepreneurship (SBE) Council) and three by media outlets (*Forbes*, CNBC and *Chief Executive*). All of the surveys included the tax climate as a variable, and four of the five cited the regulatory environment. Of the studies that included a range of variables, transportation, cost of doing business, economic climate, workforce, and quality of life were also consistently included.

A review of the surveys indicates that:

- Across the board, Rhode Island received low marks for its tax climate, particularly for its property and unemployment taxes. The one taxation area in which the State did not rank in the bottom half was sales taxes.
- Similarly, in every survey that included regulatory environment as a variable, the Ocean State performed at or near the bottom of the country.
- The SBE Council, which is a broader survey than the Tax Foundation's, gives Rhode Island low marks for health care mandates, cost-effectiveness of the State's transportation systems, labor policies, and government expenditures.
- The one area where Rhode Island performed above average in the SBE Council's study was in government employment as a share of the population; the State ranked 11<sup>th</sup> in the country, ahead of all other New England states.

- *Chief Executive*, which ranks states on three broad categories (taxation and regulation, workforce quality, and living environment), gave Rhode Island the lowest grade in New England in every category. However, the Ocean State ranked 39<sup>th</sup> overall, ahead of Massachusetts (47<sup>th</sup>) and Connecticut (45<sup>th</sup>).
- While Rhode Island ranks 50<sup>th</sup> in *Forbes*'s "Best States for Business" index, largely due to the State's regulatory environment, business costs, and economic climate, the State ranked 18<sup>th</sup> for growth prospects and 21<sup>st</sup> for quality of life.
- CNBC ranked Rhode Island as the 49<sup>th</sup> best state in the country in which to do business. The State ranked in the bottom five states in four out of ten categories: economy, transportation, business friendliness, and cost of doing business. At the same time, the State was ranked in the top half of the states for education, workforce and quality of life.

According to these studies, Rhode Island has room for improvement with regard to its ability to attract and retain business. In general, Rhode Island ranks in the bottom 10 for business friendliness, indicating that the national perception is that the State is not a good place in which to do business. All five of these reports indicate that Rhode Island needs development in a number of different arenas in order to compete more effectively with states which have lower tax and regulatory burdens, better transportation infrastructure, lower costs of doing business, and stronger economies.

While each analysis includes different variables, and weights each variable differently, there were a few common themes throughout the five analyses. Specifically, the State's tax system, regulatory environment, cost of doing business, transportation system and economic climate were

Organization	Rank	Significant Factors*
Tax Foundation	44	Property taxes, unemployment tax
SBE Council	45	Taxes, regulatory environment, transportation
CNBC	49	Cost of doing business, economy, transportation
Forbes	50	Cost of doing business, regulatory environment, economic climate
Chief Executive	39	Taxation and regulation

SOURCE: Tax Foundation, SBE Council, CNBC, Forces, Chief Executive Magazine

\* Categories in which Rhode Island ranked in the bottom ten states/received the worst grades, and were heavily weighted in each survey

consistently rated as among the worst in the country. Notably, the areas in which Rhode Island fared the worst were often the areas which frequently were given heavier weights in the analyses.

The Tax Foundation and SBE Council looked closely at each of the states' tax policies when developing their reports. Rhode Island is ranked thirty-sixth by the Tax Foundation and forty-fourth by the SBE Council in Corporate Taxes. This ranking, paired with the 47<sup>th</sup> highest property tax and the worst unemployment insurance tax rate in the country makes Rhode Island undesirable for many businesses looking to expand to a new state according to both studies. Corporate and individual capital gains taxes are also in the lower half of the country according to both studies: the Tax Foundation and the SBE Council ranked Rhode Island's capital gains tax system 34<sup>th</sup> and 45<sup>th</sup>, respectively. *Chief Executive*'s analysis, which was based on the

perceptions of CEOs throughout the country, also gave the State low marks in the category of “taxation and regulation”.

