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The Business Climate in Rhode Island

Sponsored by Fidelity
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Rhode Island Public Expenditure Council

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What is RIPEC?

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- RIPEC is an independent, nonprofit and nonpartisan public policy research and education organization.
- Organization founded in 1932.
- Primary purpose is to promote more efficient, economical and responsible government.



Business Climate Survey

Introduction

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- Organizations have been producing “business climate” studies since the 1970s; studies have proliferated over the past decade.
- Business climate rankings help establish impressions and opinions of how “business friendly” a state is in comparison to the rest of the country, and are often reflective of the opinions of business leaders.
- RIPEC summarized five studies that measure the business climate of the 50 states in order to see how Rhode Island is perceived on a national scale and compared to the other New England states.
- While these studies vary on the factors they include and the relative weight given to each factor, there were a number of areas in which Rhode Island could address to improve how the state’s business climate is perceived.



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Overview

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- RIPEC used data collected by five organizations for the report:
 - **Tax Foundation**, a nonpartisan research group whose mission is to educate taxpayers about sound tax policy and the size of the tax burden borne by Americans;
 - **Small Business and Entrepreneurship Council (SBE)**, an advocacy organization dedicated to protecting small business and promoting entrepreneurship;
 - **Beacon Hill Institute**, a research organization that operates out of Suffolk University in Boston that performs research on tax analysis, education, government accountability and regulation, and state competitiveness;
 - **CNBC**, a cable and satellite business news channel owned by NBC Universal; and
 - **Forbes**, a privately owned publication and media company.



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Business Climate Survey Summary

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



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Taxes

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- The Tax Foundation and SBE Council looked closely at each of the states' tax policies when developing their reports, while the media outlets relied on work done by the Tax Foundation in their “cost of doing business” indices.
- While Rhode Island has shown improvement in the rankings, the state continue to rank in the bottom 10 for its tax climate.
- Specifically, the state's property and unemployment insurance taxes lowered Rhode Island's rank. Additionally, the state's high corporate tax rate and treatment of capital gains as ordinary income had a negative effect on Rhode Island's ranking.



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Regulatory Environment

- While Forbes was the only survey to explicitly include “regulatory environment” as a category, the SBE Council, Beacon Hill Institute, and CNBC all looked at regulatory environment factors such as minimum wage, healthcare regulations and tort climate, all of which can be used to gauge how a state’s regulatory environment compares to other states
- Although each survey used different metrics to evaluate the regulatory environment, Rhode Island was consistently ranked low in this category.



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Transportation

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- Transportation was explicitly factored into two of the five studies (CNBC and the SBE Council), and was a component in the “regulatory environment” of the Forbes analysis.
- In each case, Rhode Island was ranked one of the worst states in the country. The SBE Council used the Reason Foundation’s analysis on highway cost effectiveness, in which Rhode Island ranked 50th overall.
- High gas and diesel taxes also impacted the state’s ranking in the SBE Council analysis: Rhode Island’s fuel excise taxes ranked 42nd and 43rd, respectively.



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Economic Climate

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- The two studies that included “economic climate” expressly in their rankings – CNBC and Forbes – ranked Rhode Island 49th and 48th, respectively.
- Factors such as high unemployment and few large companies resulted in low rankings for Rhode Island.
- The Beacon Hill Institute’s study focused on measuring the long-term competitiveness of each state, and the economic relation of output that depends on the amount of capital, labor, and technology within each state’s economy. Rhode Island ranked 20th overall in the BHI analysis.



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Tax Foundation

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Table 2
New England Rankings
Tax Foundation Study 2010-2011

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
Total/Overall	100%	38	47	34	31	36	32	7	7	44	42	41	38

SOURCE: The Tax Foundation



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Tax Foundation

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Table 3
New England Rankings
Tax Foundation Study 2011-2012

Category	Weight	Connecticut		Maine		Massachusetts		New Hampshire		Rhode Island		Vermont	
		2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Individual Income Tax	33%	31	31	30	30	15	15	9	9	43	36	46	47
Sales Tax	21%	28	30	10	10	17	17	1	1	27	24	14	14
Corporate Tax	20%	19	25	47	47	37	34	46	46	41	40	42	41
Property Tax	14%	49	50	41	38	46	37	42	41	48	46	43	43
Unemployment Tax	11%	32	32	43	40	49	49	38	39	50	50	18	19
Total/Overall	100%	40	40	31	37	32	24	7	6	47	46	38	47

SOURCE: The Tax Foundation



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SBE Council

Table 4
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	47	Rhode Island	77.250
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"



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Beacon Hill Institute

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Table 5
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
Overall Ranking	26	28	23	32	1	3	15	10	29	20	18	19

SOURCE: Beacon Hill Institute, Tenth Annual State Competitiveness Report



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Table 6
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
Overall	100.0%	35	39	39	40	5	6	19	17	49	50	37	44

SOURCE: CNBC Best States for Business - 2011



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Forbes

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Table 7
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
Overall	36	35	50	50	16	18	19	27	49	48	44	45

SOURCE: Forbes Best States for Business 2010 - 2011



Business Climate Survey

Areas to Address

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- While Rhode Island's long-term prospects show some positive signs, it is clear that there are a number of areas the state must address to increase its ability to compete in a challenging economic environment.
- Based on the five indices reviewed by RIPEC, improvements in the following areas may improve Rhode Island's competitive position:
 - Tax reform, particularly with regard to property and corporate taxes;
 - Regulatory relief efforts;
 - Transportation and infrastructure development; and
 - Capacity-building in higher education institutions.



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