



*A Small Business Blueprint
For Virginia's Future*



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Virginia Small Business Summit

Official Recommendations for 2013 General Assembly Session



*A Small Business Blueprint
For Virginia's Future*

Table of Contents

Virginia Small Business Partnership Mission Statement.....	4
Virginia Education Challenges and Solutions.....	5
Virginia Healthcare Challenges and Solutions.....	11
Virginia Energy Challenges and Solutions.....	15
Virginia Small Business Manufacturing Challenges and Solutions.....	20
Virginia Contracting and Procurement Challenges and Solutions.....	26
Dulles Rail: Impact on Business.....	31
Endnotes.....	32



*A Small Business Blueprint
For Virginia's Future*

Mission Statement

The Virginia Small Business Partnership was proud to host the 2012 Virginia Small Business Summit, which brought together over 250 CEOs and top managers from across the Commonwealth, and served to develop common-sense, small business-friendly solutions for Virginia lawmakers.

In preparation for entering the next decade, Virginia must continue to maintain a competitive edge by enacting policies that attract and retain businesses and investment. In order to do that, Virginia must do all that it can to support small businesses.

The 2012 Virginia Small Business Summit was designed to create policy recommendations by small business owners and operators. The Summit focused on six specific policy areas: Education, Healthcare, Energy, Small Business Manufacturing, Contracting and Procurement, and the Dulles Rail's Impact on Business.

The policy recommendations in this document will spur job growth, increase investment, and help small businesses prosper. Some of the proposals are long-term solutions, while others can be implemented quickly.

Virginia is number one on the list of best places to do business in the nation, and that record speaks for itself. Virginia continues to thrive and develop; however, there is still work that needs to be done to ensure Virginia continues to be the best place in the nation for small businesses. It is our hope that the following recommendations will be strongly considered during the upcoming General Assembly session.

The Partnership serves as a focused voice for small businesses all across the Commonwealth of Virginia. Our focus is on how we can create sound policies that move the small business community forward in Virginia. Each small business is different and has different needs. This is why the Partnership is so critical. Together, we can craft policy recommendations that take these differences and impacts into account.



*A Small Business Blueprint
For Virginia's Future*

Virginia Education Challenges and Solutions

Opening Statement

There is no silver bullet solution to putting people back to work. Reducing the rate of unemployment requires people across various sectors of the economy and across party lines to work together and reach consensus on issues for which there are no clear answers. What is not debatable is that education will play a critical role in putting Virginians—and all Americans—back to work.

As desperately as job-seekers want to find work in today's economy, employers want to find qualified workers to fill open positions. Across the Commonwealth, positions remain unfilled because the workforce is not educated and trained to meet employers' needs. This "skills gap" can only be closed through a robust and targeted education system that works with local employers to identify needs, and then ensures that graduates have the skills to meet those needs.

An education system that more closely aligns with economic needs will require a paradigm shift: college is not the only path to prosperity and success. There is demand for skilled tradesmen and demand for workers in technical fields. Jobs that do not require four-year college degrees but do require specialized skills need to be supported by the Commonwealth's education system.

In addition to the need to focus on vocational training, Virginia schools need to prepare graduates for life beyond the classroom. Too many high school and college graduates enter the workforce without the basic "soft skills" that employers desire. The importance of fundamental skills like basic writing, basic math, leadership, and integrity cannot be overstated, yet far too few students graduate with a mastery of those skills.

It will take the combined efforts of government leaders, business leaders, and education leaders to ensure that our schools meet the needs of the economy. Through these efforts, Virginia's small businesses will prosper, high school and college graduates will be productive and contributing members of their local economies, and the Commonwealth and its citizens will be positioned for long-term economic success and prosperity.



*A Small Business Blueprint
For Virginia's Future*

Challenges and Problems Surrounding Education in Virginia

- One of the most significant hurdles to reducing unemployment is educating our workforce so that workers' skills align with companies' needs. Nationwide, over 3 million jobs are unfilled¹, representing an enormous opportunity to put people back to work.
- The majority of young people are locked into a mindset that says college is the only path to success. Students perceive a lack of opportunity in careers as skilled tradesmen and in technical fields.
- Four-year colleges often do not adequately prepare graduates for a business career.
 - The majority of schools do not adequately teach the "soft skills" that businesses look for in employees, such as basic math, basic writing, leadership, and integrity.
 - Curriculum in both high schools and colleges is too broad, and often focuses on theoretical academic subjects at the expense of the internships and technical training that would give students directly applicable knowledge and skills.

Issues

- 1) Public school curriculums need to be designed to prepare students either to pursue a career in a skilled trade, or to obtain a four-year college degree. This includes a focus on "soft skills" like basic writing, basic math, leadership, and integrity.
- 2) Community colleges should receive funding for special training programs that are created to meet the employment needs of local businesses and organizations.
- 3) Increase the number of vocational training programs so that students who choose not to pursue a four-year college degree are job-ready and have the opportunity to make a good living.
- 4) Local chambers of commerce should serve as a liaison between job seekers and employers.