Based on Census data, in FY 2008 the most recent year for which nationally comparable data are available, Rhode Island’s state and local tax collections amounted to \$114.18 per \$1,000 of personal income – effectively, the State’s tax collections accounted for 11.4 percent of personal income in that year. This amount of taxes paid to support government ranks Rhode Island 17<sup>th</sup> highest among the 50 states. Although Rhode Island’s relative total tax collections as a share of personal income have been declining in recent years, the perception of the State as a high-tax state persists, a perception which may effect business location decisions.

A second overriding feature, which has an impact on Rhode Island’s ranking in each study, is the State’s regulatory environment. There is no overall analysis for comparing the regulatory environment at a state-to-state level but there are distinct areas such as minimum wage, health care regulations and tort climate that can be used to gauge where the state stands. Though the SBE Council was the only report to go in-depth about the importance of an attractive regulatory environment both the CNBC and Forbes study used it as an indicator of the states overall rank. In each of these studies Rhode Island was highlighted as a low performing state.

While there does not appear to be any comprehensive state-to-state comparisons of regulatory environments, there is ample evidence that onerous regulatory requirements can hinder job creation just as much as high taxes. In particular, strict regulatory environments often disproportionately affect small businesses, an essential component of economic development. An analysis by the Small Business and Entrepreneurship Council gave the State the lowest possible score for regulatory flexibility. Further anecdotal evidence indicates that the varying regulations between municipalities and the State make Rhode Island a less attractive place to start and maintain a business.

The cost of doing business was weighted heavily in the analyses that included the category in their index (Forbes, CNBC and the SBE Council). Many things that impact the cost of doing business are out of the states control such as utility prices, but others such as health care regulation, minimum wage and tax burden are within the State’s control. Rhode Island’s health care regulations also seem to have affected the states overall score in a number of the studies. The Ocean State appears to have the most health care mandates – 70 in all based on the SBE Council analysis – in the country. Additionally, factors such as a minimum wage higher than the national average, and high tax burdens contributed to Rhode Island’s poor performance in this category.

Transportation was explicitly factored into two of the five studies, and in each case Rhode Island was ranked one of the worst states in the country. The SBE Council used the Reason Foundation report on highway cost effectiveness in which Rhode Island ranked 48<sup>th</sup> in 2006. The most recent report by the Reason Foundation ranked the Ocean State 50<sup>th</sup>. CNBC, which looked at the value of goods shipped, availability of air travel, and quality of roads, ranked Rhode Island 48<sup>th</sup>. Although transportation was not an explicit category, it also factored into the “regulatory environment” component of Forbes’s analysis and in the “living environment” category in the Chief Executive analysis.

The two studies which included “economic climate” expressly in their rankings – CNBC and Forbes – ranked Rhode Island 49<sup>th</sup> and 48<sup>th</sup>, respectively. The level of unemployment and other basic economic factors were included in the indices, as was the presence of large companies in each state. While states are limited to an extent with regard to their ability to affect unemployment rates or state GDP, they may be able to make changes to the business climate in order to attract a more diverse mix of business, which, in turn, may help improve the overall economic climate.

By most estimates, Rhode Island’s economic recovery will lag behind its neighbors and the rest of the country, in part because the State has been unable to create an attractive environment for businesses – particularly businesses that offer high-wage, “knowledge economy” jobs. While business location decisions are driven by a number of factors, including the quality of life, cost of living, and quality of the workforce, taxation and regulatory environments are two areas in which states and municipalities are able to affect change within relatively short time frames. However, the State must also take a long-term view with regard to economic development, and make the sort of changes that will improve the negative perceptions that surround Rhode Island’s business climate.

Making improvements in the State’s business climate ranking is possible. Such approaches include amending the taxation system, improving regulatory conditions, fixing the transportation system, and developing new industries. Moreover, Rhode Island can and should build on the more positive aspects of the study, such as leveraging the capacity of the State’s institutes of higher education, in order to improve the State’s ranking. The next few years will present economic challenges for all states. How Rhode Island chooses to respond to these challenges will go a long way in determining the future direction of the State’s economy.

