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Special Report

The Best States For Business

Kurt Badenhausen, 07.11.07, 6:00 AM ET

You use its products every day--when you take a cross-country flight on a Boeing jet, when you sip your morning Starbucks coffee, when you order the latest *Harry Potter* book from Amazon.com and when you use the Microsoft operating system on your PC. Washington state is home to these companies and more, befitting the state's tagline, "Innovation is in our nature."

In Forbes.com's second annual Top States for Business, Virginia may be the top-ranked state for the second straight year, but Washington is the big story. The biggest mover (tied with Tennessee), rising from 12th to fifth place, Washington is also the only state to finish in the top five in three main categories (labor, regulatory environment and growth). And Washington's numbers are up across the board when you look both backward and at projections into the future.

In Pictures: The Best States For Business

Table: The Best States For Business

"We're blessed by birth. We have an innovative spirit in the state," says Washington's Gov. Christine Gregoire, who adds: "We've made improvements to get out of the way and let innovation and creativity take over."

Not that Virginia did badly--it just didn't dominate the rankings the way it did last year. The state finished in the top 10 in four of the six main categories we examined. But in 2006, it finished in the top 10 of all of them. Virginia's top attributes include an incentive environment that is the fourth-best in the country, according to Pollina Corporate Real Estate, a commercial real estate consulting firm, as well as an unemployment rate that's the third lowest in the nation.

Moving up to the second spot this year was Utah, from fourth place in 2006. Utah benefited from low business costs (9% below the national average) and a strong current economic environment. The state's five-year job growth rate jumped to 1.8%, from 1.3% last year, while incomes growth improved to 3.2%, from 2.2%.

Our second runner-up was North Carolina, whose capital, Raleigh, is our [best metro area for business and careers](#). North Carolina has the second-lowest labor costs in the country (18% below the national average), and incomes are projected to increase 3.8% annually over the next five years, the second-fastest rate in the country.

We have been ranking the Best Metro Areas For Business and Careers for nine years, and this ranking of states looks at many of the same factors, including business and living costs, job and income growth and educational attainment. But we go a step further with this ranking in several ways.

First, we look at projections of job, income and gross state product growth. We also examine venture capital money going into an area as well as new businesses that have cropped up in the past three years. Another addition is the role that government plays on the business climate in terms of environmental and labor laws, as well as taxes and incentives. These factors play out on the state level instead of on the local level. Overall, we examine 32 criteria to assemble the list.

One of Washington's big strengths is reduced red tape. The Office of Regulatory Assistance helps individuals and businesses sort through the many layers of government regulation all in one place. If a number of state agencies need to be contacted for a new business to obtain permits, it can be handled from one source.

That's part of why Washington has had more businesses open per capita the past three years than any other state in the

U.S. Another reason: A culture of innovation. "Innovation is the common thread throughout every industry in Washington," says Juli Wilkerson, who heads up Washington's economic development office. Venture capital spending in the state is the fifth-highest in the country, totaling \$2.6 billion the past three years.

This climate of creativity dates back to the early 1900s, when John Nordstrom opened his first shoe store, William Boeing built his first airplane and Friedrich Weyerhaeuser built the world's largest saw mill of its time. Today, Nordstrom, Boeing and Weyerhaeuser have combined sales of \$90 billion.

Another attractive part of Washington's economy is its low energy costs--28% below the national average last year, according to economic research firm Moody's Economy.com. The state's energy costs are the sixth-lowest in the country. Power costs for fellow Pacific-coaster California are twice as high.

No wonder Washington is booming. "Businesses that we are competing for now typically tell us that they have eliminated California from their thinking because of the time that it takes to get what they need to construct or expand and the cost of doing business," says Gregoire.

Washington is also prime territory for companies looking to do business in both Asia and Europe. The Seattle-Tacoma port is the fourth largest in the United States, behind Long Beach, Calif., Los Angeles and New York.

As the birthplace of some of the world's most powerful companies, Washington is also home to many of the world's richest individuals--including Microsoft's Bill Gates and Paul Allen, Amazon.com's Jeffrey Bezos, cable magnate Craig McCaw and Starbucks founder Howard Schultz. This is helping spur more economic activity in the region. "We want to be a center for global health," says Gregoire.

Helping to fuel the idea of a Washington as a global health center is the Bill & Melinda Gates Foundation, based in Seattle. The foundation, which strives to enhance health care around the world, has an endowment of \$33 billion. Seattle is also home to the Fred Hutchinson Cancer Research Center, one of the leading cancer research institutes in the world.

With a highly educated work force and a pro-business regulatory environment, Washington is poised to remain one of the best states to do business in--and to climb even higher on next year's list.

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[Table: The Best States For Business](#)