



*A Small Business Blueprint
For Virginia's Future*

**Virginia Small Business Summit
Official Recommendations for 2015 General
Assembly Session**



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Mission Statement

The Virginia Small Business Partnership (VASBP) was proud to host the 2014 Virginia Small Business Summit, which brought together CEOs and top managers from small businesses across the Commonwealth, and served to develop common-sense, small business-friendly solutions for Virginia lawmakers.

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 2014 Virginia Small Business Summit was designed to create policy recommendations by small business owners and operators. The Summit focused on five specific policy areas: Economic Development, Education and Workforce Development, Healthcare, Tax and Regulatory Reform, and Technology and Telecommunications.

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 consistently ranked among the 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 – a point that was made abundantly clear by Secretary Maurice Jones during his opening keynote address at the Summit. It is our hope that the following recommendations will be strongly considered by legislators and the administration during the upcoming General Assembly session.

VASBP serves as a focused voice for small businesses all across the Commonwealth of Virginia. Our goal is to create sound policies that move the small business community forward in Virginia. Each small business is different and has different needs. Together, we can craft policy recommendations that take these differences and impacts into account.



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Virginia Economic Development Challenges and Solutions

Opening Statement

Attracting and retaining quality economic development opportunities to Virginia has been a top priority of both current and former administrations, but recent competition from other states and regions has put our continued global competitiveness at risk. We have to look no further than our neighbor to the south – North Carolina – to find our most challenging competitor. While Forbes still ranks Virginia as the top state to do business¹, we are losing ground to North Carolina in areas such as business costs and growth prospects. What can we do to help ensure opportunities are not lost due to inadequate infrastructure, less favorable tax incentives, or not meeting workforce needs? Panel participants were asked to provide their thoughts and suggestions on key economic development factors such as infrastructure, business climate, strategic sector growth, workforce, and entrepreneurship.

Challenges and Problems Surrounding Economic Development in Virginia

Participants identified several problem areas that could jeopardize the Commonwealth's economic development potential.

Infrastructure

The basis for economic development in any business is having the necessary infrastructure in place. Businesses are not going to want to establish themselves in areas where physical infrastructure is lacking – not just transportation infrastructure, but also information technology infrastructure. Unfortunately, the majority of Virginia does not have 4G network coverage. More cell towers and fiber optic cabling are needed to connect all areas of the state, yet regulatory hurdles and shrinking rural populations are making it difficult to justify the necessary costs and are impeding the project readiness of our mini-, medium-, and mega-sites.

¹ <http://www.forbes.com/sites/kurtbadenhausen/2013/09/25/virginia-tops-2013-list-of-the-best-states-for-business/>



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Business Climate

Business financial literacy seems to be a “soft skill” that is lacking in today’s workforce, and is inhibiting the growth of small businesses because entrepreneurs may not be willing to take risks if they do not feel confident about their ability to run a business. Soft skills like financial literacy need to be incorporated into our K-12 classrooms so our future workforce is better equipped to become business leaders, not just middle-managers.

Strategic Sector Growth

For far too long, Virginia’s economy has had an unhealthy reliance on the public sector – either through public sector jobs, federal procurement, or government contracting. With diminishing federal, state and local government budgets, it is becoming clear that as a Commonwealth, we need to diversify our specializations and bolster development of non-public sector growth areas. One such area that Virginia contractors currently reliant on government spending can look to expand their client base in is cyber security. This is a growing industry, and Virginia is ripe to take advantage of this opportunity since we are already leaders in domestic and international intelligence, yet we need to ensure that we continue to get our students interested in this field by encouraging STEM career paths.

Workforce

Employers today want their new hires to be able to hit the ground running, and do not have it in their budgets to spend lengthy amounts of time training them. Soft skills (like business financial literacy, mentioned earlier) are just as important to employers – especially small business employers who cannot afford to take risks when making hiring decisions – as a job candidate’s educational degree and past experience. Unfortunately, educational institutions do not have the time or resources available to sufficiently focus on these skills.

Entrepreneurism

In order to encourage our next generation of small business owners and leaders and get them off to the best start possible, we have to start developing the skills they need as early as grade school. Yet again, having a solid education in financial literacy is the key to instilling confidence in our entrepreneurs. In addition, many would-be business owners are unaware of the many programs out there to help them. Industrial Development Authorities (IDAs) and Small Business Development Centers (SBDCs) are two such examples that are woefully underutilized either because they have no connection to the individuals who could make use of their services or they are inadequately funded and unable to make much of an impact.



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Recommendations

Recommendation: Re-examine how FUSA (Federal Universal Service Agency) funds are spent in Virginia and see if there is an opportunity to better engage the business community in that process.