## Summary of Rankings

### The Tax Foundation's 2010 State Business Tax Climate Index Rhode Island Rank: 44<sup>th</sup>

The Tax Foundation is a nonpartisan research group whose mission is to educate taxpayers about sound tax policy and the size of the tax burden borne by Americans. The Tax Foundation annually publishes the State Business Tax Climate Index (SBTCI) which attempts to measure the “business-tax friendliness” of each state’s tax system.

Unlike other business climate indices that produce rankings using numerous categories such as taxation, regulation, workforce, and living environment, the SBTCI relies exclusively on tax factors. The Tax Foundation acknowledges that non-tax factors do play a key role in shaping a state’s business climate. Nevertheless, the Foundation emphasizes taxation primarily because of the capacity of lawmakers to change a state’s taxation policy immediately compared to non-tax factors that may take years to fully implement.

	Weight	CT	ME	MA	NH	RI	VT
Individual Income Tax	30%	24	40	14	9	38	41
Sales Tax	24%	27	6	26	50	13	14
Corporate Tax	20%	18	43	47	2	36	28
Property Tax	15%	48	41	45	40	47	44
Unemployment Tax	11%	34	40	49	39	50	18
<b>Total/Overall</b>	<b>100%</b>	<b>38</b>	<b>34</b>	<b>36</b>	<b>7</b>	<b>44</b>	<b>41</b>

SOURCE: The Tax Foundation

Each state’s ranking in the SBTCI is based on how it competes in five taxation categories: corporate taxes, individual income taxes, sales taxes, property taxes, and unemployment taxes. Each category consists of two sub-indices (generally rate and base), which are also broken down into multiple categories. A weighting

factor is applied to each primary category based on the level of variability across states with respect to their scores. In general, states that operate economically neutral and simple tax systems compete much better in the SBTCI than states that rely on complex and multi-rate tax codes.

Rhode Island ranked 44<sup>th</sup> in the FY 2010 SBTCI – placing it among the category of “10 worst business climates.” The State’s ranking has improved in recent years from 50<sup>th</sup> in the FY 2006 ranking and 46<sup>th</sup> in the FY 2009 ranking. Based on preliminary data, Rhode Island’s ranking in the 2011 SBTCI is 42<sup>nd</sup>; the Tax Foundation is projected to release the new report in October of 2010. For the past five years Rhode Island has had the lowest ranking among New England states. Table 2 shows how each New England state ranked overall and in each sub-category in the 2010 index.

- Individual Income Tax: States are ranked on the basis of their performance in two sub-indices: tax rate/structure, and tax base. Rhode Island’s high top marginal rate (9.9 percent), number of brackets (five), and average width of brackets (\$71,730) hurt the

State's ranking. With regard to the base, Rhode Island has one of the largest marriage penalties in the country and is among 12 states that have an Alternative Minimum Tax (AMT) on individual income. One should note that Rhode Island has recently enacted a revised individual income tax structure that will impact the State's ranking in many of these categories.

- Sales tax: This is the only category where Rhode Island scores in the top half among states despite having one of the highest state sales tax rates in the country (7 percent, tied for 2<sup>nd</sup> highest with five others), and the highest cigarette tax at \$3.46 per pack. These factors are offset by the fact that the State has no county or city (local option) sales taxes and exempts a large number of "business-to-business inputs", consumer goods and services.
- Corporate Income Tax: While Rhode Island has the 5<sup>th</sup> highest rate in the country (9.0 percent) among the 30 states that have only one corporate bracket, the State imposes a single rate structure, which the Foundation views favorably. With regard to the tax base, the large number of applicable credits, low carry-forward provisions (five years) for net operating loss deductions and no carry-back provisions contribute to the State's low ranking.
- Property Taxes: Rhode Island was among the worst-performing states on the property tax rate sub-index, with per capita property tax collections of \$1,949, ranking 8<sup>th</sup> highest in the country and the 3<sup>rd</sup> highest property tax collections as a percentage of income (5.4 percent). The Foundation also considers six other kinds of property taxes (intangible personal property, inventory, and four asset transfer taxes: estate, inheritance, gift and real estate transfer taxes). Rhode Island's ranking is hurt, in part by the fact that the State is one of 17 states that has decoupled their estate tax system from the federal system to avoid the reduction in revenue from the federal phase-out of the tax.
- Unemployment Tax: In the past five SBTCI reports, Rhode Island has ranked 50<sup>th</sup> in the unemployment tax category. The State's high minimum and maximum rates (1.69 percent and 9.79 percent, respectively), above-average taxable wage threshold (\$18,000), and complicated experience formula (which determines the rate an employer must pay) and charging methods (the determination of the employer who is charged the benefit) contribute to the State's low ranking. Mandatory Temporary Disability Insurance (TDI), lack of voluntary contributions and long time periods for companies to qualify for experience ratings also hurt the State.

