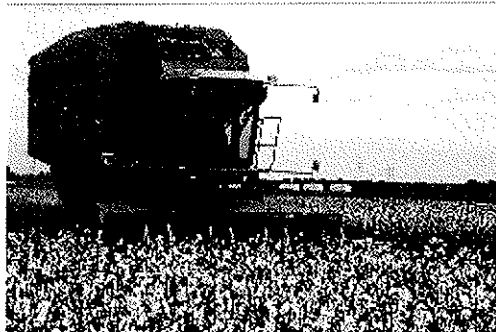




CNBC Top State for Business: Texas is back on top

Updated 5d ago

By Scott Cohn, CNBC Senior Correspondent



By Betsey Blaney, AP

A cotton stripper works its way through a field in Lubbock, Texas. The Texas economy is larger than that of all the Scandinavian nations combined.

They say everything in Texas is big, and that sure goes for its stature in business.

With the biggest point total in the history of our study, Texas posts a big victory as America's Top State for Business 2010.

CHART: Full list of state rankings

Texas reclaims the top spot from last year's winner, Virginia, which slips to number two. Texas was last on top in 2008, and Virginia took the crown in the inaugural year of our study, 2007. That leaves Texas and Virginia dead even in the battle for bragging rights at two wins apiece. Rounding out the top five are number three Colorado, number four North Carolina, and number five Massachusetts, which makes its first appearance among America's Top States for Business.

Our fourth annual study of America's Top States for

Business puts all 50 states to the test, measuring them on 40 different metrics in 10 key categories of competitiveness. We developed these categories back in 2007 with the help of business groups including the National Association of Manufacturers. And we weight the categories based on how frequently states use them as selling points to attract business. That way, we hold the states to their own standards, and tell you how they measure up.

This year's categories and weightings, for a total of 2,500 points, are:

- Cost of Doing Business (450 points)
- Workforce (350 points)
- Quality of Life (350 points)
- Economy (314 points)
- Transportation & Infrastructure (300 points)
- Technology & Innovation (250 points)
- Education (175 points)
- Business Friendliness (175 points)
- Access to Capital (50 points)
- Cost of Living (25 points)

We use publicly available data on the metrics in each category to score the states, and then add up those scores to rank America's Top States for Business.

Coming out on top is always an accomplishment, and never more so than this year. The national economy is anemic, and state budget pressures are growing across the country. In fact, even top-ranked Texas is struggling to make ends meet. The

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state faces a Texas-sized, \$4.6 billion budget shortfall for fiscal 2011, according to the non-partisan Center on Budget and Policy Priorities. That is more than 12% of the state budget.

Add to that a sluggish job market across the country, and even the Top States cannot afford to rest easy.

In number three Colorado for example, unemployment in May was a relatively low 8%. But KUSA-TV reporter Greg Moss in Denver says the unemployment rate does not tell the full story.

"Although ours is way below the national average, it's remained pretty flat. So we're seeing a lot of long-term unemployed," Moss says.

In runner-up Virginia, which has a built-in cushion of technology and government jobs, particularly in the northern part of the state, the employment picture statewide is somewhat shaky.

"The recession of the past two years has hit manufacturing rather hard," says reporter Tom Schaad of WAVY-TV. "Here in Hampton Roads, International Paper in Franklin closed a major mill, putting 1,100 people out of work. That's one example."

What separates the Top States from the rest is their ability to cope with those types of economic stress, offering environments that allow businesses to thrive even in a slowdown.

Texas powers past the tough times on the strength of its economy — top-ranked in our "Economy" category four years in a row. The Texas economy is the 15th largest in the world, according to government figures; larger, for example, than that of all the Scandinavian nations combined. The Lone Star State is home to 64 *Fortune* 500 companies, more than any other state, in a wide variety of industries. So while the state's last win in 2008 came with oil at a record \$145 a barrel — a natural tailwind for the largest industry in Texas — the state managed to do even better this year despite the fact that oil is trading at roughly half that price.

Texas has also managed to avoid the worst of the real estate crisis, according to reporter Ashanti Blaize of KXAS-TV.

"While in other major cities we've seen condo high-

rise projects either slowed or come to a screeching halt, in Dallas we've seen an influx of some of those projects," says Blaize.

However, that economic strength has a side effect. Rising commercial rents and high wages hurt the state in the all-important "Cost of Doing Business" category, where it comes in at number 30.

Virginia comes in second overall this year, but the Old Dominion State still has plenty to be proud of. In the "Business Friendliness" category, which measures the states' legal and regulatory climates, Virginia is second only to neighboring Delaware. And Virginia offers a diverse economy, making it chock-full of business opportunities, from imports and exports to government contracts in the state that is home to the Pentagon.

