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CONNECTICUT AND DELAWARE BUSINESS CLIMATES

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You asked how organizations rank state business climates and how their rankings for Connecticut and Delaware compare.

SUMMARY

At least 12 organizations annually rank states from 1 to 50 based on their economic strengths and weaknesses, with 1 indicating the best economic or business climate and 50 the worst. The organizations base their rankings on different economic criteria reflecting different theories about the forces driving and sustaining economic growth.

Although all the organizations rank Delaware ahead of Connecticut, the margin varies depending on their focus. It is generally wider in those studies that rank the states based on business cost factors, such as taxes and regulations, and narrower in those that use other types of criteria, such as the rate at which people start new businesses and the share of workers holding information technology (IT) jobs.

Although the studies focus on different factors, none differentiate between different types of businesses. Doing so might show how a state's business climate could vary, depending on a business' size, sector, or other characteristics. For example, Delaware (14) ranks higher than Connecticut (40) in the Tax Foundation's *2013 State Business Tax Climate*, which assesses how different types of taxes generally affect businesses. But Connecticut's rankings are better in the Foundation's

2012 Location Matters: A Comparative Analysis of State Costs on Business, which focuses on how taxes affected seven types of new and older businesses, including research and development (R&D) facilities and capital-intensive manufacturing firms.

In the latter study, Connecticut's overall rank is higher than Delaware's with respect to older firms (i.e., those that have been operating for at least 10 years), 21 to 24, respectively. (But Connecticut's rank is lower than Delaware's (30 to 16, respectively) with respect to new firms (i.e., those that have been operating for less than three years)). The study also ranks the states with respect to each type of new and older business. Connecticut ranks higher than Delaware with respect to several types of businesses, including new and older R&D facilities and older capital- and labor-intensive manufacturing firms.

OVERALL RANKINGS

Many organizations provide a single overall ranking for each state and several sub-rankings for each group of criteria they use to determine the overall rankings. This combination of overall and sub-rankings make up each study's ranking structure. Table 1 describes these structures and compares Connecticut's and Delaware's overall rankings. As the table shows, all of the organizations rank Delaware higher than Connecticut.

1. Five organizations rank Delaware among the top 25 states, including the Information Technology & Innovation Forum (ITIF), which ranks Delaware 2nd. Only one organization—ITIF—ranks Connecticut among the top 25 states (9th).
2. Six organizations rank Delaware among the bottom 25 states while 10 place Connecticut in this category.
3. Four organizations rank Connecticut and Delaware relatively close together—ITIF (9th and 2nd, respectively), Corporation for Enterprise Development (CFED) (29 and 22, respectively), U.S. Chamber of Commerce (30 and 36, respectively), and Small Business and Entrepreneurial Council (42 and 33, respectively).

Table 1: Comparison of Connecticut's and Delaware's Rankings in Business Climate Studies

Ranking Organization	Publication	Basis of Ranking	Rankings Structure	Year	Selected States' Rankings*	
					CT	DE
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	30
	Rich States, Poor States: ALEC- Laffer State Economic Performance Rankings		<ol style="list-style-type: none"> 1. Gross state product 2. Absolute domestic migration 3. Growth in non-farm payroll employment 	2001-2011	46	26
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	17
<i>Business Facilities Magazine</i>	State Rankings: Business Climate	Business climate	Combination of key rankings, including education, labor, and taxes	2013	Not included in top 10	Not included in top 10
<i>Chief Executive Magazine</i>	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	27

Table 1 (continued)

Ranking Organization	Publication	Basis of Ranking	Rankings Structure	Year	Selected States' Rankings*	
					CT	DE
CNBC	Top States for Business	Competitiveness	55 metrics grouped into 10 broad categories, including business costs, infrastructure, and capital access	2013	45	31
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	22
Forbes	Best States for Business	Business climate	35 data points grouped into six categories, including business costs and regulatory environment	2013	39	20
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	2
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	Not included in top 10	Not included in top 10

Table 1 (continued)

Ranking Organization	Publication	Basis of Ranking	Rankings Structure	Year	Selected States' Rankings*	
					CT	DE
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	33
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	14
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	30

*Rank of 1 is better for businesses than rank of 50.