The FUSA administers a federal fund called the “federal universal service fund” into which the FCC mandates that all telecommunications carriers contribute on a quarterly basis. The fund is essentially an excise tax that carriers collect from consumers, and is designed to provide telecommunications access in areas where the cost of providing access is too high and the return on investment too low to justify private investment. Virginia should take a look at how FUSA funds are being allocated in the Commonwealth to see if there is an opportunity to engage the small business community to assist in building out telecommunications infrastructure in the underserved areas where it makes sense to do so.

Recommendation: Better prepare our future small business leaders to effectively start and manage their businesses.

The Commonwealth should incorporate soft skills like business financial literacy into its K-12 curriculums so that we are teaching our students to be business leaders, not just middle-managers. The Commonwealth should also consider creating incentives for entrepreneurs to give back through education programs both in K-12 and beyond (after-school clubs, mentorships, work study programs, career fairs, entrepreneurs-in-residence) instead of relying on just the government to address these educational needs.

We recommend building a standard certification process for soft skills so that employers can make informed decisions about the qualifications of their new hires and assess their skill potential – much like the SAT assists higher education institutions with admissions decisions based upon potential to learn. Having such a certification would provide employers with an immediate “baseline” of candidate skills at hiring. This lowers risk associated with making a bad hire and lowers training costs for bringing their workforce up to speed on essential skills for the workplace.

Recommendation: Prepare for and welcome growth in new strategic business sectors, such as cybersecurity.

The Commonwealth should take advantage of the growth potential in strategic areas like cybersecurity by encouraging students to pursue STEM careers as early as grade school.



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Consider sponsoring STEM career days, working with the business community to subsidize field trips to STEM career sites, and providing more information to school career counselors on STEM career opportunities.

Recommendation: Encourage educational institutions to offer training/certification in soft skills and promote soft skills certifications to the business community.

There is a very promising workforce preparedness certification program currently being developed by the Hampton Roads Educational Telecommunications Association (HRETA). Their goal is to create a well-rounded certification program that takes students through a series of issue-based modules. Modules will include topics such as employment-related financial literacy, internet use and safety, workplace ethics, and 18 more. This certification program will ultimately be made available free of cost to libraries, career centers, community colleges, and post-secondary educational institutions. We believe the Commonwealth should work collaboratively with HRETA not only to help develop this program, but to promote its adoption statewide by businesses as a useful benchmark for evaluating a potential employee's workforce readiness.

Recommendation: Better connect state and local resources (IDAs, SBDCs) with the entrepreneurs who could utilize them.

The Commonwealth should raise awareness of the opportunities that exist for entrepreneurs to help launch and grow their businesses. This could be accomplished through reaching out to local chambers of commerce, business groups, and associations.

Conclusion

While economic development has been and remains one of our state's key focuses, there are a number of things we could be doing to address growing competition from other states and regions as well as prepare for and embrace shifts in growth sectors. Our information technology infrastructure needs to be both top-notch and pervasive throughout the state, so that companies of any size will feel comfortable locating in Virginia no matter their desired location. In addition, our educational institutions need to better equip our future workforce for the jobs and opportunities that will sustain the Commonwealth's continued worldwide preeminence.



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Virginia Education and Workforce Development Challenges and Solutions

Opening Statement

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 critical thinking 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 the goals of the education system and the needs of industry are aligned. 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.



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Challenges and Problems Surrounding Education and Workforce Development in Virginia

Participants identified three “gaps” that the Commonwealth needs to address in order to meet the current and future needs of its workforce: an information gap, an interest gap, and a skills gap.

Regarding the information gap, participants noted that our students today are locked into a mindset that says college is the only path to success – they incorrectly perceive a lack of opportunity in careers as skilled tradesmen and in technical fields. Many of the most in-demand jobs in Virginia, however, do not require a four-year college degree: jobs in skilled trades, technicians, mechanics, and IT staff. More has to be done to help inform our future workforce on *all* the opportunities they have available. Likewise, we need to ensure that we are analyzing job sectors and skills demands in real-time through ongoing engagement with businesses, so that we can more accurately forecast for the jobs of the future and use that information to help steer our workforce in the right direction to meet those needs.

The interest gap is closely aligned with the information gap – 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. Internships, technical training, and hands-on experience help drive students’ interest towards pursuing “non-traditional” (i.e. non 4-year college degree) career paths that they might not have considered due to a lack of information.

Lack of information feeds into a lack of interest, and ultimately results in a lack of qualified available talent – a skills gap. According to ManpowerGroup’s 2014 Talent Shortage Survey², employers are having the most difficulty filling positions in the skilled trades. On top of that, over half of the most hard-to-fill positions nationwide are in fields where four-year degrees are not necessarily requirements. However, lack of information and lack of interest are not the only factors contributing to the skills gap – participants remarked that they feel there is still a notable lack in the “soft skills” they are looking for in potential employees: skills such as basic math, basic writing, leadership, and critical thinking. These skills are important across-the-board, whether our graduates pursue four-year degrees, careers in trade, or anything in between.

