

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

**January 2012**



**RIPEC**

## Introduction

Research organizations and media outlets have published rankings of each state's business climate since the 1970s. These "competitiveness rankings", in which business climates were 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. Previous studies have taken to broadening their indices to include measures such as quality of life, school quality and transportation. The following report contributes to the discussion on whether such business climate rankings have a material effect on business location decisions, as well as an overview of a number of recent business climate analyses.

While there does not appear to be a general consensus among researchers 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 use of these studies has become increasingly widespread over the past decade. Business climate studies in and of themselves may not be able to predict whether a state is likely to experience economic growth, or growth vis-à-vis another state; however, perception is a key factor when promoting economic growth. Furthermore, a state may be able to selectively focus on areas in which changes should be made to improve rankings by examining the areas in which they consistently rank low across a number of analyses.

The following RIPEC report provides an analysis of how Rhode Island fared in five recent state business climate studies – three performed by research organizations (the Tax Foundation's "2011 State Business Tax Climate Index", The Beacon Hill Institute's "Tenth Annual State Competitiveness Report," and the Small Business and Entrepreneurship Council's "Small Business Survival Index 2011") and two performed by media outlets (CNBC's "Top States for Business 2011" and *Forbes's* "Best States for Business 2011"). The report summarizes how Rhode Island competes on a national scale and with other New England states in terms of overall business climate. The following also highlights specific areas in which Rhode Island may be able to improve the statewide business climate.

Rhode Island is often placed at or near the bottom of such business climate rankings – the result of tax policies and a 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. The Beacon Hill Institute ranked Rhode Island as the 20<sup>th</sup> best state to do business in, an exception to the other four studies which ranked the state in the bottom 10 of business climate rankings. In the most recent CNBC study, the Ocean State ranked 50<sup>th</sup> in 2011, and has fallen in the rankings every year between 2009 and 2011.

While factors such as taxation and the regulatory environment are not the only factors that influence business location decisions, the negative perceptions surrounding Rhode Island's business climate may have an undesirable impact on the state's ability to grow economically in an increasingly competitive market. Rhode Island has an opportunity to address these areas in which it performs poorly and to continue to take steps, such as reforming the income tax code and working on the regulatory environment, which may positively affect the state's relative position in the rankings and, thus, grow business investment and improve the economy.

## 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 influence business decisions are within governments' control, for example, utility costs are generally influenced more by the market than by policy. There are, however, steps that can be taken to improve the regulatory environment and modify taxation systems that negatively affect businesses.

In general, a healthy and robust 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. In an increasingly competitive global market, states must evaluate policies geared toward attracting and retaining business activity within their borders. No one single climate or set of policies 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, for example. Further, 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 climates that are worth examining in greater depth.

Several 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, three from research organizations (The Tax Foundation, the Beacon Hill Institute, and the Small Business and Entrepreneurship Council) and two by media outlets (*Forbes* and CNBC). All of the surveys included in this analysis note that the state's tax climate is a disincentive for business investment in Rhode Island, and four of the five cited the state's regulatory environment. Of the studies that included a range of variables, transportation/infrastructure, cost of doing business, economic climate were also areas in which the state fared poorly.

A review of the business ranking surveys indicates that:

- Across the board, Rhode Island received low marks for its tax climate and the cost of doing business. Every survey gave the state consistently low scores for the high tax burden in Rhode Island, while the Tax Foundation also rates the state low for the tax system itself.
- The state also consistently received low marks for its regulatory environment, ranking 50<sup>th</sup> in the *Forbes* analysis, 48<sup>th</sup> in the CNBC report, and consistently low in the SBE Council's rankings (the Tax Foundation and Beacon Hill either do not include the regulatory environment as a factor, or included it in another category).
- The Tax Foundation gives the state low marks for its tax climate, particularly with regard to property and unemployment taxes. The one taxation area in which the state did not rank

in the bottom half was in the sales tax category. However, the state’s rank continues to get better in the overall rankings, increasing from 44<sup>th</sup> in 2010 to 42<sup>nd</sup> in 2011.

- The SBE Council, which is a broader survey than the Tax Foundation’s, gives Rhode Island low marks (in the bottom ten) for top corporate income tax rates, property taxes, unemployment taxes, health insurance mandates, electric utility costs, gas taxes, wireless taxes, diesel taxes, and highway cost effectiveness.
- Rhode Island performed reasonably well in the Beacon Hill Institute’s “Tenth Annual State Competitiveness Report,” citing a favorable technology advantage (8<sup>th</sup> in the nation), security (2<sup>nd</sup> in the nation), and human resources advantage (18<sup>th</sup> in the nation).
- Rhode Island’s overall rank slightly increased between 2010 and 2011, from 49<sup>th</sup> to 48<sup>th</sup> in *Forbes’s* “Best States for Business” index. The state’s low rating continues to be primarily related to the state’s regulatory environment and economic climate.
- In *Forbes’s* “Best States for Business” the Ocean State ranked 17<sup>th</sup> for growth prospects and 18<sup>th</sup> for quality of life, but 40<sup>th</sup> for business costs, 49<sup>th</sup> for its economic climate and 50<sup>th</sup> for regulatory environment.