*A Small Business Blueprint
For Virginia's Future*

Recommendations

Recommendation: Public school curriculums need to be designed to prepare students either to pursue a career in a skilled trade, or to obtain a four-year college degree. This includes a focus on “soft skills” like basic writing, basic math, leadership, and integrity.

- The Commonwealth needs to ensure that the knowledge and skills taught from kindergarten through college align with the needs of today’s economy. Businesses do not want to train the workforce; they rightly believe that the role of education is to prepare people to become productive members of the workforce.
- An increasing number of students need to take remedial classes once they enter college. A recent study pointed out that, based on ACT scores, only one-third of high school students in the 2011 graduating class have the academic proficiencies required to attend college, yet two-thirds of graduating students attended college. If a student wants to pursue a college degree, he or she should be adequately prepared for college upon graduating high school. As it becomes increasingly difficult to graduate from a four-year program in four years, the added time and expense of remedial classes becomes increasingly burdensome.²
- Many students graduate from a four-year degree program only to find that the knowledge and training that they acquired in college is not applicable in the workplace. Core disciplines and “soft skills” need to be taught and reinforced throughout all levels of education.
 - Graduates must be strong writers. Fundamental to any career is the ability to communicate effectively through writing, whether it be through emails, memos, policy documents, or presentations.
 - Graduates must have basic math skills. Students become too dependent on calculators over the course of their education and enter the workforce unable to do the basic computation required to effectively operate in their careers.
 - Many four-year universities have a general education requirement, but the classes offered to meet these requirements do not teach students skills that are attractive to employers, or skills that will help to ensure graduates leave college positioned to succeed in life. Classes that teach basic life skills, such as personal finance, budgeting, business writing, and leadership skills, would give graduates skills that are directly applicable to both their personal and professional lives.
 - Internships give students hands-on experience and skills that are directly applicable to their future careers, whether or not those careers are in the same fields as the internships. Interacting with superiors, clients, and co-workers aids in the development of interpersonal and communication skills that employers desire.



*A Small Business Blueprint
For Virginia's Future*

- Students that do not pursue a four-year degree need the same “soft skills” to succeed in either a vocational program, a two-year degree, or in the workforce. Graduates of the Commonwealth’s K-12 school system should all have that basic level of knowledge that positions them to succeed post-graduation.

Recommendation: Community colleges should receive funding for special training programs that are created to meet the employment needs of local businesses and organizations.

- Too many jobs in the Commonwealth are unfilled because employers cannot find job seekers with the skills required to fill those positions. Change can only happen on the local level, and thus a comprehensive program in which the Commonwealth, local businesses, and education work together is needed to match job seekers with open positions for which they are qualified. The most effective way to develop such a program is to create a team with representatives from the local business community, from the local community college(s), from an economic developer, and from the local government tasked with matching curriculum to economic needs. This team would also serve as a nexus for local growth by championing the local workforce to attract outside businesses to the community.
 - Funding should be made available to community colleges to develop special training programs to meet the needs of local employers. Employers looking to fill jobs that do not necessarily require a four-year degree but do require specific skills, like certified health technicians, would benefit from a healthy pipeline of future employees. Job seekers would benefit from being qualified to apply for open jobs.
 - Companies usually do not want to provide on-the-job training and would be more inclined to hire a candidate that already has the skills necessary to perform the duties of the job. Additionally, the presence of a skilled and highly trained workforce would attract business to the community in which that workforce is available.
 - The success of these types of programs will depend partly on the Commonwealth’s and schools’ efforts to spread awareness in the community that a community college education will lead to a good local job.
- Community colleges need to develop a business development approach to effectively work with local employers to make sure that graduates’ skills align with employers’ needs.



*A Small Business Blueprint
For Virginia's Future*

Recommendation: Increase the number of vocational training programs so that students who choose not to pursue a four-year college degree are job-ready and have the opportunity to make a good living.

- Across the Commonwealth there are open vocational positions that employers cannot fill due to the lack of a qualified applicant pool.
 - Technical jobs and jobs in skilled trades are available and unfilled.
 - Jobs in agriculture and timber are available and unfilled.
 - Jobs in the tourism industry, many of which do not require a four-year history degree, are available and unfilled.
- Because these jobs vary by region and locality, it is imperative that communities work on a local level to define the needed vocational training programs. Government, employers and educational institutions need to work together to determine which programs are most needed.
- Tax breaks and other financial incentives should be provided to communities that identify vocational training needs and develop programs to meet those needs.

Recommendation: Local chambers of commerce should serve as a liaison between job seekers and employers.

- Local chambers of commerce should be used to connect people in the community with open jobs. Instead of relying on the government to facilitate employment, this would allow the business community to interact directly with job seekers.
 - Job seekers could submit their resumes to an actual person at their chamber of commerce, and employers could review resumes collected by their local chamber that potentially match their needs.
- Today's job seekers face a myriad of online job search tools. While such tools can be useful, they eliminate personal contact from the initial stages of a job search. Too often, qualified applicants are unable to emerge from the clutter of anonymous, impersonal resumes. Working with a local chamber of commerce would give applicants and employers the ability to add interpersonal contact to the hiring process.