**The Small Business and Entrepreneurship Council's Small Business Survival Index 2009**  
***Rhode Island Rank: 45<sup>th</sup>***

The Small Business and Entrepreneurship Council (SBE Council) is an "advocacy organization dedicated to protecting small business and promoting entrepreneurship." The organization's mission is "to educate elected officials, policymakers, business leaders and the public about key policies that enable business start-up and growth." The SBE Council seeks to highlight the importance of entrepreneurship in the areas of job creation, innovation and economic growth.

Since 1996, the SBE Council has published its Small Business Survival Index as a measurement of each state’s policy environment for entrepreneurship.

The Small Business Survival Index methodology considers major government-imposed or government-related costs affecting investment, entrepreneurship, and business. There are 36 categories in the 2009 edition. Areas of focus include taxation, regulatory costs, health care mandates, labor policies (right-to-work, minimum wage, workers’ compensation costs, etc), and levels of governmental spending. The Index rankings are based on each state’s aggregate score across the 36 categories.

The Index weighs taxation heavily and uses the top marginal rates (corporate, personal, etc.) in each state as the actual tally in these categories. The scores in other categories are derived from ratios (for example, a state’s minimum wage divided by the federal minimum wage) or the presence of mandates (e.g., states receive one point if they are a right-to-work state, zero points if they are not).

Rhode Island ranked 45<sup>th</sup> in the 2009 Small Business Survival Index. In reviewing SBE Council reports back to 2003, the State’s ranking has been consistently near the bottom (47<sup>th</sup> in 2008, 48<sup>th</sup> between 2007 and 2004, and 47<sup>th</sup> in 2003). The 2009 Small Business Survival Index considers New England to be among the least friendly policy environments for entrepreneurship – with all states finishing in the bottom half of the Index, and five of six states ranked in the bottom quintile (Vermont 47<sup>th</sup>, Maine 46<sup>th</sup>, Rhode Island 45<sup>th</sup>, Massachusetts 44<sup>th</sup>, Connecticut 40<sup>th</sup>, and New Hampshire 33<sup>rd</sup>) as shown in Table 3.

Top 10			Bottom 10		
Rank	State	Score	Rank	State	Score
1	South Dakota	25.693	41	Iowa	67.485
2	Nevada	31.348	42	Hawaii	68.454
3	Texas	32.082	43	Minnesota	72.149
4	Wyoming	37.069	44	Massachusetts	72.515
5	Washington	42.955	<b>45</b>	<b>Rhode Island</b>	<b>73.339</b>
6	Florida	45.284	46	Maine	74.699
7	South Carolina	48.001	47	Vermont	75.717
8	Colorado	48.250	48	New York	76.717
9	Alabama	48.823	49	California	77.749
10	Virginia	50.843	50	New Jersey	84.730

SOURCE: Small Business & Entrepreneurship Council "Small Business Survival Index, 2009"

Overall, Rhode Island ranks in the bottom half of states in 22 of the 36 categories. The State’s ranking was notably affected by the following:

- Taxation: The SBE Council places the greatest weight on taxation in their survey; taxation variables make up nearly 60 percent of each state’s ranking in the Index. A review of each tax category shows that the State is ranked among the bottom 10 states in six of the Index’s nine tax categories. As with other analyses, Rhode Island’s property tax burden and high top personal income tax marginal rate and corporate income tax rate lower the State’s ranking, as does the treatment of capital gains as ordinary income. Rhode Island’s ranking is also affected by high fuel taxes and a significant unemployment tax burden. Notably, the only category in which the State does not rank in the bottom half is for state and local sales, gross receipts and excise taxes.

