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CONNECTICUT'S, SOUTH CAROLINA'S, AND TEXAS' BUSINESS CLIMATES

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You asked how Connecticut stacks up against South Carolina and Texas in studies comparing state business climates.

SUMMARY

At least 12 organizations annually rank states based on their economic strengths and weaknesses, each focusing on different economic factors and basing the rankings on criteria that measure those factors. Some organizations weigh each criterion or divide the criteria into different policy areas. These methodological differences often reflect different theories about the forces that drive and sustain economic growth.

Most of the recent studies ranked South Carolina and Texas ahead of Connecticut. In doing so, most analyzed the factors supporting the rankings. The rankings and the supporting analyses give the studies the quality of an iceberg, with the rankings representing the tip above the water and the detailed analyses the larger part below the water. The analyses include the criteria and data used to rank the states and an explanation of how the analyses relate to economic growth.

A review of these analyses shows that most of the 13 studies that ranked South Carolina and Texas ahead of Connecticut did so based on criteria measuring direct business costs, such as taxes and regulations. But Connecticut outranked these states in other studies that included other criteria, such as the quality of the infrastructure, rate at which people start new businesses, and share of workers holding information technology jobs.

Another factor affecting a state's ranking is whether the study bases the rankings on the climate for all businesses or certain types of businesses. For example, South Carolina and Texas outranked Connecticut in the Tax Foundation's *2013 State Business Tax Climate* (36 and 9, respectively, to 40), which assessed how different types of taxes affected business generally.

Connecticut's standings improved, though, in the Foundation's *2012 Location Matters: A Comparative Analysis of State Costs on Business*, which focused on how taxes affected six types of new and mature businesses, including R&D facilities and capital-intensive manufacturing. Connecticut's overall rank was higher than South Carolina's with respect to mature firms (21 versus 32) and higher than South Carolina's and Texas' with respect to new firms (30 versus 34 and 42, respectively). The study also ranked the states with respect to each type of new and mature business. Connecticut outranked both states with respect to several types of businesses, including new and mature capital-intensive manufacturing firms.

OVERALL RANKINGS

Many organizations provide a single overall ranking for each state and several sub-rankings for each group of criteria. This combination of overall and sub-rankings make up each study's ranking structure. Table 1 describes these structures and compares Connecticut's, South Carolina's, and Texas' overall rankings.

As the table shows, most of the organizations ranked Texas higher than Connecticut and South Carolina.

- Ten organizations ranked Texas among the top 10 states, including four that ranked Texas first.
- South Carolina's rankings were mixed: three organizations ranked this state among the top 10 states, four among the bottom 10, and six in the middle, with the rankings ranging from 14 to 31.
- Ten organizations ranked Connecticut among the bottom half states. The outlier was the Information Technology & Innovation Forum, which ranked Connecticut 9th, ahead of South Carolina (40th) and Texas (17th).

Table 1: Comparison of Connecticut's, South Carolina's, and Texas' Rankings in Popular Business Climate Studies

Ranking Organization	Publication	Basis of Ranking	Rankings Structure	Year	Selected States' Rankings		
					CT	SC	TX
American Legislative Exchange Council (ALEC)	Rich States, Poor States: ALEC- Laffer State Economic Competitiveness Index, 6th Edition: Economic Outlook Rankings	Identify state policies leading to economic prosperity	15 equally weighted policy areas state lawmakers directly influence, including taxes and labor costs	2013	43	31	12
	Rich States, Poor States: ALEC- Laffer State Economic Performance Rankings		<ul style="list-style-type: none"> Gross state product Absolute domestic migration Growth in non-farm payroll employment 	2001-2011	46	24	1
Beacon Hill Institute	12th Annual State Competitiveness Report	Quality of business environment based on microeconomic variables	45 indicators grouped into eight policy areas, including government and fiscal policies and security (i.e., crime)	2012	33	42	7
Business Facilities Magazine	State Rankings: Business Climate	Business climate	Combination of key rankings, including education, labor, and taxes	2013	Unavailable *	8	1
Chief Executive Magazine	2013 Best and Worst States for Business	Business climate	Surveys asking CEO to rate states based on taxes and regulations, workforce quality, and living environment	2013	45	8	1
CNBC	Top States for Business	Competitiveness	55 metrics grouped into 10 broad categories, including business costs, infrastructure, and capital access	2013	45	23	2
Corporation for Enterprise Development (CFED)	CFED Assets and Opportunities Scorecard	Financial security and economic opportunity	16 grouped into five categories, including financial assets and income and education	2013	29	48	39
Forbes	Best States for Business	Business climate	35 data points grouped into six categories, including business costs and regulatory environment	2013	39	22	7
Information Technology & Innovation Forum	The State New Economy Index: Benchmarking Transformation in the States	Extent to which states' economic structure foster knowledge and innovation (i.e., the New Economy)	26 indicators divided into five categories, including knowledge jobs and innovation capacity	2012	9	40	17
Site Selection Magazine	Top Ten 2012 State Business Climates http://www.siteselection.com/issues/2012/nov/top-business-climates.cfm	Business climate	Survey questions posed to corporate real estate executives and tax burden index	2012	Unavailable *	9	3