*A Small Business Blueprint
For Virginia's Future*

Conclusion

While the challenges faced in the field of education are serious, they are not impossible to solve. An integrated approach that involves all stakeholders is necessary to ensure that Virginia's education system is designed to feed a growing and prosperous economy.



*A Small Business Blueprint
For Virginia's Future*

Virginia Healthcare Challenges and Solutions

Opening Statement

The cost of healthcare places a heavy burden on Virginia's small businesses. Small businesses pay an average of 18% more for the same health benefits as large businesses³, and they have seen those costs grow 97% over the last 10 years.⁴ With statistics like that, it should come as no surprise that almost 60% of the 48 million Americans who lack health insurance are small business owners, employees, and dependents of those owners and employees.⁵

The success of small business is crucial to the success of the economy. All but 0.01% of businesses in America are small businesses, and those small businesses create two-thirds of America's net new jobs.⁶ If we want these small businesses to continue to thrive, we must take steps to reduce the financial burden and regulatory uncertainty of the healthcare market.

The Affordable Care Act (ACA) presents numerous challenges and opportunities for small businesses. This document will discuss ways in which small businesses can benefit from certain provisions of the ACA, provided that they are implemented in an appropriate way. This document also acknowledges the realities of the healthcare market today, and suggests ways in which both business and government can work to reduce costs and improve the level of care for all Virginians.



*A Small Business Blueprint
For Virginia's Future*

Challenges and Problems Surrounding Healthcare in Virginia

- The projected impact of the 2012 elections on the implementation of the Affordable Care Act (ACA) has created uncertainty in the healthcare marketplace that makes small businesses hesitant to hire more employees. Small businesses will be unable to project expenditures until they know how the provisions of the ACA will be implemented.
- One of the highest expenses for small businesses is the cost of providing health insurance to employees. As the cost of health insurance continues to rise, small business owners struggle to find ways to provide their employees with the highest quality care at the lowest possible cost.
- Current economic conditions make it harder than ever for healthcare providers to provide a high quality of care at a reasonable price point.
 - Healthcare providers that serve Medicaid patients get \$1 from the government for every \$1 they get from the patient. Thus, for every dollar that gets cut from the Medicaid budget, healthcare providers actually lose \$2 in potential revenue.
- It is extremely difficult to attract physicians to rural areas. Rural healthcare facilities have fewer resources and receive less federal funding than urban/suburban facilities, making them less attractive to physicians.

Issues

- 1) Healthcare consumers need to be educated on the impact that lifestyle choices have on costs of healthcare.
- 2) Healthcare exchanges mandated by the Affordable Care Act should foster competition in order to create an environment in which low-cost, high-quality healthcare options are available for small business employees.
- 3) Virginia should incentivize physicians to practice in rural areas.



*A Small Business Blueprint
For Virginia's Future*

Recommendations

Recommendation: Healthcare consumers need to be educated on the impact that lifestyle choices have on costs of healthcare.

- Small businesses often bear a significant portion of the costs of their employees' health insurance premiums. On average, small businesses pay for 84% of the total cost of individual coverage⁷; almost 40% of small businesses cover 100% of the cost.⁸ Thus, the rise in health insurance premiums has a significant effect on the allocation of small businesses' limited resources. The rise of chronic health conditions brought on and exacerbated by unhealthy lifestyles has contributed immensely to the rise in healthcare costs.
 - Rewards and incentives for a healthier lifestyle can help small businesses reduce healthcare costs and become more productive.
 - Health and wellness programs allow employers to educate their employees on habits that lead to a healthy lifestyle, and to reduce healthcare costs when employees incorporate those habits into their daily lives.

Recommendation: Healthcare exchanges mandated by the Affordable Care Act should foster competition in order to create an environment in which low-cost, high-quality healthcare options are available for small business employees.

- On average, a small business pays 18% more than a large business for the same healthcare services.⁹ In the small group market in Virginia, the average health insurance premium is \$4,890 for individual coverage, and \$11,338 for family coverage.¹⁰ These numbers have been steadily rising, continuing to increase the burden on small businesses and their employees. Healthcare exchanges represent an opportunity to pool the risk associated with insuring a limited number of people, and thus reduce healthcare costs for small businesses. The effectiveness of these exchanges in reducing costs can be increased tremendously if they are structured to allow for competition between companies in the private sector.

Recommendation: Incentivize physicians to practice in rural areas.

- Because of the difference in federal funding available to doctors in rural areas versus those in urban/suburban areas, physicians are reluctant to practice in rural areas. Virginia should encourage physicians to practice in rural areas of the Commonwealth.
 - The Commonwealth should encourage physicians to attach their practices to hospitals in order to share resources and funding.
 - The Commonwealth should explore the feasibility of restructuring state-level funding so that physicians practicing in rural areas of the Commonwealth are not at a disadvantage relative to their peers in urban/suburban areas.