**Table 1**  
**Business Climate Survey Rankings**

Organization	Rank	Significant Factors*
Tax Foundation	42	Property taxes, unemployment tax
SBE Council	47	Taxes, regulatory environment, transportation
Beacon Hill Institute	20	Government and fiscal policy, environmental policy, business openness
CNBC	50	Cost of doing business, economy, transportation
Forbes	48	Cost of doing business, regulatory environment, economic climate

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

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

According to these studies, Rhode Island has room for improvement with regard to its ability to attract and retain business. While each analysis includes different variables, and weights each variable differently, there were a few common themes throughout the five analyses. 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. Similarly, the state consistently ranked at the bottom of the states for business costs, the economic climate, and the regulatory environment. 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.

The Tax Foundation and SBE Council looked closely at each of the states' tax policies in their analyses of state business rankings. In both studies, the state ranks low for its corporate tax rates, the unemployment tax system, and property taxes. These taxes, which have an impact on the overall cost of doing business, may make Rhode Island undesirable for many businesses looking to expand according to both studies. Corporate and individual capital gains taxes also rank the state 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 34<sup>th</sup> and 44<sup>th</sup>, respectively. While the state has taken a number of steps in recent years to adjust the tax structure, it is clear from these studies that the state's tax climate continues to be poorly perceived, and the tax burden and structure continue to act as a disincentive to business investment.

Based on Census data, Rhode Island's state and local tax collections amounted to \$109.84 per \$1,000 of personal income in FY 2009. Effectively, the state's tax collections accounted for 9.8 percent of personal income in that year. This amount of taxes paid by taxpayers per \$1,000 of personal income ranks Rhode Island 11<sup>th</sup> highest among the 50 states, and was 5.2 percent higher than the national average. Although Rhode Island's relative total tax collections as a share of personal income declined in recent years, the overall perception of the state as a high-tax state persists, a perception that may affect business location decisions. Similarly, an April 2011 study by the Council on State Taxation (COST) noted that Rhode Island has one of the highest effective tax rates (ETR) on new capital investment, at 11.5 percent. Excluding the District of Columbia, only New Mexico had a higher ETR on new capital investment.

The state's regulatory environment also had an impact on Rhode Island's ranking in each study. There is no overall analysis for comparing the regulatory environment state-to-state, but there are distinct areas such as minimum wage and health care regulations that can be used to gauge where each state stands. Though the SBE Council was the only report to examine the importance of an attractive regulatory environment in depth, both the CNBC and Forbes studies used the regulatory environment as an indicator of the state's overall rank. These studies ranked Rhode Island 43<sup>rd</sup> (for business friendliness), and 48<sup>th</sup> (for regulatory environment), respectively.

While there does not appear to be any comprehensive state-to-state comparisons of regulatory environments, there is evidence that onerous regulatory requirements can hinder job creation just as adversely as high taxes. In particular, strict regulatory environments often disproportionately affect small businesses, an essential component of economic development. While the state has recently made efforts to improve the regulatory climate, the state's poor showing in these analyses indicates that this should be an area of continued focus. 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. Increased coordination and cooperation between the state and municipalities, and across cities and towns, may help improve the state's standing in some of these surveys.

The cost of doing business – a category that broadly includes taxes, labor costs, utilities, and real estate costs – was factored into the CNBC and Forbes indices, and other related, but more specific costs were in the SBE Council analysis. Several factors that impact the cost of doing business, such as utility prices, may be out of the state's control, but others such as health care regulation, minimum wage and tax burden may be affected by the policymaker action. One area

in which this is the case is with regard to health care regulations. The Ocean State appears to have the most health care mandates – 69 in total based on the SBE Council analysis – in the country. Additionally, factors such as a minimum wage that is higher than the national average, and high tax burdens, as noted above, contributed to Rhode Island’s poor performance in this category. Similarly, in the Beacon Hill Institute survey, the state ranked low on electricity prices (43<sup>rd</sup>) and housing costs (36<sup>th</sup>) for an overall ranking of 34<sup>th</sup> (both in the infrastructure sub-index).

Transportation was explicitly factored into two of the five studies, and in each case Rhode Island was ranked as one of the worst states in the country. The SBE Council ranked Rhode Island as worst in the nation for highway cost effectiveness for the second year in a row. CNBC, which looked at transportation and infrastructure ranked Rhode Island 48<sup>th</sup>. CNBC considered the quality of transportation to be dependent on the vitality of each state’s transportation system, availability of air travel, quality of roads, and the ease of transporting goods interstate. Although transportation was not an explicit category in the Forbes study, it also factored into the “regulatory environment” component of Forbes’s analysis. The Beacon Hill Institute includes an “infrastructure” sub-index, in which the state fares well for high-speed lines and air passengers per capita (12<sup>th</sup> and 17<sup>th</sup>, respectively).

