THE SHERIDAN ROAD MAP

The Best Route to Financial Success

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BEST AND WORST STATES FOR BUSINESS 2010

More than 600 CEOs rated states on a wide range of criteria from taxation and regulation to workforce quality & living environment, in our 6th annual special report.

In *Chief Executive's* annual survey of best and worst states for business, conducted in late January of this year, 651 CEOs across the U.S. again gave Texas top honors, closely followed by North Carolina, Tennessee and Virginia. They gave the booby prize for worst state to California, with New York, Michigan, New Jersey and Massachusetts filling out the bottom five—a line-up virtually unchanged from last year. Florida and Georgia each dropped three places in the ranking, but remain in the top 10. Utah jumped six positions this year to sneak into the top 10 at No. 9.

The business leaders were asked to draw upon their direct experience to rate each state in three general categories: taxation and regulation, quality of workforce and living environment. Within each category respondents graded states in five subcategories, as well as ranking each in terms of its importance to the respondent and how individual states measure up.

For example, Texas fares competitively with Nevada and Delaware in terms of taxation and regulatory environment, but scored best overall, in no small measure because of the perception that its government's attitude to business is ideal. Runner-up North Carolina edged Texas slightly in its living environment, but scored somewhat below the Lone Star state in terms of government attitude to business and work ethic, which is a sine qua non for the business leaders. After employee work ethic, CEOs most highly prize lower tax rates and perceived attitudes toward business, followed by living environment considerations, such as real estate costs and education.

"Texas is pro-business with reasonable regulations," one CEO respondent remarked, "while California is anti-business with anti-business regulations." Another commented, "California is terrible. Even when we've paid their high taxes in full, they still treat every conversation as adversarial. It's the most difficult state in the nation. We have actually walked away from business rather than deal with the government in Sacramento."

"The leadership of California has done everything in its power to kill manufacturing jobs in this state," observed another CEO. "As I stated at our annual meeting, if we could grow our crops in Reno, we'd move our plants tomorrow."

How is it that the nation's most populous state at 37 million, one that is the world's eighth-largest economy and the country's richest and most diverse agricultural producer, a state that had the fastest growth rate in the 1950s and 1960s during the tenures of Democratic Governor Pat Brown and Republican Governors Earl Warren and Ronald Reagan, should become the Venezuela of North America?

Californians pay among the highest income and sales taxes in the nation, the former exceeding 10% in the top brackets. Unemployment statewide is over 12.2%, higher than the national average. State politics seems consumed with how to divide a shrinking pie rather than how to expand it. Against national trend, union density is climbing from 16.1% of workers in 1998 to 17.8% in 2002. Organized labor has more political influence in California than in most other states. In addition, unfunded pension and health care liabilities for state workers top $500 billion and the annual

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Best and Worst States for Business 2010 *(continued from page 1)*

pension contribution has climbed from $320 million to $7.3 billion in less than a decade. When state employees reach critical mass, they tend to become a permanent lobby for continual growth in government.

Bill Dormandy, CEO of San Francisco medical device maker ITC, summed it up: "California has a good living environment but is unfavorable to business and the state taxes are not survivable. Nevada and Virginia are encouraging business to move to their states with lower tax rates and less regulatory demands."

Lone Star Leader

By contrast, Texas, the second-most populous state and the world's 12th largest economy, is where 70% of all new U.S. jobs have been created since 2008. Unsurprisingly, it scores high in all the areas CEOs value most. "You feel like state government understands the value of business and industry to create jobs and growth," observed one CEO. Its tax credits and incentives to business choosing to locate or expand are among the most aggressive. The Texas Enterprise Fund is by far the largest deal-closing fund of any state, with grants totaling $377 million disbursed in 2008.

Little wonder then that while Texas gained over 848,000 net new residents in the last 10 years, according to the Census Bureau, California lost 1.5 million. New York State's net loss exceeded 1.6 million — the highest of any state. High-tax, big-government New Jersey ranked fourth, with a net loss of almost 460,000, enough to drop it from 10th to 11th place in population.

"The New York state legislature is the most dysfunctional in the land and one of the reasons why New York is the worst," one exasperated New York City business leader volunteered.

The political elites in the states that dismiss out-migration trends overlook the radical demographic adjustment underway. As higher-income earners leave, they are more often replaced by those with lower incomes and lower skills, many needing public assistance. Gone too are the entrepreneurs and risk-takers, off seeking regions where their job creating abilities are rewarded.

Another more daunting reality is in store. The so-called de-leveraging of America hasn't reached government. U.S. cities and states have issued over $2 trillion in new debt since 2008, with another $1 trillion scheduled this year. The problem is that state revenues in real terms may not reach 2008 levels until late in 2012, according to John Thomasian of the National Governors Association Center for Best Practices. As he emphasizes in his paper, "The Big Reset: State Government after the Great Recession," states will have to rethink and redesign government in terms of what is essential and what can be made more efficient if their citizens are to have much of a future.