Table 1 (continued)

Ranking Organization	Publication	Basis of Ranking	Rankings Structure	Year	Selected States' Rankings		
					CT	SC	TX
Small Business & Entrepreneurship Council	U.S. Business Policy Index	Public policies affecting business climate	46 major government-imposed or government-related costs impacting small businesses and entrepreneurs across business sectors	2012	42	14	3
Tax Foundation	State Business Tax Climate Index	State business tax climate	118 variables divided into five hierarchically ordered components, ranging from individual income tax to unemployment insurance	2013	40	36	9
U.S. Chamber of Commerce Foundation	Enterprising States: Getting Down to Small Business	Economic performance and job growth and prosperity policies	33 variables grouped into six categories, including exports and international trade and talent pipeline	2013	36	41	2

*Online publication did not provide CT's ranking.

The differences in the selected states' overall rankings reflect differences in the criteria the organizations used to measure economic strengths and weaknesses.

- Texas outranked Connecticut by a wide margin for those organizations that focused on taxes, labor costs, regulatory burden, and other factors directly affecting business costs (e.g., American Legislative Exchange Council's *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*).
- The margin was less for those organizations that included non-cost factors, such as infrastructure, international trade, and business start-ups (e.g., Beacon Hill Institute's *12 Annual State Competitiveness Report*).
- Connecticut outranked Texas and South Carolina for those organizations that focused mainly on non-cost factors, such as family financial assets and income (i.e., Corporation for Enterprise Development's *Assets and Opportunity Scorecard*) and "knowledge jobs" (Information Technology & Innovation Forum's *The State New Economy Index: Benchmarking Transformation in the States*).

Table 2 identifies the different variables used by the four organizations cited above. Attachment 1 highlights the variables used by all the organizations.

Table 2: Comparison of Selected Studies' Variables and Rankings

American Legislative Exchange Council: Rich States, Poor States: ALEC- Laffer State Economic Competitiveness Index, 6th Edition: Economic Outlook Rankings	Beacon Hill Institute: 12th Annual State Competitiveness Report	Corporation for Enterprise Development, CFED Assets and Opportunities Scorecard	Information Technology & Innovation Forum, The State New Economy Index: Benchmarking Transformation in the States
15 Variables: <ul style="list-style-type: none"> • Seven addressing tax rates, tax burdens, fiscal limits, and tax law changes • Three labor-related variables, including right-to-work state • Debt service • Public employee workforce • Quality of state legal system 	45 variables grouped into these policy areas: <ul style="list-style-type: none"> • Government and fiscal policy • Security • Infrastructure • Human resources • Business incubation • Openness (i.e., export trade) • Environmental policy 	68 outcomes grouped into the following categories: <ul style="list-style-type: none"> • Financial assets and income • Business and jobs • Housing and homeownership • Health care • Education 	26 indicators divided into these categories: <ul style="list-style-type: none"> • Knowledge jobs • Globalization (i.e., exporting and foreign direct investments) • Economic dynamism (i.e., business start-ups) • Digital economy • Innovation capacity
Rankings: <ul style="list-style-type: none"> • CT: 43 • SC: 31 • TX: 12 	Rankings: <ul style="list-style-type: none"> • CT: 33 • SC: 42 • TX: 7 	Rankings: <ul style="list-style-type: none"> • CT: 29 • SC: 48 • TX: 39 	Rankings: <ul style="list-style-type: none"> • CT: 9 • SC: 40 • TX: 17

SUB-RANKINGS

Comparing how the 12 organizations ranked Connecticut, South Carolina, and Texas becomes more complicated when the focus shifts from their overall rankings to their sub-rankings. Doing so reveals how a state with a relatively low overall rank can have relatively high sub-rankings, an outcome that usually results from differences in the way studies grouped and weighed the criteria.