The two studies which included “economic climate” expressly in their rankings – CNBC and Forbes – ranked Rhode Island 50<sup>th</sup> and 49<sup>th</sup>, respectively. The level of unemployment and other economic factors were included in these 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. Thus, continued high unemployment, as in the case of Rhode Island, is both an indicator of a state’s business climate and may serve to reinforce the perception that the state is not a good place to do business.

Rhode Island’s economic recovery has been sluggish and lags behind its New England counterparts and the rest of the country, in part because the state has been unable to create an attractive environment for businesses – especially 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, which, in turn, may help spur business investment. At the same time, the state must also consider a long-term approach with respect to economic development, and make changes that will improve the negative perceptions that surround Rhode Island’s business climate.

It is clear that reforming some of these negative perceptions is becoming a higher priority for the state, as evidenced by changes to the state’s tax and unemployment systems, and the passage of a legislative package aimed at providing a measure of regulatory relief. Moreover, Rhode Island can and should build on the more positive aspects of the studies, 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 State Rankings

### The Tax Foundation's 2011 State Business Tax Climate Index Rhode Island Rank: 42<sup>nd</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. 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. The most recent version of the study was published in October 2010.

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-related factors. The Tax Foundation acknowledges that non-tax factors play a role in shaping a state’s business climate, but the Foundation puts an emphasis on taxation because of the capacity of lawmakers to change a state’s taxation policy immediately compared with factors other than taxes that sometimes take years to fully implement and generate results.

**Table 2**  
**New England Rankings**  
**Tax Foundation Study - 2011**

Category	Weight	Connecticut		Maine		Massachusetts		New Hampshire		Rhode Island		Vermont	
		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Individual Income Tax	30%	24	47	40	37	14	15	9	10	38	35	41	40
Sales Tax	25%	27	26	6	6	26	24	50	1	13	14	14	16
Corporate Tax	19%	18	18	43	43	47	47	2	2	36	37	28	28
Property Tax	15%	48	49	41	26	45	43	40	35	47	47	44	36
Unemployment Tax	11%	34	30	40	44	49	49	39	38	50	50	18	21
<b>Total/Overall</b>	<b>100%</b>	<b>38</b>	<b>47</b>	<b>34</b>	<b>31</b>	<b>36</b>	<b>32</b>	<b>7</b>	<b>7</b>	<b>44</b>	<b>42</b>	<b>41</b>	<b>38</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. That is, the wider the range in scores, the heavier the weight for that particular category. When compared to the 2010 index, the 2011 index places slightly heavier weight on sales taxes and slightly less weight on the corporate tax.

Despite improvement over the state's 2010 ranking of 44<sup>th</sup>, Rhode Island ranked 42<sup>th</sup> overall in the FY 2011 SBTCI – placing it once again 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. Connecticut was the only other New England state to rank lower than Rhode Island in 2011, ranking 47<sup>th</sup> overall, down from 38<sup>th</sup> in the 2010 index. Table 2 shows how each New England state ranked overall and in each sub-category in the 2011 index.

- Individual Income Tax: States are ranked on the basis of their performance in two sub-indices: tax rate/structure, and tax base. Many businesses, such as sole proprietorships, partnerships, and S-corporations pay the individual, rather than corporate, tax, making the individual income tax an important factor in business climate studies. Rhode Island ranked 35<sup>th</sup> overall, but had a more favorable individual income tax ranking than Connecticut (47<sup>th</sup>), Maine (37<sup>th</sup>) and Vermont (40<sup>th</sup>). It should be noted that Rhode Island's old top marginal rate of 9.9 percent was used in this analysis as the reforms enacted in the 2010 legislative session were not implemented at the time of the analysis. As in past years, the high marginal rate, average width of bracket, and number of brackets, lowered the state's ranking. With respect to the base, Rhode Island was counted among the 12 states that have an Alternative Minimum Tax (AMT) on individual income, lowering the state's ranking. The AMT was also eliminated in the individual income tax changes made in 2010.
- Sales Tax: Despite having one of the highest state sales tax rates in the country (7.0 percent, tied for 2<sup>nd</sup> highest with five other states) Rhode Island ranked 14<sup>th</sup> overall in this category. The state's high general sales tax rate, and high excise tax rates, coupled with a narrow base, put businesses in Rhode Island at a competitive disadvantage according to the Tax Foundation. At the same time, the state received high marks for lacking local option sales taxes and exempting a large number of “business-to-business inputs”.
- Corporate Income Tax: While Rhode Island has the 5<sup>th</sup> highest rate in the country (9.0 percent along with New Jersey and West Virginia) among the 30 states that have only one corporate bracket, the state imposes a single rate structure, which the Foundation views favorably. In the Tax Foundation's corporate tax index, Rhode Island ranked 37<sup>th</sup> in the nation, down one from 2010 when the state ranked 36<sup>th</sup>. Although no changes have been made to the state's corporate income tax and, thus, score, changes in other states Rhode Island's lowered rank in this category.
- Property Taxes: The Foundation also looks at seven kinds of property taxes (property, intangible personal property, inventory, and four asset transfer taxes: estate, inheritance, gift and real estate transfer taxes), as well as capital stock taxes. Rhode Island was among the worst-performing states on the indicator, ranking 47<sup>th</sup> in the country. Factors which affected the state's ranking include high property tax collections, the state's capital stock structure (despite having one of the lower rates among states that levy a capital stock tax, a slight majority of states do not levy the tax), and the decoupling of the estate tax system from the federal system.
- Unemployment Tax: In the past six SBTCI reports, Rhode Island has ranked 50<sup>th</sup> in the unemployment tax category. The state's high minimum and maximum rates (1.6 percent and 9.7 percent, respectively), above-average taxable wage threshold (\$19,000), and complicated experience formula 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) and a lack of voluntary contributions also hurt the state’s poor unemployment tax ranking.