The results of this survey may point the way.

CEOs Grade the States

From the best to the worst state ratings.

	2010 Rank	State	2009 Rank	Change
TOP 10	1	TX	1	0
	2	NC	2	0
	3	TN	5	2
	4	VA	7	3
	5	NV	6	1
	6	FL	3	-3
	7	GA	4	-3
	8	CO	10	2
	9	UT	15	6
	10	SC	9	-1
	11	AZ	8	-3
	12	DE	12	0
	13	ID	16	3
	14	SD	13	-1
	15	WY	20	5
	16	IN	11	-5
	17	IA	19	2
	18	NH	18	0
	19	OK	22	3
	20	AL	14	-6
	21	AK	25	4
	22	NE	28	6
	23	KY	23	0
	24	ND	17	-7
	25	KS	21	-4
	26	MO	26	0
	27	AR	35	8
	28	MT	27	-1
	29	NM	34	5
	30	WA	40	10
	31	MN	32	1
	32	PA	29	-3
	33	MD	31	-2
	34	WV	37	3
	35	MS	30	-5
	36	VT	36	0
	37	ME	33	-4
	38	OR	24	-14
	39	RI	39	0
	40	DC	42	2
	41	LA	44	3
	42	WI	43	1
	43	HI	41	-2
	44	OH	45	1
	45	CT	38	-7
	46	IL	46	0
BOTTOM 5	47	MA	47	0
	48	NJ	48	0
	49	MI	49	0
	50	NY	50	0
	51	CA	51	0

Selecting the Best State

Fierce State Competition for Business Site Locations Offers Opportunities and Pitfalls.

CEOs can expect a potentially rewarding, yet perilous, landscape in business expansion incentives in 2010. High-stakes competitions for business expansion are nothing new. But with the current unemployment rate, the stakes have gotten much higher. As a result, negotiations for business expansion in 2010 will be more complex and financially significant, meaning CEOs will have more options to evaluate and a wider array of possibilities to consider.

For those navigating the increasingly complex site-selection maze, lessons can be learned from some recent state deals.

Battle for Boeing: Did "Right to Work" Make the Difference?

In September 2009, 267 South Carolina workers took matters into their own hands and altered the high-stakes show down over where the Boeing Corporation would build its second 787 Dreamliner assembly line in 2010. The workers, based in Charleston, voted to decertify their South Carolina Boeing workplace as an International Association of Machinists union facility. The vote was 199 for decertification to 68 against.

A day later, Washington State Senator Mike Hewitt (R-Walla Walla), the minority leader and a member of Governor Chris Gregoire's Council on Aerospace, called the decertification "a serious blow to our quest to keep the second 787 production line in Washington." He further said, "Today's vote puts Washington at a major competitive disadvantage."

Hewitt would later ask the state legislature to lower unemployment insurance costs and to reject a proposed hike in workers' compensation tax in hopes of improving Washington's competitive position.

The location of 3,800 potential jobs and $750 million of capital investment was up for grabs. Which was the best state for Boeing?

Washington has strong advantages: a highly trained aerospace workforce and state leaders prepared to meet any incentives other states offered. What it could not do is rewind the history of a costly 52-day strike in 2008. Boeing wanted production security.

In the end, union decertification and South Carolina's right-to-work laws made the difference. Boeing selected Charleston for its second assembly line. The largest private sector capital investment in South Carolina history became reality.

Lesson: Non-financial state characteristics can make the difference.

State Wars for Business and Jobs in 2010

Selecting the best state to grow your business today involves increased political considerations and more restrictive conditions. State wars for business, employing tax incentives, training grants, land acquisitions and other devices, could become common and fierce. These expansion and location decisions will be full of potential opportunities — and pitfalls — for CEOs.

According to the Center on Budget and Policy Priorities, combined state budget deficits for 2010 and 2011 could reach a staggering $260 billion. California is on the verge of bankruptcy and 10 other states have fiscal situations equally dire. The Department of Labor recently reported that 23 states are borrowing money from the federal government just to meet their weekly unemployment obligations. Governors and legislatures will have to get very aggressive to bring in employment and business in order to stanch fiscal bleeding.

Economist James Hughes of Rutgers University, widely regarded as an expert on business expansion incentive programs, is generally a proponent of state incentive plans and has quantified the positive returns for New Jersey. He predicts unprecedented state wars. "Every governor in every state is going to be desperate for job growth for their citizens, since we're in such a deep employment hole," Hughes said in an interview. "Those states that have the most effective economic development strategies, teams and programs are going to have a better chance at getting the jobs," he added. "But the competition will be furious, like nothing we've never seen before."

Lesson: States will be creative and aggressive.

New York vs. New Jersey Battle Heats Up

CEOs in the Northeast or those considering expansion there will find the incentive battles in this region noteworthy. In what the New York Observer dubbed the Battle of the Holland Tunnel, New Jersey and New York will compete furiously in 2010.