*A Small Business Blueprint
For Virginia's Future*

Conclusion

While there is currently great uncertainty in the healthcare market, there are steps that business and government can take to reduce costs and improve care today. The ideas presented in this document will help to reduce one of the largest and fastest-growing expenses that American small businesses face.

Considering the importance of small business to our economy, it only makes sense to take every reasonable step to reduce the burden that high healthcare costs place on small businesses. Regardless of how the Affordable Care Act is implemented, the common-sense reforms outlined in this document will reduce that burden. When we take steps to improve the climate for small business, we take steps toward lowering unemployment, raising productivity, and building a strong and prosperous future for Virginia.



*A Small Business Blueprint
For Virginia's Future*

Virginia Energy Challenges and Solutions

Opening Statement

As the modern world continues to develop, global energy demand continues to grow. Nations that produce energy raw materials will find themselves with an economic advantage that only increases as the world's finite energy supply decreases.

In the United States, we are largely dependent on foreign sources of energy. As we debate the shape of our energy future, we should keep two goals in mind: First, we must aim to move toward energy independence. Second, we must look to maximize opportunities to play in the global energy marketplace. In Virginia, we have a unique opportunity to take strides toward achieving both goals.

Virginia has consistently placed in the top ten of highest coal-producing states in the U.S.¹¹, and has been a pioneer in wind turbine technology. The Commonwealth currently houses four nuclear reactors that generate 40% of Virginia's energy.¹² However, all of the uranium used to power those reactors is imported from either other states or other countries.

It is incumbent upon the Virginia legislature to create a legal and regulatory environment that allows Virginians to take full advantage of the Commonwealth's wide array of natural resources. Local energy businesses have the opportunity to help put our Commonwealth and our nation on a path toward energy independence. And those energy businesses will create jobs and economic opportunity for Virginia citizens.

As small business leaders, we believe it is in the best interest of the entire Commonwealth to develop an energy policy that embraces the development and cultivation of Virginia's abundant energy resources. A reliance on a combination of traditional and alternative energy sources will help to ensure a growing and dynamic local economy.

The following document provides an analysis of the challenges surrounding energy in Virginia, and the small business community's prescription for making Virginia the "Energy Capital" of the east coast.



*A Small Business Blueprint
For Virginia's Future*

Challenges and Problems Surrounding Energy in Virginia

- The United States' dependence on foreign sources of energy weakens the national economy and leaves the country's energy supply vulnerable to sociopolitical events that are often beyond its control.
 - Forty-five percent of the country's oil is imported¹³, and over 90% of the country's uranium is imported.¹⁴
 - In Virginia, where nearly 40% of the Commonwealth's power comes from nuclear power plants¹⁵, 100% of the uranium used to fuel those power plants is imported from abroad or from other states.
- The country's use of coal is declining as alternative energies like nuclear, natural gas, ethanol, and wind and solar gain favor and widespread use. As coal mining is currently responsible for 32,000 Virginia jobs (totaling \$2.5 billion in payroll)¹⁶, the Commonwealth will have to find alternative sources of energy production to ensure that energy jobs stay in Virginia.
- Global supplies of energy raw materials like oil, coal and uranium are finite, and the markets for those materials are volatile. Relying on such a large percentage of foreign energy production leaves the country, its citizens, and its businesses susceptible to unpredictable and often severe market fluctuations.

Issues

- 1) Develop a comprehensive energy plan for Virginia that includes a variety of energy sources.
- 2) Create economic opportunity for citizens, small businesses, and communities through development of alternative energy sources.
- 3) Develop statutory and conceptual regulatory framework for uranium mining so that the Commonwealth is prepared to capitalize on mining opportunities should the statewide moratorium be lifted.
- 4) Encourage students to pursue careers in STEM (science, technology, engineering and math) fields in order to develop the next generation of energy innovators.



*A Small Business Blueprint
For Virginia's Future*

Recommendations

Recommendation: Develop a comprehensive energy plan for Virginia that includes a variety of energy sources.

- Virginia should lift the ban on uranium mining. Studies have shown that if done properly, uranium mining is safe. Uranium production will help put Virginia on the path to energy independence, and it will create well-paying sustainable jobs.
- Virginia should create an “Energy Czar” who is tasked with evaluating the various sources of energy production available to Virginia, and ensuring that the Commonwealth uses those resources to the maximum benefit of Virginia and its businesses.
- Virginia should continue to be a pioneer in wind turbine technology. Although wind turbines are not a large-scale solution to the problem of energy dependence, the technology is a vehicle for investment in renewable energy and will contribute to the goal of energy independence.

Recommendation: Create economic opportunity for citizens, small businesses, and communities through development of alternative energy sources.