**The Small Business and Entrepreneurship Council’s Small Business Survival Index 2011**  
*Rhode Island Rank: 47<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. The sixteenth annual Small Business Survival Index uses 44 government-imposed or government-related costs that impact businesses and entrepreneurs in the 2011 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 thirty-eight categories.

The SBE Council 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 (states received one point if they are a right-to-work state and zero points if they do not).

**Table 3**  
**Small Business & Entrepreneurship Council**  
**Small Business Survival Index Rankings, 2011**

Top 10			Bottom 10		
Rank	State	Score	Rank	State	Score
1	South Dakota	32.292	41	Iowa	72.525
2	Nevada	38.531	42	Massachusetts	73.976
3	Texas	39.076	43	Minnesota	75.308
4	Wyoming	46.049	44	Connecticut	75.587
5	South Carolina	47.047	45	Maine	75.876
6	Alabama	48.765	46	California	76.357
7	Ohio	49.538	<b>47</b>	<b>Rhode Island</b>	<b>77.250</b>
8	Florida	50.081	48	Vermont	78.291
9	Colorado	51.317	49	New Jersey	82.625
10	Virginia	51.697	50	New York	82.787

SOURCE: Small Business & Entrepreneurship Council "Small Business Survival Index, 2011"

Rhode Island ranked 47<sup>th</sup> in the 2011 Small Business Survival Index. In reviewing SBE Council reports back to 2003, the state's ranking has been consistently in the bottom ten (45<sup>th</sup> in 2010 and 2009, 47<sup>th</sup> in 2008, 48<sup>th</sup> between 2007 and 2004, and 47<sup>th</sup> in 2003). The 2011 Small Business Survival Index considers New England to be among the least friendly regions for entrepreneurship – with all states finishing in the bottom half of the Index, and five of six states ranked in the bottom quintile (Connecticut 44<sup>th</sup>, Maine 45<sup>th</sup>, Massachusetts 42<sup>nd</sup>, Rhode Island 47<sup>th</sup>, and Vermont 48<sup>th</sup>) as shown in table 3. New Hampshire was the only New England state to rank in the top quintile – at 33<sup>rd</sup> in the nation.

Overall, Rhode Island ranks in the bottom half of states in the majority of the SBE categories. The state's ranking was notably affected by the following:

- Taxation: The SBE Council places the greatest weight on taxation in their business climate 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 received poor marks in the Index's 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 overall ranking, as does the treatment of capital gains as ordinary income. Property taxes as a share of personal income place Rhode Island at 47<sup>th</sup> in national rankings. As in 2010, Rhode Island's ranking was also impacted by fuel taxes and the unemployment tax burden. On the plus side, the state did get credit for a lack of individual or corporate alternative minimum 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 48<sup>th</sup> in the country in this category, ahead of only Alaska and New Jersey.
- Health: Rhode Island ranks 50<sup>th</sup> in the country for having the highest number of health insurance mandates imposed by the state. In addition, Rhode Island receives low marks for guaranteed issue and community rating mandates as well as the lack of a high-risk pool. However, the state was recognized for allowing tax deductions for contributions to health savings accounts (HSAs). It should be noted that Rhode Island has created a high-risk insurance pool, effective September 15, 2010 as per the Patient Protection and Affordable Care Act (PPACA). The SBE Council references a report from the Kaiser Family Foundation dated January 2010.
- 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 twenty-two 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 amenable environment for increased productivity and improved efficiency." Rhode Island is not a right-to-work state, and the overall ranking in this category is also affected by the state's imposition of a minimum wage that is higher than the federal minimum wage.

- **Government:** Rhode Island ranked 35<sup>th</sup> in the government expenditures per capita category in FY 2009. This is an improvement from the Ocean State’s ranking of 39<sup>th</sup> in last year’s SBE study. The state also received poor marks for its dependence on federal revenue, debt levels, and protection of private property rights. However, the state fared fairly well on the five-year average expenditure growth rate compared to the rest of the country. Additionally, the state received positive marks for government employment; the state ranked 3<sup>rd</sup> in the nation for government employment per 100 residents. Rhode Island also received points for having an active regulatory flexibility statute.