² <http://www.manpowergroup.us/campaigns/talent-shortage-2014/>



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Recommendations

Recommendation: Encourage regional, ongoing engagement of the business community with the administration as well as educational institutions.

The Commonwealth should encourage Small Business Development Centers (SBDCs) to work not only with small businesses, but also with community colleges in order to help align business needs with curriculum. And with over 43 different agencies in Virginia that work in the realm of education and employment, it can be difficult for business owners to develop a grasp on what resources are available to them – the administration should coordinate one central source of information so that business owners can more easily find the resources they need to find the right employees. These recommendations will help address the information gap by allowing for real-time analysis of job demand and skills requirements, and forecasting for future jobs.

Recommendation: Implement coaching strategies and other opportunities in our educational system to align supply and demand.

The Commonwealth should engage businesses in the K-12 and higher education learning processes to address the disconnect between the needs of businesses and the output of skilled workers from higher education and help close the interest gap. We should create grants that schools can award to local businesses that fund unpaid internships for students. Funds could be directed toward career paths for which there is a need to develop a pipeline of qualified workers.

Recommendation: Increase credential attainment.

To help close the skills gap, the Commonwealth should consider instituting a “Career Readiness Certification” as a statewide measure of soft skills – a common standard much like SATs measure college preparedness; and ensure this new standard is advertised, embraced and sustained by educating employers, providing tax incentives to employers for hiring people with these certifications, and/or piggybacking on documentation people already receive (i.e. voter registration, DMV notices). This recommendation was echoed several times over by participants in the Economic Development session, who suggested both “better prepar[ing] our future small business leaders to effectively start and manage their businesses” and “encourag[ing] educational institutions to offer training/certification in soft skills and promot[ing] soft skills certifications to the business community.”



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The Commonwealth should also look to existing programs currently in place – one regional example is the Newport News Public School System's Career Pathways program, which starts in elementary school and continues through high school. The program is also tied to a state-level, online career assessment tool, the VA Education Wizard. Examining programs like these that are currently being used in different areas of the state will help the Commonwealth adopt a statewide standard, as many aspects of implementation would be far less daunting given the best practices that could be called upon from various real-world examples.

Conclusion

While the challenges we face as we build the workforce of the future are serious, they are not impossible to solve. An integrated, three-pronged approach that addresses the information, interest and skills gaps and involves all stakeholders is necessary to ensure that Virginia can grow its economy and prosper well into the 21st century and beyond.



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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 saw those costs grow 97% between 2002 and 2012.⁴ 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. 99.7% of businesses in America are small businesses, and they employ almost half of the nation's private-sector workforce.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.

As the Affordable Care Act (ACA) is gradually implemented, there is more uncertainty and confusion than ever. Like it or hate it, the ACA will play a major role in shaping the healthcare landscape and determining the direction of reform.

³ U.S. Department of Health and Human Services. *For Small Businesses: The Facts on the New Healthcare Law*. N.p.: U.S. Department of Health and Human Services, n.d. *Healthcare.gov*. U.S. Department of Health and Human Services, Jan. 2012. <http://www.healthcare.gov/news/brochures/info-for-small-businesses.pdf>

⁴ The Kaiser Family Foundation, and Health Research and Educational Trust. *Employer Health Benefits: 2012 Summary of Findings*. <http://ehbs.kff.org/pdf/2012/8346.pdf>

⁵ Fronstin, Paul, PhD. *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2012 Current Population Survey*. Issue brief no. 376. Employee Benefit Research Institute, Sept. 2012. http://www.ebri.org/pdf/briefspdf/EBRI_IB_09-2012_No376_Sources1.pdf

⁶ United States. Small Business Administration. Office of Advocacy. *SBA.gov*. U.S. Small Business Administration, Feb. 2013. <http://www.sba.gov/sites/default/files/us12.pdf>



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Within the framework of the ACA lie decisions for state politicians that will have an impact on every person and every business in the Commonwealth. But it is also important to remember that healthcare reform is about more than just the ACA. There are opportunities for the Commonwealth to implement common-sense reforms that improve the quality and accessibility of healthcare at the state level.

No matter the shape or size of healthcare reform, the small business community can agree on the goal: to help reduce costs and improve the level of care for all Virginians. While most of the reforms suggested in this section are not small business-specific, small businesses will feel the relief of the shrinking burden of healthcare costs on their operations.

Challenges and Problems Surrounding Healthcare in Virginia

According to the 2013 Bureau of Labor Statistics Consumer Expenditures Report⁷, health insurance expenditures have risen nearly 22 percent since 2010, with households now spending roughly \$3,600 just in 2013 on health insurance alone.