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

1. Delaware ranks higher than Connecticut by a wider margin (i.e., 10 or more ranks) 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* and Tax Foundation's *State Business Tax Climate Index*).
2. The margin is narrower (i.e., 9 or fewer ranks) for those organizations that focus mainly on non-cost factors, such as family financial assets and income (i.e., CFED's *Assets and Opportunity Scorecard*) and "knowledge jobs" (ITIF's *The State New Economy Index: Benchmarking Transformation in the States*).

Attachment 1 highlights the variables used by these and the other ranking organizations.

SUB-RANKINGS

Comparing how the 12 organizations rank Connecticut and Delaware becomes more complicated when the focus shifts from their overall rankings to their sub-rankings. Doing so reveals how an organization can give a state a relatively poor overall ranking and relatively better sub rankings, an outcome that usually results from differences in how the studies grouped and weighed the ranking criteria.

For example, ALEC's *Rich States, Poor States: ALEC-Laffer State Competitiveness Index 6th Edition* (2013) overall rankings are based on 15 equally weighted "policy areas that are directly influenced by state lawmakers," such as taxes, government spending and debt service, and labor costs.

Table 2 shows how ALEC ranks Connecticut and Delaware in each of these areas. Connecticut does better than Delaware with respect to highest marginal personal and corporate income tax rate, personal income tax progressivity, sales tax burden, debt service as a share of tax revenue, and public employees per 1,000 residents.

Table 2: Comparison of the Selected States Sub Rankings in the *Rich States, Poor States ALEC-Laffer State Economic Competitiveness Index*

Rankings	Selected States Rankings*	
	CT	DE
Overall Economic Outlook Ranking	43	30
Policy Variables:		
• Highest Marginal Personal Income Tax Rate	29	41
• Highest Marginal Corporate Income Tax Rate	40	47
• Personal Income Tax Progressivity	25	43
• Property Tax Burden	43	4
• Sales Tax Burden	11	1
• Tax Burden from All Remaining Taxes	10	50
• Estate/Inheritance Tax (Yes or No)	50	50
• Recently Legislated Tax Policy Changes (Over the past two years)	49	8
• Debt Service as a Share of Tax Revenue	26	36
• Public Employees per 10,000 Residents	17	28
• Quality of State Legal System	25	1
• Workers' Compensation Costs	45	21
• State Minimum Wage	49	1
• Right-to-Work State	50	50
• Tax or Expenditure Limits	15	4

*Rank of 1 is better for businesses than rank of 50.

Differences between overall and sub-rankings also appear when organizations rank states based on criteria other than business costs. For example, ITIF’s 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 weighted 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 3 describes ITIF’s ranking scheme, including the weights it assigns to each indicator and indicator category.

1. Delaware’s overall (first tier) rank is higher than Connecticut’s (2nd to 9th, respectively).
2. Delaware’s rank is also higher than Connecticut’s in four of the five (second tier) categories, the exception being “Knowledge and Jobs,” in which Connecticut ranked 4th and Delaware 11th.

3. Connecticut ranks higher than Delaware with respect to half of the 26 third-tier indicators, including workforce education, initial public offerings, online agriculture, and reducing energy consumption and relying more on clean energy (i.e., movement toward a green economy).

Table 3: Comparison of Selected States Sub-Rankings in ITIF's *The 2012 State New Economy Index*

Rankings	Weight	Selected States Rankings*	
		CT	DE
Overall Score		9	2
Category and Indicator Scores			
○ Knowledge and Jobs	5.00	4	11
▪ Information Technology Jobs	0.75	12	3
▪ Managerial, Professional, and Technical Jobs	0.75	4	20
▪ Workforce Education	1.00	4	23
▪ Immigration of Knowledge Workers	0.50	38	40
▪ Migration of U.S. Knowledge Workers	0.50	8	27
▪ Manufacturing Value Added	0.75	9	22
▪ High-Wage Traded Services	0.75	3	1
○ Globalization	2.00	8	1
▪ Foreign Direct Investment	1.00	3	2
▪ Export Focus of Manufacturing and Services	1.00	23	2
○ Economic Dynamism	3.50	21	18
▪ Job Churning	1.00	50	12
▪ Fast Growing Companies	0.75	8	7
▪ Initial Public Offerings	0.50	5	32
▪ Entrepreneurial Activity	0.75	25	38
▪ Inventor Patents	0.50	7	31
○ The Digital Economy	3.00	10	7
▪ Online Population	0.50	20	33
▪ E-government	0.50	25	25
▪ Online Agriculture	0.50	3	34
▪ Broadband Telecommunications	1.00	11	1
▪ Health IT	0.50	15	15
○ Innovation Capacity	5.00	9	4
▪ High-Tech Jobs	0.75	15	12
▪ Scientists and Engineers	0.75	14	9
▪ Patents	0.75	12	2
▪ Industry Investments in R&D	1.00	3	1
▪ Non-Industry Investments in R&D	0.50	39	48
▪ Movement Toward a Green Economy	0.50	6	27
▪ Venture Capital	0.75	23	25

*Rank of 1 is better for businesses than rank of 50.