**Beacon Hill Institute “State Competitiveness Rankings”**  
**Rhode Island Rank: 20<sup>th</sup>**

The Beacon Hill Institute (BHI) is a research organization that operates out of Suffolk University in Boston. Founded in 1991, the Beacon Hill Institute performs research on tax analysis, education, government accountability and regulation, and state competitiveness. The Institute publishes a yearly report ranking the 50 states on business competitiveness through a set of 43 indicators, divided into eight sub-indexes – government and fiscal policy, security, infrastructure, human resources, technology, business incubation, openness, and environmental policy.

**Table 4**  
**New England Rankings**  
**Beacon Hill Institute Annual State Competitiveness Report, 2009-2010**

Category	Connecticut		Maine		Massachusetts		New Hampshire		Rhode Island		Vermont	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Govt. & Fiscal Policy	48	48	45	41	30	34	17	16	37	42	43	29
Security	15	6	16	20	22	15	25	22	20	2	44	21
Infrastructure	41	42	38	38	40	40	43	44	42	34	33	50
Human Resources	8	10	13	13	1	1	6	6	22	18	3	3
Technology	9	9	24	47	1	1	11	11	7	8	3	4
Business Incubation	35	44	15	25	4	11	12	6	32	32	38	40
Openness	11	8	44	43	8	9	38	38	25	21	16	16
Environmental Policy	38	39	3	4	37	40	12	12	32	35	5	5
<b>Overall Ranking</b>	<b>26</b>	<b>28</b>	<b>23</b>	<b>32</b>	<b>1</b>	<b>3</b>	<b>15</b>	<b>10</b>	<b>29</b>	<b>20</b>	<b>18</b>	<b>19</b>

SOURCE: Beacon Hill Institute, Tenth Annual State Competitiveness Report

Since 2001, the Beacon Hill Institute’s “State Competitiveness Ranking” has focused on measuring the long-term competitiveness of each state through the economic relation of output depends on the amount of capital, labor, and technology within each state economy. The competitiveness report produced by BHI ranks each state through a series of metrics that examine government and fiscal policy, crime rates, the quality of infrastructure, the availability of technology, the quality of the workforce, environmental regulations, and business viability at the state level. The organization ranks states using such indexes, using a scale of zero to ten for each category – zero being not competitive to ten being highly competitive. The sum of the indexes determines the rankings of the states.

In the 2010 BHI analysis, Rhode Island ranked 20<sup>th</sup> overall and all New England states except for Connecticut (28<sup>th</sup>) and Maine (Maine 32<sup>nd</sup>) ranked in the top half of the country. Massachusetts (3<sup>rd</sup>), New Hampshire (10<sup>th</sup>), and Vermont (19<sup>th</sup>) ranked higher than the Ocean State in this particular study. Rhode Island's rank of 20<sup>th</sup> was a notable improvement over the 2009 rankings when the state ranked 29<sup>th</sup> overall, the worst showing of all New England states.

The following is a summary of the eight sub-indexes used by the Beacon Hill Institute to create their overall long-term competitiveness rankings, along with a look at Rhode Island's performance in each category.

- Government and Fiscal Policy: The government and fiscal policy ranking uses state and local taxes per capita, worker compensation rates, bond ratings, budget surplus/deficits, and state and local government employees per 100 residents to determine rank. Rhode Island's rank of 42<sup>nd</sup> was the second-worst in the region (ahead of Connecticut, which ranked 48<sup>th</sup> in 2010). However, New Hampshire was the only New England state that ranked in the top half of the country. Between 2009 and 2010, the Ocean State fell five places in the rankings. In 2010, Rhode Island received positive marks for budget deficit as a percent of GSP and full-time public workers as a share of the population, but BHI noted that competitive disadvantages include taxes, the state's bond rating and average unemployment benefits.
- Security: The security index uses crime rates, and the change in crime rates, murders per 100,000 inhabitants. The study also uses the BGA Integrity Index, which measures the relative strength of existing transparency, ethics and accountability laws (e.g., open meeting, whistleblower protection, and conflict of interest laws). Rhode Island was ranked 2<sup>nd</sup> highest in this category, up from 20<sup>th</sup> in the 2009 analysis. This was the state's highest ranking across all sub-indices. The Institute did not note any competitive disadvantages.
- Infrastructure: The infrastructure index in the BHI rankings considers access to air travel, high-speed lines, average commute, cell phone usage, electricity prices, and monthly housing costs state by state. Rhode Island ranked 34<sup>th</sup> in the nation, the highest in New England, and an increase over the state's 2009 ranking of 42<sup>nd</sup>. The state's competitive advantages include high-speed lines and air passengers, both as a share of the state's population. Notable disadvantages include electricity prices and housing costs.
- Human Resources: The human resources index uses health insurance data, education measures, infant mortality rates, unemployment rates, and school outcomes to determine each state's ranking in this category. Rhode Island was ranked 18<sup>th</sup> in the nation, the lowest of the New England states. Massachusetts (1<sup>st</sup>), Vermont (3<sup>rd</sup>), New Hampshire (6<sup>th</sup>), Connecticut (10<sup>th</sup>), and Maine (13<sup>th</sup>) all ranked higher in the human resources category. At the same time, the state's 2010 rank represents an improvement over the 2009 rank of 22<sup>nd</sup>. Competitive advantages include access to health insurance and healthcare, low infant mortality, and the share of the population enrolled in a degree-granting institution and the share of adults in the labor force. Disadvantages, however, include the share of the adult population that graduated from high school and the state's high unemployment rate.
- Technology: The technology index examined research and development, NIH grants to support institutions in the state, patents, the number of science and engineering graduates, and employment in high-tech industries. In this sub-index, Rhode Island ranked 8<sup>th</sup> in the nation,