- Transportation: Rhode Island scored low in all three categories highlighted in the SBE Council report. For both gas and diesel taxes, the State ranked 42<sup>nd</sup> and 43<sup>rd</sup>, respectively, indicating that the State has some of the highest fuel taxes in the country. Another factor that lowered the State's score was the SBE Council's study of highway cost effectiveness, which looks at the condition and performance of the highway system in relation to the money spent to maintain them through taxes. Rhode Island ranked at 48<sup>th</sup> in the country in this category, ahead of Alaska and New Jersey.
- Health: Rhode Island ranks last in the country for the number of health insurance mandates. According to the SBE Council, the State has 70 mandates in comparison with top-ranked Idaho, which has only 13. In addition, the State receives low marks for guaranteed issue and community rating mandates as well as the lack of a high-risk pool. However, the State does get recognition for allowing tax deductions for contributions to health savings accounts (HSAs).
- Labor: A state's status as right-to-work or not plays a role in the SBE Council rankings. In the United States there are 22 right-to-work states, mainly the southern and western portions of the country. The SBE Council prefers right-to-work states because they consider these states as having a "more dynamic, flexible workforce and a more amendable environment for increased productivity and improved efficiency." Rhode Island's ranking is also affected by the State's imposition of a minimum wage that is higher than the Federal minimum.
- Government: Rhode Island ranked 41<sup>st</sup> for government expenditures per capita in FY 2007. An analysis of Rhode Island's spending trends from FY 2002 to FY 2007 noted that the State ranked 40<sup>th</sup> in the country for growth in government expenditures; that is, over the five-year period covered, Rhode Island's state and local spending grew at a faster rate than four-fifths of the country. One area in which the State fared well in the analysis was government employment. The state ranked 11<sup>th</sup> in the nation for government employment as a share of the total population.

### **CNBC's Top States for Business 2010**

#### ***Rhode Island Rank: 49<sup>th</sup>***

CNBC is a cable and satellite business news channel owned by NBC Universal. The network and its international affiliates cover business headlines and provide live coverage of financial markets. CNBC has been issuing its annual Top States for Business report since 2007. The analysis is based on an index that consists of the following 10 categories (in order of importance): cost of doing business, workforce, quality of life, and the overall state of the economy, transportation and infrastructure, technology and innovation, education, business friendliness, access to capital, and cost of living. Each state receives a raw score in each category, and this raw score is used to create a categorical rank from one to 50. The overall rank consists of a weighted average among the 10 categories.

Table 4 shows how the six New England states ranked in each of the ten categories and overall in both 2009 and 2010. The table also shows the weight CNBC gives to each ranking category,

which was used to calculate each state’s overall score. CNBC weighs the importance of each category based on how frequently each is cited in state economic development marketing materials.

Rhode Island ranked 48<sup>th</sup> in the 2009 survey and 49<sup>th</sup> in the 2010 survey. In both years, this was the lowest ranking among the New England states. Connecticut ranked 35<sup>th</sup> in both years, Maine ranked 40<sup>th</sup> in 2009 and 39<sup>th</sup> in 2010, New Hampshire ranked 21<sup>st</sup> in 2009 and 19<sup>th</sup> in 2010, and Vermont ranked 30<sup>th</sup> in 2009 and 37<sup>th</sup> in 2010. Notably, Massachusetts was the only New England state to rank in the top ten in either year. The Bay State ranked 8<sup>th</sup> in 2009 and 5<sup>th</sup> in 2010. CNBC largely credits Massachusetts’s position to the Bay State’s strength in education, technology and innovation, quality of life, and access to capital.

