

Best Places

Virginia: The Best State for Business

By Kurt Badenhausen, Electronically reprinted from August 16, 2006

Four hundred years after Captain John Smith established the first permanent English colony in Jamestown, the commonwealth of Virginia is leading the way once again. Virginia grabbed the top spot in Forbes.com's first-ever Top States for Business thanks to its strong economic growth, low business costs and excellent quality of life.

The state, called "Earth's only paradise" by poet Michael Drayton, dominated our rankings, placing in the top ten in each of the six categories we examined: business costs, economic climate, growth prospects, labor, quality of life and regulatory environment. No other state placed in the top ten in more than three categories.

We looked at a total of 30 metrics within the six general categories, and Virginia scored in the top half of all but three of them (high school attainment, five-year income growth and cost of living). The next best-performing states, North Carolina and Colorado, scored in the bottom 50% in nine metrics. Our second-ranked state overall, Texas, had 12 metrics where it ranked outside the top half.

One company that recently caught on to Virginia's winning ways is pack-

aging and office products firm MeadWestvaco (nyse: MWV - news - people). After an 18-month search, the \$6 billion-in-sales company ditched Stamford, Conn., for Richmond when it decided to relocate its corporate headquarters and 400 jobs this year. A spokeswoman for MeadWestvaco says that Richmond and Virginia appealed to the company because of its "pro-business environment and quality of life that was available to its employees." Lower costs helped seal the deal. Business costs are 15% lower in Richmond, and the cost of living is 29% lower, according to Moody's Economy.com.

Business costs in Virginia are very low, particularly tax and energy costs, which are the seventh and ninth lowest in the country. Overall, business costs in Virginia are 9% below the national average. The corporate income tax has remained unchanged at 6% for more than 30 years. And the state's AAA bond rating keeps the government's borrowing costs down, preventing it from nickle and diming its corporate constituents. Worker compensation costs are fourth lowest in the country and are 47% below the national average.

But Virginia is much more than just a cheap place to do business for its 7.6 million residents. Gov. Tim Kaine thinks it starts with the novel concept of Democrats and Republicans working together. "There has been a real bipartisan tradition in Virginia of wanting to have a strong business climate. That political consensus has helped the legal and regulatory climate," says Kaine. The governor and the legislature strive to keep taxes and regulation "low, fair and business-friendly."

That's easy to say but hard to do, according to Ronald Pollina, founder of Pollina Real Estate, a commercial real estate consulting firm. "Every governor or mayor claims his state or city is pro-business, but not everyone walks the walk. Virginia does," says Pollina. To gauge which states were business-friendly, Pollina ranked the 50 states for Forbes.com based on their incentive programs, including cash grants, low-interest loans, tax credits and job training.

He also factored in state economic development agencies. With one of the strongest incentive programs in the country, Virginia clocked in at No. 2, behind South Carolina, in Pollina's

ranking. "Incentives help get us across the finish line when competing for a business," says Patrick Gottschalk, Virginia's secretary of commerce and trade.

Virginia garners a tremendous benefit from its location and its infrastructure. The state is located within 750 miles of two-thirds of the U.S. population. It is home to one of the country's busiest international airports, Washington Dulles International, and the country's fifth busiest port, Hampton Roads. "The combination of our port operation and Dulles really gives us the ability to connect to the global economy," says Kaine.

One of the biggest players in the Hampton Roads area is Northrop

Grumman Newport News. The company was formed when industrial conglomerate Northrop Grumman (nyse: NOC - news - people) bought Newport News Shipbuilding in 2001. Today, it is the largest privately owned shipyard in the U.S. Northrop Grumman is Virginia's largest nonretail private employer, with more than 30,000 employees throughout the state.

Other companies with a big presence in Virginia are Freddie Mac (nyse: FRE - news - people), General Dynamics (nyse: GD - news - people) and Sprint Nextel (nyse: S - news - people), which all had sales of more than \$20 billion in the past 12 months and are headquartered in the Old Dominion State. In total, Virginia is

home to 32 companies with sales north of \$1 billion.

One of Virginia's strongest attributes is its two highly ranked institutions of higher education. The University of Virginia and the College of William and Mary graduate up to 5,000 graduates a year, many of whom stay in-state. They help contribute to Virginia's college attainment rate of 34% which is the seventh highest in the country. Life sciences businesses have popped up in and around Charlottesville because of UVA's highly rated medical school.

Add up a smart labor force, low costs, good regulatory environment and a great quality of life, and you get Virginia, the runaway winner in our listing of the Top States for Business.

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We welcome the opportunity to discuss business growth in the Commonwealth of Virginia.

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