behind Massachusetts (1<sup>st</sup>) and Vermont (4<sup>th</sup>), but ahead of Connecticut (9<sup>th</sup>), Maine (47<sup>th</sup>), and New Hampshire (11<sup>th</sup>). The institute did not note any competitive disadvantages for Rhode Island in this category. On the positive side, Rhode Island ranked 3<sup>rd</sup> in the country for NIH support and science/engineering degrees per 100,000 residents.

- **Business Incubation:** This measurement reflects the ability for businesses to acquire finances for investment and also considers the rate at which businesses are created within each state. Rhode Island ranked 32<sup>nd</sup> in the nation in both 2009 and 2010. The state out-performed neighboring state Connecticut, which was ranked 44<sup>th</sup>, but was behind Massachusetts, which was ranked 11<sup>th</sup>. New Hampshire was ranked 6<sup>th</sup> in the nation, the highest of all New England states. The state received positive marks for firm births, bank deposits and venture capital per capita; however, BHI also noted that union membership and the minimum wage put the Ocean State at a competitive disadvantage.
- **Openness:** The openness index uses exports per capita, incoming foreign direct investments per capita, and percentage of population born abroad to gauge how connected firms and people in the state are with the rest of the world. Rhode Island was ranked 21<sup>st</sup> in the nation, behind Connecticut (8<sup>th</sup>), Massachusetts (9<sup>th</sup>), and Vermont (16<sup>th</sup>). Maine (43<sup>rd</sup>) and New Hampshire (38<sup>th</sup>) were ranked lower than the Ocean State in the 2010 index. While Rhode Island has a high level of direct foreign investment and a large share of the population born abroad, the state ranked 44<sup>th</sup> in the country in terms of dollars of exports per capita.
- **Environmental Policy:** The environmental policy index looks at environmental problems within states and environmental regulations that influence business location decisions. This index examines air quality, toxic release inventory (in pounds/1,000 square miles), and carbon emissions. The Ocean State was ranked 35<sup>th</sup> in the nation, faring better than Connecticut (39<sup>th</sup>) and Massachusetts (40<sup>th</sup>). Maine was ranked highest of the New England states at 4<sup>th</sup>, followed by Vermont (5<sup>th</sup>) and New Hampshire (12<sup>th</sup>). Rhode Island's high carbon emissions – ranking 48<sup>th</sup> in the country – contributed to the state's relatively poor ranking in 2010.

### **CNBC's "Top States for Business, 2011"**

***Rhode Island Rank: 50<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 ten 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 fifty. The overall rank consists of a weighted average across the ten categories.

**Table 5**  
**New England Rankings**  
**CNBC Best States for Business 2010-2011**

Category	Weight	Connecticut		Maine		Massachusetts		New Hampshire		Rhode Island		Vermont	
		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Cost of Doing Business	18.5%	47	45	38	26	39	41	34	37	45	46	42	42
Workforce	14.4%	42	33	47	44	23	31	38	40	25	26	36	37
Quality of Life	14.4%	2	11	6	6	6	10	4	2	33	24	3	3
Economy	12.9%	30	44	25	34	17	15	12	10	49	42	12	21
Transportation	12.3%	43	43	41	48	39	29	47	45	48	49	46	49
Technology & Innovation	10.3%	22	19	41	40	3	3	27	29	28	27	40	40
Education	7.2%	9	3	7	9	1	4	6	7	14	24	4	4
Business Friendliness	7.2%	20	40	28	32	14	12	9	6	48	48	37	34
Access to Capital	2.1%	17	17	40	30	2	2	16	20	23	35	40	32
Cost of Living	1.0%	43	47	39	39	40	41	39	40	40	43	43	42
<b>Overall</b>	<b>100.0%</b>	<b>35</b>	<b>39</b>	<b>39</b>	<b>40</b>	<b>5</b>	<b>6</b>	<b>19</b>	<b>17</b>	<b>49</b>	<b>50</b>	<b>37</b>	<b>44</b>

SOURCE: CNBC Best States for Business - 2011

Table 4 shows how the six New England states ranked in each of the ten categories and overall in both 2010 and 2011. The table also shows the weight that 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. In CNBC “America’s Top States for Business in 2011” ranking, Rhode Island fell from the 49<sup>th</sup> to the 50<sup>th</sup> best state in which to do business.