- Virginia should lift the moratorium on uranium mining and allow development of the Coles Hill uranium deposit in Pittsylvania County.
 - Global uranium resources are sufficient to meet projected demand for decades, but only if those resources are extracted and refined. As uranium production demands are expected to grow anywhere from 53% to 113% between now and 2035¹⁷, Virginia has an opportunity to increase the United States’ participation in this growing market, while decreasing the Commonwealth’s dependence on uranium imports.
 - There are already four nuclear reactors in the Commonwealth, and they provide 40% of Virginia’s power.¹⁸ Currently, 100% of the uranium used to power those reactors comes from outside the Commonwealth. The uranium mined from the Coles Hill deposit would allow Virginia to power its nuclear reactors for 75 years at current usage levels.¹⁹
 - The development of Coles Hill would integrate with and complement Virginia’s existing power infrastructure.
- Coles Hill represents not only an opportunity to make significant strides toward energy independence and clean energy, but also an opportunity to bring significant economic development to the Commonwealth.
 - A study sponsored by the Commonwealth and performed by Chmura Economics & Analytics estimated significant economic benefit from the development of Coles Hill.



*A Small Business Blueprint
For Virginia's Future*

- Construction phase (three years): 323 jobs created per year; \$35 million per year in net economic impact; \$2.5 million generated per year in state and local taxes.
- Operational phase: 1,052 jobs created; \$135 million per year in net economic impact; \$6.7 million generated per year in state and local taxes.
- Virginia private-sector firms stand to gain \$5 billion in revenue over the course of the project.²⁰

Recommendation: Develop statutory and conceptual regulatory framework for uranium mining so that the Commonwealth is prepared to capitalize on mining opportunities should the statewide moratorium be lifted.

- The efforts of the Uranium Working Group to draft statutory and conceptual regulatory framework should continue.
- Since regulation occurs on the state level, Virginia is currently unprepared for the possibility that the moratorium is lifted. Virginia currently has no regulatory framework in place and will have to hastily put one together if it waits for the ban to be lifted.
- Best practices from other countries and U.S. states that currently mine uranium should be reviewed and integrated with Virginia's conceptual framework as appropriate.

Recommendation: Encourage students to pursue careers in STEM (science, technology, engineering and math) fields in order to develop the next generation of energy innovators.

- With the importance of energy to the future of the country and the economy, Virginia should encourage young people to study STEM disciplines by ensuring that the job market for graduates with STEM degrees is growing and attractive.
 - The number of students with degrees in these disciplines is declining.
 - The best and brightest of our youth need to see a future in creating solutions to energy challenges and problems.



*A Small Business Blueprint
For Virginia's Future*

Conclusion

Virginians are lucky to live in a state that contains abundant energy resources. But without purposeful and aggressive movement toward the cultivation of those resources, they will never be used to their full potential, if they are used at all.

The potential for energy independence, economic development, and job creation is too great to leave unrealized. Only through a comprehensive energy policy can Virginia realize that potential and become an energy leader. The Commonwealth must embrace traditional energy sources like coal, natural gas, nuclear, and petroleum, while also exploring and developing alternative energy sources like biomass, wind, hydroelectric, and solar.

Virginia's government can play a crucial role by setting a clear course for the Commonwealth's energy future. We urge the government to work with the business community to develop a comprehensive energy plan that strengthens Virginia and its citizens.



*A Small Business Blueprint
For Virginia's Future*

Virginia Small Business Manufacturing Challenges and Solutions

Opening Statement

Virginia's small business manufacturers represent a significant and crucial part of Virginia's economy. Manufacturing is Virginia's third-largest sector of private employment²¹, employing 6.4% of the Commonwealth's workforce, and accounting for 8.4% of Virginia's total economic output.²²

Of the approximately 5,800 manufacturers in Virginia, all but 73 of those companies are considered to be small businesses.²³ The Commonwealth's manufacturing base is diverse, and companies produce everything from food and beverage products to tobacco to wood to machinery.

Despite the diversity of these companies' product offerings, they share a number of common interests. The capital required to start a manufacturing business in any sector makes founding a company very risky. Thus, tax breaks that lower the barriers to entry increase competition and strengthen supply chains that are vital to the overall success of manufacturing in Virginia.

Manufacturers across all industries need access to a skilled workforce, and thus they all have a vested interest in ensuring that Virginia's workforce development programs work for them.

Finally, manufacturers all benefit from being part of a strong supply chain. Efforts to improve communication across the supply chain will better the prospects of established manufacturers as well as new entrants.

Because of the vital role that small business manufacturers play in Virginia's economy, it is imperative that Virginia's leaders take an active role in protecting and promoting these businesses' interests. To that end, the following document suggests policy priorities on which Virginia's government should focus in order to provide the best possible environment for small business manufacturers.