For example, in the Tax Foundation’s *2013 State Business Tax Climate Index*, Texas’ overall rank is higher than Connecticut’s and South Carolina’s (i.e., 9 versus 40 and 36, respectively). The index compares states’ tax systems based on the taxes they levy. It assigns each tax a different weight and ranks the states accordingly. Table 3 identifies the taxes and their relative weights and compares the selected state’s rankings for each tax. As the table shows, Connecticut outranks (1) Texas with respect to corporation and sales taxes and (2) South Carolina with respect to individual income and unemployment insurance taxes.

Table 3: Comparison of the Selected States Sub-Rankings in the 2013 State Business Tax Climate Index Sub-Rankings

Selected Taxes	Weight	Selected States Rankings		
		CT	SC	TX
Corporation Tax	20.1%	35	10	38
Individual Income Tax	33.1%	31	39	7
Sales Tax	21.5%	30	21	36
Unemployment Insurance Tax	11.4%	31	33	14
Property Tax	14.0%	50	21	32

As similar pattern appears in the American Legislative Exchange Council’s (ALEC) *Rich States, Poor States: ALEC-Laffer State Competitiveness Index 6th Edition* (2013). ALEC based its overall rankings on 15 equally weighted “policy areas that are directly influenced by state lawmakers.” The council ranks the states in each of these areas including taxes, government spending and debt service, and labor costs.

Table 4 shows how ALEC ranked Connecticut, South Carolina, and Texas in each of these areas. ALEC ranked Connecticut ahead of South Carolina and Texas in five areas, including sales tax burden, debt service as a share of tax revenue, and public employees per 1,000 residents. It also ranked Connecticut ahead of South Carolina in two areas—highest marginal personal income tax rate and personal income tax progressivity.

Table 4: Comparison of the Selected States Sub Rankings in the Rich States, Poor States ALEC-Laffer State Economic Competitiveness Index

Rankings	Selected States Rankings		
	CT	SC	TX
Overall Economic Outlook Ranking	43	31	12
Policy Variables:			
• Highest Marginal Personal Income Tax Rate	29	34	1
• Highest Marginal Corporate Income Tax Rate	40	8	4
• Personal Income Tax Progressivity	25	42	2
• Property Tax Burden	43	23	38
• Sales Tax Burden	11	21	24
• Tax Burden from All Remaining Taxes	10	16	37
• Estate/Inheritance Tax (Yes or No)	50	1	1
• Recently Legislated Tax Policy Changes (Over the past two years)	49	27	30
• Debt Service as a Share of Tax Revenue	26	47	46
• Public Employees per 10,000 Residents	17	25	32
• Quality of State Legal System	25	39	35
• Workers’ Compensation Costs	49	35	13
• State Minimum Wage	45	1	1
• Right-to-Work State	50	1	1
• Tax or Expenditure Limits	15	15	15

Differences between overall and sub-rankings also appear when organizations ranked states based on criteria other than business costs. For example, the Information Technology and Innovation Foundation's (ITIF) three-tier ranking reflects its concern about the nation's ability to create and sustain the types of jobs needed to compete in the global economy.

Comprising ITIF's third or lowest tier are 26 indicators that "assess each state's fundamental capacity to navigate the shoals of economic change" (p. 9). ITIF ranks the states for each indicator and then groups the indicators into five categories, which constitute the second or middle tier. Its overall rankings—the first or top tier—are based on its second and third tier rankings.

Table 5 describes ITIF's ranking scheme, including the weights it assigned to each indicator and indicator category.

- Connecticut's overall (first tier) rank was higher than South Carolina's and Texas'.
- But South Carolina and Texas outranked Connecticut in several second tier categories. For example, both state's outranked Connecticut in the globalization category, although all three states ranked among the top 10 states in that category. Texas outranked Connecticut and South Carolina in the economic dynamism category.
- Texas and South Carolina outranked Connecticut with respect to several third tier criteria. For example, Texas outranked both states with respect to "Venture Capital" (i.e., the amount of venture capital invested as a percentage of worker earnings) and South Carolina outranked Connecticut and Texas with respect to "Immigration of Knowledge Workers" (i.e., the average educational attainment of recent immigrants from abroad ages 25 and older).