"Hampton Roads has the third largest port in the country. That, along with heavy military presence usually provides for a stable economy," says WAVY-TV's Schaad, who also notes that federal stimulus money, particularly in the area outside Washington, D.C., is keeping overall unemployment well below the national average.

But with pockets of severe joblessness hampering growth—including in tourism-dependent Williamsburg—Virginia dropped four places to number 11 in the "Economy" category. Virginia also lost critical points in the "Education" category, dropping six places to number 13 as class sizes rose and school spending fell.

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While Texas and Virginia duke it out for the top spot year after year and Colorado stays consistent at number three, the rest of the rankings are less predictable.

North Carolina, which finished a disappointing ninth in 2009, jumped to number four in 2010. The corporate home of a number of giant financial institutions, including Bank of America and BB&T, North Carolina's business climate benefited from the easing of the financial crisis, according to WCNC-TV's Jeff Campbell in Charlotte.

"There are also lessons the state has learned from the recent crisis, and that's really helping the state diversify towards some other industries like clean energy and tourism," says Campbell.

As a result, North Carolina has seen a surge of investment, pushing the state to number 10 in our "Access to Capital" category, up from number 36 last year. That was enough to propel the Tar Heel State back into the top five overall for the first time since 2007.

Massachusetts never ranked among America's Top States for Business before 2010. Its number five finish this year also marks the first time a northeastern state has finished among the top five.

But the Bay State has always been a contender — it finished number eight overall last year. Massachusetts' greatest strength is its schools. The state boasts the best performing K-12 schools in the country, as well as some of the top universities in the world. The strong education system helps Massachusetts capture near top rankings in "Technology & Innovation" (number three, up from number five last year) and "Access to Capital" (number two for the second year in a row). Even in "Business Friendliness" — not generally considered a hallmark of New England states — Massachusetts finishes a respectable 14th.

This year's most improved state is Pennsylvania, which jumped a whopping 13 places to number 20 overall, from number 33 last year. However, it is unclear whether the Keystone State truly bettered itself, or if others simply got that much worse. Pennsylvania's best category was "Economy," where the state improved to number 15 compared to a 37th place ranking in 2009. Yet the state still faces persistent unemployment and a \$4.1 billion state budget shortfall.

The biggest drop came in Vermont, which fell seven places overall to number 37. While economic conditions have improved in the Green Mountain State, business costs have gone up and the quality of the workforce has declined according to our study.

Two states drop out of the top five in 2010.

Iowa falls to number six from number four last year, and Utah, a consistent player in previous years, moves into a tie for eighth place with Minnesota.

Our study scores all 50 states, so if there are going to be Top States, it stands to reason that there will also be bottom states. Alaska is America's bottom state for business again this year, hampered by its high cost of living, relatively high cost of doing business, and a weak infrastructure.

After Alaska, there is a big change among the also-rans. Rhode Island drops to number 49 overall, following its 48th place finish in 2009. The Ocean State is among the least friendly to business, and ties with Nevada for the worst overall economy.

Rhode Island's drop is good news for those other islands — Hawaii, which climbs to 48th place overall. No great surprise, the Aloha State is number one for "Quality of Life." Unfortunately, you get what you pay for. Hawaii ties with California as the most expensive state in which to live, and is second only to New York in the cost of doing business.

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America's Top States for Business 2010

Rank	2009 rank	State	Points (out of 2500 possible)
1	2	Texas	1508
2	1	Virginia	1477
3	3	Colorado	1456
4	9	North Carolina	1381
5	8	Massachusetts	1375
6	4	Iowa	1371
7	12	South Dakota	1360
8	6	Minnesota	1359
8	5	Utah	1359
10	10	Georgia	1326
11	7	Kansas	1322
12	16	North Dakota	1282
13	11	Nebraska	1281
14	13	Wyoming	1263
15	16	Washington	1254
16	20	Tennessee	1247
17	14	Missouri	1245
18	18	Arizona	1242
19	21	N. Hampshire	1208
20	33	Pennsylvania	1207
21	15	Indiana	1179
22	24	New Jersey	1171
23	18	Oregon	1170
24	36	New York	1165
25	23	Oklahoma	1164
26	22	Idaho	1162
27	27	Maryland	1151
28	28	Florida	1150
29	26	Wisconsin	1145
30	25	Illinois	1137
31	37	South Carolina	1134
32	31	Arkansas	1085
32	32	California	1085

34	29	Ohio	1077
35	35	Connecticut	1073
36	38	Montana	1069
37	30	Vermont	1043
38	43	New Mexico	1033
39	40	Maine	1021
40	34	Kentucky	1015
41	41	Michigan	1004
42	42	Delaware	1003
43	39	Alabama	995
44	44	Louisiana	953
45	45	Mississippi	878
46	46	West Virginia	873
47	47	Nevada	862
48	49	Hawaii	788
49	48	Rhode Island	775
50	50	Alaska	652