*A Small Business Blueprint
For Virginia's Future*

Challenges and Problems Surrounding Small Business Manufacturing in Virginia

- The business manufacturing community needs small business suppliers in the supply chain to effectively compete on price without having to outsource jobs. However, the high cost of new machinery and tools is a barrier to entry in the manufacturing market, making it difficult for small suppliers to be established.
- Manufacturing does not have an overwhelmingly positive public image. If the public does not perceive a future for an industry, the worker pipeline dries up and communities do not make efforts to attract businesses in that industry.
- There is a lack of work-ready job candidates for manufacturing companies. Considering that it can take years to train a skilled worker in the manufacturing sector, a weak pipeline constricts long-term growth opportunities for manufacturing businesses.
- There is currently no infrastructure or network set up for manufacturers to connect across tiers. Without a way to forge these connections, Tier 1 manufacturers miss opportunities to maximize cost and workflow efficiency, and Tier 2 and 3 manufacturers do not have sufficient opportunity to earn business from larger manufacturers.

Issues

- 1) Virginia should end taxation on new machinery and tools investments, and reform the corporate income tax structure to more fairly tax manufacturers.
- 2) Government and industry should work together to promote the manufacturing industry, and build its image among Virginians.
- 3) Encourage students to pursue careers in STEM (science, technology, engineering, and math) fields, and reform/align Virginia's current workforce development resources to better accommodate the manufacturing sector.
- 4) Work with manufacturing companies and local chambers of commerce to facilitate connections between Tier 1, Tier 2, and Tier 3 manufacturers and build a stronger supply chain.



*A Small Business Blueprint
For Virginia's Future*

Recommendations

Recommendation: Virginia should end taxation on new machinery and tools investments, and reform the corporate income tax structure to more fairly tax manufacturers.

- Because of the high costs associated with starting a manufacturing company, there is little to no margin for error in the first three years of operation. Anything that can be done to reduce costs in those first three years lowers barriers to entry in the manufacturing segment, and allows for a more diverse manufacturing base.
 - Manufacturing businesses encourage additional entrants into the industry in order to lower costs throughout the supply chain and make Virginia manufacturing even more competitive in the marketplace than it already is.
- Virginia manufacturers pay 100% more in corporate income tax than any other sector of the economy. In 2006, the manufacturing sector paid 26% of all corporate income tax in the Commonwealth.²⁴
- Reforming the corporate income tax code and ending taxation on machinery and tool investments will encourage and enable manufacturers to maintain technologically advanced factories that offer the latest in efficiency, environmental friendliness, and worker safety.

Recommendation: Government and industry should work together to promote the manufacturing industry, and build its image among Virginians.

- The manufacturing sector makes up a significant portion of Virginia's economy, and the industry is constantly growing. Employment is spiking currently in wood, food and machinery production. Yet there still seems to be a perception that manufacturing is the way of the past. Everyone from students trying to choose careers to community leaders and local elected officials trying to woo new business to their cities should be reminded of the opportunities that manufacturers offer.
- The advanced technology sector has created the MarCom Award-winning "Dream It. Do It. Virginia." campaign to promote jobs in fields from manufacturing to healthcare to robotics.
 - Promoting resources like these in Virginia schools will help create interest in manufacturing in the next generation of manufacturing leaders and innovators.
 - The Commonwealth should use the campaign as a model for the promotion of the manufacturing industry as whole.



*A Small Business Blueprint
For Virginia's Future*

Recommendation: Encourage students to pursue careers in STEM (science, technology, engineering, and math) fields, and reform/align Virginia's current workforce development resources to better accommodate the manufacturing sector.

- Students and current members of the workforce must be made aware of the opportunities available across the manufacturing sector. In order for the industry to continue to thrive, new entrants in the workforce and people making career changes must believe there is a future in manufacturing.
- In addition to the need to promote STEM degrees in universities, high schools also need to promote STEM careers for which a four-year college degree is not necessary. Across the Commonwealth there are open vocational positions that employers cannot fill due to the lack of a qualified applicant pool.
 - Manufacturers need skilled workers to fill jobs as welders and chemical technicians.
 - “Dream It. Do It. Virginia.” is a great resource for high school or college students considering a STEM career. The website can lead them to resources that help them determine both what careers might be appropriate for them, and how they can reach those career goals. Promotion and expansion of initiatives like this, possibly through a public-private partnership, would help to bolster the manufacturing industry, and encourage young people to be a part of it.
- An integrated approach is necessary that reforms and re-aligns the Virginia Workforce Network, the K-12 STEM Program, and the CTE Program to better prepare and assist the workforce to obtain jobs in manufacturing. The creation of advanced technology institutes through private funding, non-profit funding, and public-private partnerships would help students and career-changers become qualified for work in the manufacturing field.

Recommendation: Work with manufacturing companies and local chambers of commerce to facilitate connections between Tier 1, Tier 2, and Tier 3 manufacturers and build a stronger supply chain.