FACTORING IN BUSINESS SIZE

The Tax Foundation’s research shows how state rankings could change, depending on how a tax affects different types of businesses. In its 2012 [*Location Matters: A Comparative Analysis of State Costs on Business*](#), the Tax Foundation ranked states based on how their taxes affect 14 types of hypothetical businesses: seven new and seven older: (1) corporate headquarters, (2) R&D facilities, (3) retail stores, (4) call centers, (5) distribution centers, (6) capital-intensive manufacturing firms, and (7) labor-intensive manufacturing firms. It provided overall rankings for new and older businesses and sub-rankings for each type of new and older business.

Table 4 compares the Foundation’s (1) overall rankings for Connecticut and Delaware and (2) these rankings with those of the Foundation’s *2013 State Business Tax Climate Rankings*. As the table shows, Connecticut, which ranks below Delaware in the tax climate study, ranked higher than Delaware in the location matters study with respect to older firms.

Table 4: Comparison of Selected States’ Overall Location Rankings

Selected States	2012 Location Matters Rankings		2013 State Business Tax Climate Index Ranking*
	Older Firms	New Firms	
CT	21	30	40
DE	24	16	14

*Rank of 1 is better for businesses than rank of 50.

The Foundation also ranks the states based on how their tax system affected each type of business. As Table 5 shows,

1. Connecticut’s tax burden is lighter than Delaware’s with respect to (a) new and older R&D facilities, (b) older retail stores, and (c) older capital- and labor-intensive manufacturing firms and
2. Delaware’s tax burden is lighter than Connecticut with respect to (a) new and older corporate headquarters, (b) new retail stores, (c) new and older call distribution centers, and (d) new capital- and labor-intensive manufacturing firms.

Table 5: Comparison of Selected States Rankings for Each Business Type

<i>Business Type</i>	<i>Ranking*</i>	
	<i>CT</i>	<i>DE</i>
Corporate Headquarters:		
• Older	42	17
• New	40	18
R&D Facility:		
• Older	21	44
• New	35	37
Retail Store:		
• Older	32	45
• New	29	22
Call Center:		
• Older	38	28
• New	37	17
Distribution Center:		
• Older	29	30
• New	34	37
Capital Intensive Manufacturing:		
• Older	9	17
• New	25	42
Labor Intensive Manufacturing:		
• Older	6	10
• New	18	43

*Rank of 1 is better for businesses than rank of 50.

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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 • DE: 30 	Rankings: <ul style="list-style-type: none"> • CT: 46 • DE: 26 	Rankings: <ul style="list-style-type: none"> • CT: 33 • DE: 17 	Rankings: <ul style="list-style-type: none"> • CT: Unavailable • DE: Unavailable 	Rankings: <ul style="list-style-type: none"> • CT: 45 • DE: 27 	Rankings: <ul style="list-style-type: none"> • CT: 45 • DE: 31 	Rankings: <ul style="list-style-type: none"> • CT: 29 • DE: 22

Attachment 1 (continued)

Forbes, Best States for Business	Information Technology & Innovation Forum, The State New Economy Index: Benchmarking Transformation in the States	Site Selection Magazine, Top Ten 2012 State Business Climates	Small Business & Entrepreneurship Council, U.S. Business Policy Index	Tax Foundation, State Business Tax Climate Index	U.S. Chamber of Commerce Foundation, Enterprising States: Getting Down to Small Business
<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 • DE: 20 	<p>Rankings:</p> <ul style="list-style-type: none"> • CT: 9 • DE: 2 	<p>Rankings:</p> <ul style="list-style-type: none"> • CT: Unavailable • DE: Unavailable 	<p>Rankings:</p> <ul style="list-style-type: none"> • CT: 42 • DE: 33 	<p>Rankings:</p> <ul style="list-style-type: none"> • CT: 40 • DE: 14 	<p>Rankings:</p> <ul style="list-style-type: none"> • CT: 36 • DE: 30