**Table 4**  
**New England Rankings**  
**CNBC Best States for Business 2009-2010**

Category	Weight	Connecticut		Maine		Massachusetts		New Hampshire		Rhode Island		Vermont	
		2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Cost of Doing Business	18.5%	47	47	39	38	40	39	34	34	46	45	35	42
Workforce	14.4%	40	42	45	47	26	23	30	38	25	25	32	36
Quality of Life	14.4%	9	2	8	6	6	6	1	4	24	33	2	3
Economy	12.9%	32	30	26	25	12	17	14	12	50	49	17	12
Transportation	12.3%	40	43	36	41	31	39	47	47	48	48	46	46
Technology & Innovation	10.3%	17	22	41	41	5	3	31	27	28	28	39	40
Education	7.2%	8	9	8	7	1	1	5	6	26	14	4	4
Business Friendliness	7.2%	23	20	24	28	17	14	9	9	47	48	26	37
Access to Capital	2.1%	8	17	29	40	2	2	30	16	36	23	36	40
Cost of Living	1.0%	45	43	38	39	36	40	40	39	40	40	43	43
<b>Overall</b>	<b>100.0%</b>	<b>35</b>	<b>35</b>	<b>40</b>	<b>39</b>	<b>8</b>	<b>5</b>	<b>21</b>	<b>19</b>	<b>48</b>	<b>49</b>	<b>30</b>	<b>37</b>

SOURCE: CNBC Best States for Business - 2010

In both years, Rhode Island ranked in the bottom ten states in five categories and ranked in the top half of the country in three categories in 2010: workforce (25<sup>th</sup>), education (14<sup>th</sup>), and access to capital (23<sup>rd</sup>). The study does not provide specific data on how each state ranked within each broad category, but does provide a summary of the factors considered within each as summarized below:

- Cost of Doing Business: This category includes tax burden, utility costs, wages and workers’ compensation insurance, and rental costs. All New England states ranked in the bottom half of the country in this category. Rhode Island’s ranking of 45<sup>th</sup> in 2010 was the second lowest in New England, just ahead of Connecticut, which ranked 47<sup>th</sup>.
- Workforce: This category includes the education level of the workforce and number of available workers, union membership, and the relative success of state worker training programs in job placement. Rhode Island’s rank of 25<sup>th</sup> was the second highest in New England, behind Massachusetts.
- Quality of Life: This category includes several factors such as local attractions, crime rate, health care, air and water quality, and perceived livability. In general, the New England

states ranked higher than the rest of the country – ranking in the top ten across the board – with the exception of Rhode Island. In 2010, the Ocean State ranked 33<sup>rd</sup> in this category, down from 24<sup>th</sup> the year prior.

- Economy: CNBC looked at the diversity of each state’s economy (the variety of industries as well as access to, and number of, large companies within those industries in the state), as well as a variety of indicators of economic health and growth. Rankings in this category ranged from a low of 49<sup>th</sup> in Rhode Island to a high of 12<sup>th</sup> in New Hampshire and Vermont.
- Transportation: Factors in this category include the value of goods transported (by air, land and water), as well as availability of air travel and quality of roads. In general, New England performed poorly in this category; in 2010 Massachusetts was the only state not to rank in the bottom ten. Rhode Island’s rank of 48<sup>th</sup>, however, was the lowest of the six New England states in 2010.
- Technology and Innovation: Included in this category is how well states support innovation, the number patents issued to residents, the deployment of broadband services, and federal health and science research grants. In both years, Rhode Island ranked 28<sup>th</sup> in the country in this category, out-performing Maine and Vermont, but behind Connecticut, Massachusetts and New Hampshire.
- Education: CNBC’s ranking is based on traditional metrics of K-12 education performance (e.g. test scores, class size and spending), as well as the number of higher education institutions throughout the state. Generally, New England performs well in this category. However, as with quality of life, Rhode Island was the only New England state that did not rank in the top ten. The Ocean State ranked 26<sup>th</sup> in 2009 and 14<sup>th</sup> in 2010.
- Business Friendliness: This category includes both perceptions and data regarding legal and regulatory frameworks for businesses. Rhode Island’s rank of 48<sup>th</sup> in this category in 2010 was the lowest of all the states in the region. New Hampshire, which ranked the highest in New England, ranked 9<sup>th</sup> in the country in both years.
- Access to Capital: This category looks at the flow of venture capital into states. With the exception of Maine and Vermont, both of which ranked 40<sup>th</sup> in 2010, the New England states ranked in the top half of states in this category. Rhode Island ranked 23<sup>rd</sup> in 2010, up from 36<sup>th</sup> in 2009.
- Cost of Living: CNBC notes that “[from] housing to food, to energy, wages go further when the cost of living is low.” Rhode Island’s rank of 40<sup>th</sup> in 2010 was tied with Massachusetts, and was slightly higher than Maine and New Hampshire (39<sup>th</sup>) and Connecticut and Vermont (43<sup>rd</sup>).