- Manufacturing companies are generally divided into tiers, where Tier 1 sits at the top of the supply chain and buys components from Tier 2 companies, which buy their components from Tier 3 companies. Good relationships between companies throughout the supply chain allow the entire chain can be involved in the product development process. This saves all manufacturers money and time, and creates a better end product. Lower tiers can even bring their innovations up the supply chain to create greater efficiencies and new products. However, when interaction is limited or non-existent between tiers, this process of collaborative innovation cannot occur.
- Tier 2 and 3 manufacturers cite the lack of information necessary to interact with Tier 1 manufacturers as the biggest impediment to becoming part of a supply chain. Manufacturers who do connect with Tier 1 manufacturers and ultimately become part of a corporate supply



*A Small Business Blueprint
For Virginia's Future*

chain report an average growth in revenue that exceeds 250%, and a growth in employment that exceeds 160%.²⁵

- There is interest among the manufacturing community in creating a “one-stop shop” to connect companies throughout the supply chain. Because of the aforementioned efficiency, revenue, and employment gains that can be created through a strong supply chain, Virginia’s manufacturers would become more competitive through such a resource. A more competitive manufacturing base would reduce the incentive for companies to outsource jobs and production, and would lead to a stronger export base in Virginia.



*A Small Business Blueprint
For Virginia's Future*

Conclusion

With the crucial role that Virginia's manufacturers play in the Commonwealth's economy, it makes sense for the Virginia government to support the manufacturing base to the greatest degree possible. With the ever-growing list of possibilities and opportunities that manufacturing represents in a world that is rapidly innovating technologically, every step Virginia can take to ensure the continued success of its manufacturing base will create jobs and build a stable platform for future economic growth and prosperity.



*A Small Business Blueprint
For Virginia's Future*

Virginia Contracting and Procurement Challenges and Solutions

Opening Statement

The country's difficult economic times have impacted businesses across the Commonwealth. Small businesses in particular have struggled, as they lack the cash reserves on which larger multinational corporations rely for survival during economic downturns. In an effort to adapt, many small businesses have turned to government contracts as their sole source of revenue.

Competing for government contracts can be confusing, and the advantage often goes to large companies. The Commonwealth has taken concrete steps to level the playing field, and the eVA system has provided access to small businesses across Virginia. But further action is needed to ensure that Virginia's small businesses have a fair chance to successfully compete for government contracts.

The Commonwealth's commitment to setting purchase goals from small, women-owned, and minority-owned (SWaM) businesses is laudable, but more can and should be done to ensure that those goals can reasonably be met. The following policy recommendations aim to increase opportunities for small businesses across the Commonwealth to do business with Virginia's government.



*A Small Business Blueprint
For Virginia's Future*

Challenges and Problems Surrounding Contracting and Procurement in Virginia

- Not all small businesses have the tools and resources to compete for lucrative government contracts. Some lack knowledge of the procurement process and the programs available to assist them in navigating it; some lack the size or capabilities to effectively compete for large contracts. The skills gap between Northern Virginia companies and companies in the rest of the Commonwealth gives a distinct advantage to a particular geographic area.
- The SWaM program provides opportunity to a wide array of small businesses, but many small business owners are either unaware of the program, or they are unaware that it applies to their company.
- Virginia's legal code contains provisions that are outdated, that hinder small businesses from competing for contracts, and that are inconsistent and confusing. Operating within many of these provisions is time consuming and often restrictive to competition.

Issues

- 1) Help small businesses across the entire Commonwealth compete for contracts/subcontracts, and work to reduce disparities that exist between small businesses in Northern Virginia and those in other parts of the Commonwealth.
- 2) Increase the visibility of the SWaM Program.
- 3) Eliminate requirement to justify use of competitive negotiation in §2.2-4303C, Code of Virginia.
- 4) Rewrite §2.2-4303, Code of Virginia for the purpose of clarity.
- 5) Modify procedure for utilizing cooperative procurement in §2.2-4304A, Code of Virginia.
- 6) Establish dollar threshold for use of alternative forms of security in §2.2-4338, Code of Virginia.



*A Small Business Blueprint
For Virginia's Future*

Recommendations

Recommendation: Help small businesses across the entire Commonwealth compete for contracts/subcontracts, and work to reduce disparities that exist between small businesses in Northern Virginia and those in other parts of the Commonwealth.

- Most small businesses outside of Northern Virginia are not prepared to be subcontractors for major jobs. There is a gap between the skills of many smaller businesses and the requirements that large subcontracting opportunities demand. Continuing education can be a solution to this problem. Virginia's college and university systems have a presence throughout the Commonwealth, and that infrastructure can be leveraged to provide small businesses with training in the procurement process and in industry-specific topics.
- Small businesses have to spend their limited resources on necessities like legal and bookkeeping services. A statewide initiative that creates small business pools, which would allow small businesses of all sizes to share those business necessities, would let small businesses enjoy the economies of scale that large businesses are accustomed to. Freeing up resources put toward non-core business activities would allow for small businesses of all sizes and levels of complexity to become more competitive in the procurement marketplace.
- Legitimate mentoring programs give small businesses the opportunity to learn from larger corporations, and to gain access to resources not usually available to small businesses. Not only do these programs strengthen a small business's operations, but they also help small businesses compete for big contracts. Virginia should explore the feasibility of mentoring programs, and develop them where appropriate.

Recommendation: Increase the visibility of the SWaM Program.