Table 5: Comparison of Selected States Sub-Rankings in ITIF's *The 2012 State New Economy Index*

Rankings	Weight	Selected States Rankings		
		CT	SC	TX
Overall Score		9	40	17
Category and Indicator Scores				
○ Knowledge and Jobs	5.00	4	38	23
▪ Information Technology Jobs	0.75	12	38	17
▪ Managerial, Professional, and Technical Jobs	0.75	4	42	26
▪ Workforce Education	1.00	4	39	37
▪ Immigration of Knowledge Workers	0.50	38	31	43
▪ Migration of U.S. Knowledge Workers	0.50	8	36	32
▪ Manufacturing Value Added	0.75	9	26	10
▪ High-Wage Traded Services	0.75	3	35	21
○ Globalization	2.00	8	5	2
▪ Foreign Direct Investment	1.00	3	7	22
▪ Export Focus of Manufacturing and Services	1.00	23	11	1
○ Economic Dynamism	3.50	21	46	13
▪ Job Churning	1.00	50	30	39
▪ Fast Growing Companies	0.75	8	37	11
▪ Initial Public Offerings	0.50	5	32	6
▪ Entrepreneurial Activity	0.75	25	34	7
▪ Inventor Patents	0.50	7	44	29
○ The Digital Economy	3.00	10	49	33
▪ Online Population	0.50	20	44	24
▪ E-government	0.50	25	48	14
▪ Online Agriculture	0.50	3	43	39
▪ Broadband Telecommunications	1.00	11	45	28
▪ Health IT	0.50	15	40	28
○ Innovation Capacity	5.00	9	38	22
▪ High-Tech Jobs	0.75	15	36	23
▪ Scientists and Engineers	0.75	14	33	13
▪ Patents	0.75	12	42	22
▪ Industry Investments in R&D	1.00	3	39	21
▪ Non-Industry Investments in R&D	0.50	39	22	40
▪ Movement Toward a Green Economy	0.50	6	9	49
▪ Venture Capital	0.75	23	35	10

FACTORING IN BUSINESS SIZE

The Tax Foundation's research shows how state rankings change when the focus shifts from the way taxes affect all businesses to the way they affect certain types of businesses. In its 2012 [*Location Matters: A Comparative Analysis of State Costs on Business*](#), the Tax Foundation ranked states based on 14 types of hypothetical businesses: seven new and seven mature corporate headquarters, R&D facilities, retail stores, call centers, distribution centers, capital-intensive manufacturing firms, and labor-intensive manufacturing firms. It provided overall rankings for

new and mature businesses and sub-rankings for each of type of new and mature business.

Table 6 compares the Foundation’s (1) overall rankings for Connecticut, South Carolina, and Texas and (2) these rankings with those of the Foundation’s *2013 State Business Tax Climate Rankings*. As the table shows, Connecticut, which ranked below South Carolina and Texas in the tax climate study, ranked higher than both states in the location study with respect to new firms and higher than South Carolina with respect to mature ones.

Table 6: Comparison of Selected States’ Overall Location Rankings

Selected States	2012 Location Matters Rankings		2013 State Business Tax Climate Index Ranking
	Mature Firms	New Firms	
CT	21	30	40
SC	32	34	36
TX	12	42	9

The Foundation also ranked the states based on how their tax system affected each type of business. As Table 7 shows,

- Connecticut’s tax burden was lighter than South Carolina’s and Texas’ with respect to new and mature R&D facilities, distribution centers, and capital-intensive manufacturing firms.
- It was also lighter than South Carolina’s and Texas’ with respect to new retail stores and mature labor-intensive manufacturing.
- South Carolina and Texas’ tax burden was lighter than Connecticut with respect to new and mature corporate headquarters, mature retail stores, and new and mature call centers.
- South Carolina’s tax burden was lighter than Connecticut’s and Texas’ with respect to new labor-intensive manufacturing firms.

Table 7: Comparison of Selected States Rankings for Each Business Type

<i>Business Type</i>	<i>CT</i>	<i>SC</i>	<i>TX</i>
Corporate Headquarters:			
• Mature	42	27	13
• New	40	22	35
R&D Facility:			
• Mature	21	37	24
• New	35	33	43
Retail Store:			
• Mature	32	32	10
• New	29	49	34
Call Center:			
• Mature	38	30	12
• New	37	18	31
Distribution Center:			
• Mature	29	39	30
• New	34	45	37
Capital Intensive Manufacturing:			
• Mature	9	35	17
• New	25	43	42
Labor Intensive Manufacturing:			
• Mature	6	9	10
• New	18	10	43

Attachment 1: Comparison of Ranking Criteria in Selected States Business Climate Studies