In early January, New York Governor David Paterson proposed a remake of New York State's longstanding business incentive programs. "Unfortunately, our Empire Zone program is no longer working," Paterson said in his State of the State speech. Paterson wants to replace it with the Excelsior Jobs program (named after the state's motto), which would create new incentives for jobs, research and capital investment.

But in today's economy becoming competitive with other states might not be enough. The battles for growth and jobs in the shrinking economies of the Northeast, where states typically recruit against their neighbors, will be fierce. Companies outside the New York-New Jersey-Connecticut area view the region as very expensive, with some of the highest wages, taxes, regulation and cost of facilities in the nation.

New Jersey appears to be leading in the early rounds of the Holland Tunnel campaign. It started in November 2009, when The Depository Trust and Clearing Corporation announced that it would relocate 1,600 of its employees to New Jersey, reducing its Water Street footprint in New York City to about a third the size. Depository Trust signed a long-term lease for 415,000 square feet in the Newport Office Center on Jersey City's Gold

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Selecting the Best State

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Coast waterfront. Employees are expected to begin work there in early 2013.

"[W]e concluded that relocating to New Jersey would allow us to manage our cost structure more readily and position DTC for continued business expansion in the years ahead." Said William Aimetti, CEO. Garden State incentives, including the Business Employment Incentive Program and the newly authorized Economic Redevelopment and Growth grant program, offering grants toward relocation expenses and signed into law by then-Governor Jon Corzine, played an important role in the decision, company officials say.

This year there will see more high-profile battles between the two states. According to public documents, Deloitte, the $26.4 billion accounting giant, "anticipates relocating 1,400 jobs from New York City," and has applied for $35 million in New Jersey state incentives. Jonathan Gandal, a Deloitte spokesman, said in an emailed statement that the application was "preliminary research of the tri-state area commercial real estate market in advance of our expiring leases in New York, New Jersey and Connecticut. The New Jersey grants are available to us, but no decisions have been made. Tax incentives are one of multiple factors we're weighing."

Significant state tax revenues are at stake. ACE Limited, the insurance company, has reportedly been approved for several million dollars of incentives to move 336 employees to New Jersey. A final decision has yet to be announced. Starwood also recently announced it would move its headquarters and 800 employees from White Plains, NY, to nearby Stamford, CT.

New York City has also had some wins, but primarily with companies renewing their commitments or expanding. Major leasing announcements have come from law firm Paul, Weiss, Rifkind, Wharton & Garrison LLP, hedge fund D.E. Shaw and law firm Stroock & Stroock in early 2010.

"Right now, New York doesn't make the short list on where to expand or put back-office jobs" said Kathryn Wylde, president of the Partnership for New York City, a leading business group. Look for New York to respond with more programs and incentives.

Lesson: Explore neighboring states. They will be eager to compete.

Clawbacks and Drawbacks: Dell's $26.5 Million Bill

States are also getting more sophisticated about clawback provisions (which require the company to commit to stipulations such as a timeline on creating new jobs, the amount of capital to be invested and meeting wage standards, under penalty of losing incentives) and other terms that make expansion decisions perilous. Business is full of risk; now states are asking businesses to pay them if their expansions do not last.

When Dell made the decision to build a new facility in Winston-Salem, NC, in November 2004, the county, media and political establishment were excited. Dell desktop computers would be assembled in North Carolina.

In its agreements, Dell pledged to create a minimum of 1,700 jobs, with possibly as many as 2,000. It also pledged to invest a minimum of $100 million. The North Carolina General Assembly approved $242 million to $267 million in incentives. In addition, the Winston-Salem City Council and Forsyth County Board of Commissioners passed a $37.2 million package of incentives.

Unfortunately for Dell, the demand for desktop computers has been falling, while the demand for laptops and other equipment has increased. The facility's peak employment was 1,400, but in late 2009 Dell decided to close the plant in January 2010. The date has been extended until October 2010, with approximately 400 employees staying on as demand increased.

In November 2009, along with the announcement of the plant closing, Dell took a $59 million charge against its approximate $115 million investment. That loss was bad enough, but it was not the entire bill for the plant closing. In its agreements with North Carolina authorities, Dell was required to repay certain incentives if it closed the plant prior to October 2010. It also was required to repay graduated amounts based on employment metrics.

After the announcement, Winston-Salem Mayor Allen Joines sent Dell a letter outlining the upfront costs and expenses it had incurred: $26.5 million. Dell paid up.

The political leaders hailed the reimbursement as a positive in protecting the community, yet it highlighted another risk in accepting state business incentives. More and more states want companies to repay them if business changes.

For most companies, change is to be expected. Trying to predict employment levels and demand for products over the long term is very difficult.

Lesson: Beware—or be prepared for—clawbacks in case things don't go as planned.

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