Rhode Island ranked 49<sup>th</sup> in the 2010 survey and 50<sup>th</sup> in the 2011 survey. In both years, this was the lowest ranking among the New England states. Across all six states, New Hampshire was the only one to increase in the rankings year-over-year: Connecticut ranked 35<sup>th</sup> in 2010 and 39<sup>th</sup> in 2011; Maine ranked 39<sup>th</sup> in 2010 and 40<sup>th</sup> in 2011; New Hampshire ranked 19<sup>th</sup> in 2010 and 17<sup>th</sup> in 2011; and Vermont ranked 37<sup>th</sup> in 2010 and 44<sup>th</sup> in 2011. Notably, Massachusetts was the only New England state to rank in the top ten in either year. The Bay State ranked 5<sup>th</sup> in 2010 and 6<sup>th</sup> in 2011. CNBC largely credits Massachusetts’s position to the Bay State’s strength in education, technology and innovation, quality of life, and access to capital as indicated on the table by the high marks the state received in these areas.

In both years, Rhode Island ranked in the bottom ten states in five categories and ranked in the top half of the country in two categories in 2010: quality of life (24<sup>th</sup>) and education (24<sup>th</sup>). Between 2010 and 2011, Rhode Island fell by ten or more rankings in two categories: access to capital (23<sup>rd</sup> in 2010 to 35<sup>th</sup> in 2011) and education (14<sup>th</sup> in 2010 to 24<sup>th</sup> in 2011). The study provided a summary of the factors considered within each ranking as summarized below:

- **Cost of Doing Business:** This category includes tax burden, business taxes, 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 46<sup>th</sup> in 2011 was the lowest in New England, followed by Connecticut, which ranked 45<sup>th</sup>.

- Workforce: This category includes the quality and availability of the workforce, union membership, government-sponsored training programs and the relative success of such worker training programs in job placement. Although the state fell one position when compared to 2010, Rhode Island's 2011 rank of 26<sup>th</sup> was the highest in New England.
- 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 – with the exception of Rhode Island and Connecticut. In 2011, the Ocean State ranked 24<sup>th</sup> in this category, up from 33<sup>rd</sup> the prior year. Connecticut ranked 11<sup>th</sup> in 2011, down from 2<sup>nd</sup> in 2010.
- 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), as well as a variety of indicators of economic vitality and growth. In 2011, for the first time, CNBC measured fiscal health by considering the projected budget gaps of the coming fiscal year for each state. New England rankings in this category ranged from a low of 42<sup>nd</sup> in Rhode Island to a high of 10<sup>th</sup> in New Hampshire. Of note, although the state continues to rank among the worst in the region in this category, it also saw the greatest increase in the rankings year-over-year, up from 49<sup>th</sup> in 2010.
- Transportation: CNBC evaluated 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 both 2010 and 2011 Massachusetts was the only state to not rank in the bottom ten nationally. Rhode Island ranked 49<sup>th</sup> in the nation, tying with Vermont.
- Technology and Innovation: Included in this category is how well states support innovation, the number of patents issued to residents, the deployment of broadband services, and federal health and science research grants. Rhode Island ranked 27<sup>th</sup> in 2010 and 28<sup>th</sup> in 2011 in this category, out-performing Maine, New Hampshire, and Vermont, but behind Connecticut and Massachusetts. Of the six New England states, only Massachusetts ranked in the top ten in either year.
- 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 and the majority of states ranked in the top ten nationally. Rhode Island, which ranked 14<sup>th</sup> in 2010 and 24<sup>th</sup> in 2011, was the only New England state to not rank in the top ten in either year.
- 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 both 2011 and 2010 was the lowest of all the states in the region. New Hampshire, which was ranked the highest in New England, ranked 6<sup>th</sup> in the country in 2011, up from 9<sup>th</sup> in 2010. Connecticut saw their rank drop 20 places between 2010 and 2011, from 20<sup>th</sup> to 40<sup>th</sup>, the largest decline of any New England state, in any category, in this analysis.

- Access to Capital: This category assesses the flow of venture capital into states. Half of the New England states ranked in the top half of states in this category (Connecticut – 17<sup>th</sup>, Massachusetts – 2<sup>nd</sup>, and New Hampshire – 20<sup>th</sup>). Rhode Island ranked 35<sup>th</sup> in 2011, down from 23<sup>rd</sup> in 2010. Maine and Vermont ranked 30<sup>th</sup> and 32<sup>nd</sup>, respectively. Both states saw significant improvement from 2010 when they both ranked 40<sup>th</sup>.
- Cost of Living: CNBC notes that “[from] housing to food, to energy, wages go further when the cost of living is low.” All of the New England states fared poorly in this category and, with the exception of Maine, ranked in the bottom ten states in the country in 2011. Rhode Island’s rank of 43<sup>rd</sup> in 2011 was lower than Maine (39<sup>th</sup>), Massachusetts (41<sup>st</sup>), New Hampshire (40<sup>th</sup>) and Vermont (42<sup>nd</sup>). However, Rhode Island outperformed Connecticut (47<sup>th</sup>) in this category.