American Legislative Exchange Council: Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index, 6th Edition: Economic Outlook Rankings	American Legislative Exchange Council: Rich States, Poor States: ALEC- Laffer State Economic Performance Rankings	Beacon Hill Institute: 12th Annual State Competitiveness Report	Business Facilities Magazine, State Rankings: Business Climate	Chief Executive Magazine, 2013 Best and Worst States for Business	CNBC, Top States for Business	Corporation for Enterprise Development, CFED Assets and Opportunities Scorecard
15 Variables: <ul style="list-style-type: none"> • Seven variables addressing tax rates, tax burdens, fiscal limits and tax law changes • Three labor-related variables, including right-to-work state • Debt service • Public employee workforce • Quality of state Legal system 	<ul style="list-style-type: none"> • Gross state product • Absolute domestic migration • Growth in non-farm payroll employment 	45 variables grouped into these policy areas: <ul style="list-style-type: none"> • Government and fiscal policy • Security • Infrastructure • Human resources • Business incubation • Openness (i.e., export trade) • Environmental policy 	Combination of the magazine's other key rankings, including: <ul style="list-style-type: none"> • Education climate • workforce training and availability • Labor costs • Infrastructure • Utility costs • Credit rating • Tax climate 	CEO surveys grading states on: <ul style="list-style-type: none"> • Taxes and regulations • Quality of workforce • Living environment 	55 measures grouped into these components: <ul style="list-style-type: none"> • Business costs • Economy • Infrastructure & transportation • Workforce • Quality of life • technology & innovation • Business friendliness • Education • Cost of living • Access to capital 	68 outcomes grouped into the following categories: <ul style="list-style-type: none"> • Financial assets and income • Business and jobs • Housing and homeownership • Health care • Education
Rankings: <ul style="list-style-type: none"> • CT: 43 • SC:31 • TX:12 	Rankings: <ul style="list-style-type: none"> • CT: 46 • SC: 24 • TX: 1 	Rankings: <ul style="list-style-type: none"> • CT: 33 • SC: 42 • TX: 7 	Rankings: <ul style="list-style-type: none"> • CT: Unavailable • SC: 8 • TX: 1 	Rankings: <ul style="list-style-type: none"> • CT: 45 • SC: 8 • TX: 1 	Rankings: <ul style="list-style-type: none"> • CT: 45 • SC: 23 • TX: 2 	Rankings: <ul style="list-style-type: none"> • CT: 29 • SC: 48 • TX: 39

Attachment 1 (continued)

<i>Forbes, Best States for Business</i>	<i>Information Technology & Innovation Forum, The State New Economy Index: Benchmarking Transformation in the States</i>	<i>Site Selection Magazine, Top Ten 2012 State Business Climates</i>	<i>Small Business & Entrepreneurship Council, U.S. Business Policy Index</i>	<i>Tax Foundation, State Business Tax Climate Index</i>	<i>U.S. Chamber of Commerce Foundation, Enterprising States: Getting Down to Small Business</i>
<p>35 data points grouped in these areas:</p> <ul style="list-style-type: none"> • Business costs • Labor supply • Regulatory environment • Economic climate • Growth prospects • Quality of life 	<p>26 indicators divided into these categories:</p> <ul style="list-style-type: none"> • Knowledge jobs • Globalization (i.e., exporting and foreign direct investments) • Economic dynamism (i.e., business start-ups) • Digital economy • Innovation capacity 	<ul style="list-style-type: none"> • 50% of ranking based on corporate real estate executive assessment of states' business climates and • 50% on tax burden index 	<p>46 indicators of "major government-imposed or government-related costs impacting small businesses and entrepreneurs," including:</p> <ul style="list-style-type: none"> • Taxes • Regulations • Health care • Energy • Labor • Crime • Public sector size • Transportation • Education reform 	<p>118 variables grouped in the following components:</p> <ul style="list-style-type: none"> • Individual income tax • Sales tax • Corporate tax • Property tax • Unemployment insurance 	<p>33 variables grouped in the following areas:</p> <ul style="list-style-type: none"> • Economic performance • Entrepreneurship and innovation • Business climate • Talent pipeline • Infrastructure
<p>Rankings:</p> <ul style="list-style-type: none"> • CT: 39 • SC: 22 • TX: 7 	<p>Rankings:</p> <ul style="list-style-type: none"> • CT: 9 • SC: 40 • TX: 17 	<p>Rankings:</p> <ul style="list-style-type: none"> • CT: Unavailable • SC: 5 • TX: 1 	<p>Rankings:</p> <ul style="list-style-type: none"> • CT: 42 • SC: 14 • TX: 7 	<p>Rankings:</p> <ul style="list-style-type: none"> • CT: 40 • SC: 36 • TX: 9 	<p>Rankings:</p> <ul style="list-style-type: none"> • CT: 36 • SC: 41 • TX: 2

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