**Forbes “The Best States for Business 2009”**  
**Rhode Island’s Rank: 50<sup>th</sup>**

Forbes is a privately owned publication and media company. Its main publication, the bi-weekly *Forbes Magazine*, has been in print since 1917. Their survey, The Best States for Business is an annual ranking that measures each state through the six “vital” categories of cost, labor supply, regulatory environment, current economic climate, growth prospects and quality of life. These six categories encompass 33 points of data used to determine the overall rank.

**Table 5**  
**New England Rankings**  
**Forbes Best States for Business 2009-2009**

Category	Connecticut		Maine		Massachusetts		New Hampshire		Rhode Island		Vermont	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Cost of Doing Business	45	45	44	44	46	48	41	41	42	40	43	43
Labor Supply	13	18	26	25	16	16	4	5	35	35	12	13
Regulatory Environment	41	33	32	32	24	22	44	46	49	50	33	44
Economic Climate	24	31	39	39	45	33	36	26	30	48	31	49
Growth Prospects	29	37	43	28	40	40	9	5	16	18	44	42
Quality of Life	3	3	19	19	2	2	5	4	20	21	10	9
<b>Overall</b>	<b>33</b>	<b>35</b>	<b>46</b>	<b>41</b>	<b>36</b>	<b>34</b>	<b>20</b>	<b>19</b>	<b>45</b>	<b>50</b>	<b>36</b>	<b>47</b>

SOURCE: Forbes Best States for Business 2008 - 2009

- **Business Costs:** Business costs, which include labor, energy and taxes, are weighted the most heavily in the Forbes rankings. The cost of doing business in Rhode Island ranks 40<sup>th</sup> in the country for 2009 according to Forbes. Although all six New England states were in the bottom 10 on the cost of doing business measure, Rhode Island was ranked the highest among them. The report shows little change from New England’s rankings by Forbes in previous years.
- **Labor Supply:** The labor supply ranking uses high school and college attainment rates as well as net migration and projected population growth. Rhode Island ranked 35<sup>th</sup> in the country in this category, identical to its rank the previous year. Outside of Maine and Rhode Island, all of the other New England states ranked in the top 20 states in the country.
- **Regulatory Environment:** The regulatory environment in the Forbes rankings measures the regulatory and tort climate, incentives, transportation, and bond ratings. New England has historically performed poorly with regard to its regulatory environment; all but one of the New England states ranked in the bottom half of the country in the most recent Forbes survey. Rhode Island ranked 50<sup>th</sup> in the 2009 survey.
- **Economic Climate:** To measure the economic climate of a given state Forbes uses job, income and gross state product growth as well as unemployment and the presence of large

companies. Vermont and Rhode Island saw a significant decline in their rankings in their economic climate ranking between the 2008 and 2009 surveys; the states both dropped 18 ranks to 49<sup>th</sup> and 48<sup>th</sup>, respectively. At the same time, Massachusetts and New Hampshire moved up at least 10 rankings over the year.