**Forbes “The Best States for Business, 2011”**

***Rhode Island’s Rank: 48<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. The following six categories encompass thirty-three points of data used to determine the overall rank. Rhode Island improved from 49<sup>th</sup> in the nation to 48<sup>th</sup> between 2010 and 2011.

**Table 6  
New England Rankings  
Forbes Best States for Business 2010-2011**

Category	Connecticut		Maine		Massachusetts		New Hampshire		Rhode Island		Vermont	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Cost of Doing Business	45	47	47	44	50	50	40	45	41	40	42	43
Labor Supply	17	19	26	28	10	18	6	8	34	38	16	15
Regulatory Environment	39	43	48	45	13	23	47	38	50	50	45	47
Economic Climate	23	17	45	42	22	14	32	34	50	49	39	38
Growth Prospects	35	36	44	50	28	17	5	12	23	17	45	44
Quality of Life	3	2	16	17	1	1	2	5	17	18	15	15
<b>Overall</b>	<b>36</b>	<b>35</b>	<b>50</b>	<b>50</b>	<b>16</b>	<b>18</b>	<b>19</b>	<b>27</b>	<b>49</b>	<b>48</b>	<b>44</b>	<b>45</b>

SOURCE: Forbes Best States for Business 2010 - 2011

- Business Costs: Costs to businesses, which include labor, energy and taxes, are weighted heavily in the Forbes rankings. The publication incorporates Moody’s Analytics “cost of doing business” index, along with the Tax Foundation state tax index. The cost of doing business in Rhode Island ranked 40<sup>th</sup> in the nation in 2011 according the Forbes study.

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, followed by Vermont at 43<sup>rd</sup>. 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, based on Census information. Rhode Island ranked 38<sup>th</sup> in the country in this category, after ranking 34<sup>th</sup> the previous year. Outside of Maine, which ranked 28<sup>th</sup> in the 2011 analysis, 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 infrastructure, and bond ratings. The metric uses data from a variety of sources, including Moody's bond rating for state general obligation debt and the regulatory component of PRI's US Economic Freedom Index. New England has historically performed poorly in the regulatory environment category of the Index; all New England states except for Massachusetts (23<sup>rd</sup>) ranked in the bottom half of the country in the most recent Forbes survey. Rhode Island ranked 50<sup>th</sup> in both 2010 and 2011.
- Economic Climate: To measure the economic climate of a given state, Forbes uses growth in jobs, income and gross state product, as well as the unemployment rate and the presence of large companies in each state. Rhode Island ranked 49<sup>th</sup> in the nation in the category in 2011, up one place from 2010 when the state ranked last in the country. Neighboring states Connecticut and Massachusetts ranked 17<sup>th</sup> and 14<sup>th</sup> in the nation, respectively. Maine was the only other New England state to rank in the bottom ten, although both New Hampshire and Vermont were ranked in the bottom half of the country in the 2011 index.
- Growth Prospects: The growth prospects rank uses Moody's projections of job, income and gross state product growth. The survey also evaluates a given state's business openings and closings and the presence of venture capital investment. Rhode Island ranked 17<sup>th</sup> in the "prospect for growth" category, tied with Massachusetts. Rhode Island's 2011 ranking was six places higher than the state's 2010 rank. Connecticut, Maine, and Vermont all ranked in the bottom half of the country in 2011.
- Quality of Life: Forbes ranks quality of life through an index based on poverty rates, cost of living, school performance, health, and crime, using data from the Bureau of Economic Analysis, Moody's, the US Department of Education, the United Health Foundation, and the FBI. Forbes also looked at culture and recreation opportunities using an index created by the organization. Although Rhode Island ranked 18<sup>th</sup> in 2011 for quality of life, it continues to lag behind the other New England states. Notably, Connecticut, Massachusetts and New Hampshire were in the top 10 in the country for the second year in a row.

## References

- CNBC.com (July 2011). *CNBC's Top States for Business 2011*. Retrieved December 2011, from <http://www.cnbc.com/id/41666602/>
- Keating, R.J. (November 2011). *Small Business & Entrepreneurship Council's Small Business Survival Index 2011: Ranking the Policy Environments for Entrepreneurship across the Nation*. Retrieved December 2011, from <http://www.sbecouncil.org/uploads/SBSI2011%5B1%5D.pdf>
- Padgitt, K.M. (October 26, 2010). *The Tax Foundation. 2011 State Business Climate Index*. Retrieved December 2011, from <http://www.taxfoundation.org/research/show/22658.html>
- Forbes.com (November 2011). *The Best States for Business and Careers, 2011*. Retrieved January 2012 from <http://www.forbes.com/2010/10/13/best-states-for-business-business-beltway-best-states-table.html>
- Beacon Hill Institute (October 2010). *Tenth Annual State Competitiveness Report*. Retrieved January 2012 from <http://www.beaconhill.org/Compete10/Compete2010State.pdf>