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July 11, 2005

Excerpts from the Article "2005 MAYOR'S CHALLENGE™: America's Top Business Opportunity Metros"

### **Government Influences on Business Climate**

Politicians tend to take credit for good things that happen in the economy, and deny any responsibility for things that go bad. Usually, this is just political puffery.

However, there are definitely things that state government does that have a direct impact on the state's business climate. Generally, those items involve tax and spending priorities, as well as debt management (or lack thereof).

Our annual [Legislative Quotient™](#) compares the impact of each of the 50 state legislatures in creating a healthy business climate. It takes about 25 factors and organizes them into seven major categories: the general tax bite; tax and spending trend over the past five years; infrastructure spending; education spending; spending on government administration; debt management; and the existence or not of right-to-work legislation.

The reason we believe this is a site selection factor is that, for better or worse, when a company relocates to a different state, it also inherits that state's problems. A simple look at the tax rate is not good enough. It's even more important to look at the trends over the past five years or so. Are things improving or not?

Same thing for debt. Moving to a state with a large debt is no different from acquiring a company with a heavy debt load. Regardless of who created the debt, it's yours now, and the only way to work it down is through higher taxes.

Likewise for infrastructure spending. Deferred spending on maintenance only prolongs the problem while increasing the ultimate cost of fixing it. Sooner or later, the day of reckoning will arrive and, when it does, you'll be the one who is paying for it if you chose to locate in that state.

Our intent is not to get into an argument over whether or not taxes are good or bad. Opinions vary on that one. However, what is certain is that taxes are a business expense, just like rent and salaries, and an increase in taxes must be offset by either a cut in other expenses or an increase in revenues.

At least, that's how the private sector operates.

### **The Five Star Metro Designation**

One of the standard features of *Expansion Management's* various annual metro "Quotient" studies is the awarding of the "5—Star" designation to the top 20 percent of the 362 MSAs. Metros that earn this distinction can rightfully consider themselves to be among the elite cities when it comes to that particular category (i.e., public schools, health care costs, logistics infrastructure, etc.).

Metros that rank in the 21 to 40 percentile are designated as "4—Star Metros," while those that rank in the middle (41 to 60 percentile) are awarded 3—Stars. You can do the math for the 2—Star and 1—Star metros.

Why do we arrange metros into group rankings? Because it provides you — business executives as well as corporate site location specialists — with a quick and easy means to compare the relative strengths and

#### **Best Tax and Financial Management Environment**

1. Texas
- 2. Arizona**
3. Nevada
4. Washington
5. Arkansas

SOURCE: Expansion Management's annual "Legislative Quotient™," November 2004.

weaknesses of a particular metro you may be considering for a future facility location, as well as to compare it with any other communities you might be considering using the same criteria for each location.