- Growth Prospects: The growth prospects rank looks at projections of job, income and gross state product growth in combination with a given state’s business openings and closings and the presence of venture capital investment. Rhode Island’s rank of 18<sup>th</sup> in the states “prospect for growth” category was the State’s highest ranking and was higher than any other New England state. The rest of the New England states ranked in the bottom half of the country and both Vermont and Massachusetts were ranked as one of the worst ten states for prospected growth.
- Quality of Life: Forbes ranks quality of life through an index based on schools, health, crime, cost of living and poverty rates. Rhode Island ranked 21<sup>st</sup> in 2009 for quality of life, lagging behind the other New England states, all of which, other than Maine, were in the top 10 in the country.

**Chief Executive Magazine Best/Worst States for Business 2010**

***Rhode Island Rank: 39<sup>th</sup>***

*Chief Executive* is a business magazine that “provides ideas, strategies and tactics for top executive leaders seeking to build more effective organizations.” Established in 1977, *Chief Executive* seeks to “convey the full range of the CEO experience: the corporate challenges as well as the personal pressures and satisfactions.”

For the past six years, the magazine has conducted an annual survey of CEOs across the country, using the information collected to produce a ranking of the best and worst states for business. CEOs were asked to rank each state based on three general categories: 1) taxation and regulation, 2) quality of workforce, and 3) living environment. As part of this process, CEOs were asked to grade six or seven states (their top three and bottom three, and their home state if it was not one of the other six) in five to six subcategories such as perceived attitude of government to business, employee work ethic, and real estate costs. It is important to note that this study is based on the *subjective* perceptions held by CEOs, rather than objective measures such as total tax burden or regulatory environment.

	<b>Taxation &amp; Regulation</b>	<b>Workforce Quality</b>	<b>Living Environment</b>	<b>Ranking</b>	<b>5-Year Change</b>
Connecticut	C-	B	B-	45	-5
Maine	D	B-	B-	37	-3
Massachusetts	D-	B	C+	47	2
New Hampshire	B+	B+	B+	18	-3
<b>Rhode Island</b>	<b>D+</b>	<b>C</b>	<b>C</b>	<b>39</b>	<b>-10</b>
Vermont	D-	C+	B	36	0

SOURCE: *Chief Executive*

*Chief Executive* compiled the CEO survey data and ranked each state based on their relative performance within the study. Table 6 shows the grades for Rhode Island and for the five other New England states. In general, the Ocean State did not perform well in the study: Rhode Island and Louisiana were the only two states to receive grades of C or lower in all categories. However, the State was ranked 39<sup>th</sup> overall, and ahead of both Massachusetts and Connecticut. At the same time, Rhode Island's ranking has fallen 10 places in the index – the fifth steepest decline across the country and the largest decline in New England.

In addition to compiling overall grades by category, *Chief Executive* provides a state-by-state ranking based on 35 criteria culled from a number of different sources that measure key attributes for doing business within each of the 50 states. While these data do not figure into the overall rankings used by *Chief Executive*, they provide an additional – and objective – source for ranking states.

- Taxation and Regulation: Rhode Island received a grade of D+ in this category, but was ahead of Maine (D), Massachusetts (D-) and Vermont (D-). The category included the following measures (in order of importance): perceived attitude of government to business, state income and corporate tax rates, degree of employment compliance regulations, and tax incentives for locating in the state.
- Workforce Quality: Rhode Island's grade of C in this category was the lowest of the New England states. Attributes CEOs were asked to evaluate included (in order of importance): employee work ethic, general education level of the workforce, competitiveness of wage rates, the perception of employee's cooperative relationship with management, and availability of labor with specialized experience.
- Living Environment: As with workforce quality, the Ocean State's grade of C was the lowest of the New England states. Within this category, CEOs were asked to grade the states on the following (in order of importance): real estate costs, public health and hospitals, public education system, crime rate, access to transportation, and arts and cultural institutions.

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