- The SWaM program provides a valuable service to qualifying small businesses. However, the program's limited visibility has hampered its effectiveness. There are too many qualifying businesses that either do not know the program exists, or that think it doesn't apply to them.
 - The Commonwealth should develop a campaign to promote SWaM-certification in the small business community.
 - The program should be moved out of the jurisdiction of the Department of Minority Business Enterprise. Having the program fall under that department's umbrella gives small business owners the false impression that the program only applies to minority-owned businesses.



*A Small Business Blueprint
For Virginia's Future*

Recommendation: Eliminate requirement to justify use of competitive negotiation in §2.2-4303C, Code of Virginia.

- The requirement to prepare a statement justifying the use of competitive negotiation (which requires issuance of a Request for Proposal) as a means of soliciting competition should be eliminated. This requirement was enacted in 1981, when an invitation for bid was strongly preferred over a Request for Proposal, and procurement actions were much simpler. In the current business environment, procurement officers frequently use a Request for Proposal to seek the best contract. Elimination will have no negative impact on state or local procurement integrity.

Recommendation: Rewrite §2.2-4303, Code of Virginia for the purpose of clarity.

- A thorough revision of this section of the Virginia Public Procurement Act is needed. As the section was modified piecemeal over different legislative sessions, it has become increasingly difficult to comprehend and to comply with. With the exception of our request to eliminate the requirement to justify use of competitive negotiation (§2.2-4303C), no change in the legislation is desired other than a restructuring.

Recommendation: Modify procedure for utilizing cooperative procurement in §2.2-4304A, Code of Virginia.

- The cooperative purchasing provision in the state code should be modified. The cooperative contract should be governed by the terms and conditions of the subject contract and not subject to the policies and procedures of the county, city, or town that established the original agreement.

Recommendation: Establish dollar threshold for use of alternative forms of security in §2.2-4338, Code of Virginia.

- Currently, state and local procurement authorities prefer to have the full faith and credit of a surety company to provide bonds for construction contracts in excess of \$500,000. Small businesses often have difficulty obtaining a bid, payment, or performance bond. Virginia should permit alternative forms of security (certified check or cash escrow in the face amount required for the bond) for contracts under \$500,000 in order to allow small businesses to effectively compete for these contracts.



*A Small Business Blueprint
For Virginia's Future*

Conclusion

Virginia has diligently worked toward the goal of ensuring that small businesses can effectively compete for government contracts. But until a goal is reached, there will be room for improvement, and this case is no exception. Virginia can take further action to facilitate small business participation in the procurement process. Many of those actions have been highlighted in this document, and many of them are easily achievable. With a thoughtful and considered approach to the strengthening of Virginia's contracting policies, competition in procurement will increase, and opportunities will open for more small businesses.



*A Small Business Blueprint
For Virginia's Future*

Dulles Rail: The Impact on Business

Opening Statement

Metrorail's Silver Line extension from East Falls Church into Loudoun County will substantially benefit the Northern Virginia area. Everything from reduced traffic to smart growth to easier access to Dulles Airport awaits residents and workers in some of Northern Virginia's outer suburbs, busiest employment centers, and beyond. Construction of the Silver Line has the potential to transform cities along the route into attractive mixed-use communities where people can live, work, and play.

Despite the benefits that this project will produce, the Commonwealth of Virginia has made choices regarding the management of the project that have threatened its viability and placed an undue burden on commuters in Northern Virginia. The Commonwealth has handed responsibility for completion of the project to the Metropolitan Washington Airports Authority (MWAA), which in August made its second request to extend the deadline for completion of Phase 2 of construction. The original December 2015 target completion date, pushed back in 2009 to December 2016, is now set for December 31, 2018.²⁶

But perhaps the most troubling aspect of the project is the projected interest rate on the MWAA-backed Dulles Toll Road bonds that will finance almost \$1.7 billion of the Silver Line's Phase 2 construction. If interest rates match those from Phase 1 of the project, they will slightly exceed 6%.²⁷ For similar transportation projects backed by the Commonwealth, interest rates were closer to 3%.²⁸

The unnecessarily high interest rate will add \$120 million per year to the project cost, and every penny will be financed by commuters via a doubling of the Dulles Toll Road's toll rate from \$2.25 to \$4.50 by 2015. If the Commonwealth intervenes and financially backs Dulles Toll Road debt, that \$4.50 toll could be reduced to \$3.75.²⁹ Under this scenario, the cost of the three year delay on Phase 2 completion will cost \$360 million in unnecessary interest alone.

Recommendations

- The Virginia government should take administrative or legislative action to provide state backing of Dulles Toll Road debt issued by the Metropolitan Washington Airports Authority (MWAA) in order to reduce project costs and avoid a preventable doubling of the toll rate.
- The Virginia government should hold MWAA accountable for completing the Silver Line on time and without unnecessary costs.



*A Small Business Blueprint
For Virginia's Future*

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*A Small Business Blueprint
For Virginia's Future*

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