Many of Virginia's small business owners are too small to offer quality health insurance plans either for themselves or their employees, denying them the opportunity to take advantage of reduced rates associated with economies of scale. While the ACA exchange market has allowed many to find plans to suit their needs on the open market, there is still a lot more that the Commonwealth can do to help address rising costs. Waste, fraud, and excess account for a staggering amount of overall healthcare spending, and increased transparency at all levels could go a long way towards combatting that situation.

Lifestyle issues are also a huge drain on the healthcare system, and Virginia needs to do more to promote awareness and wellness programs aimed at diverting these problems before avoidable consequences (some types of diabetes, heart disease, lung cancer, etc.) drive up costs for everyone.

Lastly, with an estimated budget shortfall of \$800 million next year (and the Department of Health and Human Services accounting for roughly a third of the state's budget), Virginia needs to act immediately to ensure that we remain solvent and can effectively meet our commitments to all of our citizens.

⁷ <http://www.bls.gov/news.release/cesan.nr0.htm>



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Recommendations

Recommendation: Implement systems that communicate and share data on patients (procedures, forms, billing, etc.) to cut down on duplicative, burdensome, costly and time consuming documentation. Make addressing healthcare fraud and waste a high-level administration priority in helping to combat excessive healthcare costs.

While many hospitals and larger providers are moving towards more high-tech, efficient patient management systems, smaller providers (such as rural practices and specialists) often find it difficult to make the switch as up-front costs can be prohibitive and there is a strong resistance to altering the status-quo. The Commonwealth should consider implementing a tax credit for qualified medical providers who invest in integrated patient management systems that communicate across all levels of a patient's care cycle, thereby both reducing wastefully duplicative and time consuming documentation and increasing the efficiency and accuracy by which providers can treat their patients.

To address fraud and waste, the Commonwealth should consider establishing a subdivision of the State Fraud, Waste and Abuse Hotline that deals specifically with all manner of both public and private sector healthcare allegations of wrongdoing and/or redundancy. The Office of the Inspector General could coordinate with the healthcare, business, and IT industries to determine how to manage the hotline and how to respond to inquiries. Even if there is no immediate actionable outcome for the Commonwealth to pursue for each and every inquiry, having this kind of raw data on hand would be a valuable resource as we continue to look for ways to reform the system at all levels.

Recommendation: Get to folks earlier in the cycle rather than waiting for lifestyle issues (which account for roughly 50% of healthcare spending) to adversely affect health and drive up costs, by promoting and incentivizing workplace wellness programs.

A meager handful of states have taken steps to incentivize employers to establish workplace wellness programs. Indiana enacted a measure (now under a moratorium), funded through cigarette tax proceeds, that established a tax credit for up to 50 percent of the costs incurred by small businesses to establish qualifying workplace wellness programs. Massachusetts implemented an annual tax credit for up to \$10,000 for employers who provide qualified wellness programs to their employees.



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We believe Virginia should consider enacting its own comprehensive workplace wellness initiative, taking the reins on this issue and becoming the standard by which all other states model their own plans. One component of Virginia's plan could certainly include providing tax credits, but we also need to make sure that employers have all the information necessary to make implementing workplace wellness plans as easy as possible. That could be accomplished by creating an office within HHS whose mission would be to liaise between businesses looking to establish wellness programs and the provider community. This office could also create and maintain a website that would serve as a clearinghouse of information for employers, including information on everything from available tax incentives to how to set up and administer these programs.

Recommendation: Adopt Medicaid expansion so that Virginia can get its taxpayer dollars back.

While controversial, we as small business leaders believe that Virginia should move forward with expansion of Medicaid, but only if the savings from the cost-shifting will be reinvested in the healthcare system to improve healthcare delivery.

Currently, pregnant women and children under the age of 18 are eligible for Medicaid if their household income is up to 138% of the Federal Poverty Level. The elderly and the disabled are covered at levels up to 80% and 24%, respectively, while childless adults do not receive Medicaid coverage no matter their financial situation. Virginia can, at the discretion of state lawmakers, expand that Medicaid coverage to everyone, regardless of demographic, with household incomes up to 138% of the poverty level. The federal government will pay 100% of the cost of that expansion through 2016, and then gradually phase down to 90% of the cost in 2020 and beyond.

Expansion of Medicaid is crucial to us as small business owners, as we are being unfairly targeted through payroll taxes and taxes on business profits in order to make up for budgetary shortfalls, yet we are leaving a solution on the table that would help close the funding gap without placing an undue burden on the business community.

Conclusion

There are steps that business and government can take to reduce healthcare costs and improve outcomes today. The ideas generated by our healthcare panel participants will help to reduce one of the largest and fastest-growing expenses that American small businesses face.



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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. The common-sense reforms outlined above are realistic, achievable, and 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.



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Virginia Tax and Regulatory Challenges and Solutions

Opening Statement

While not glamorous topics, taxes and regulations are two of the most important considerations in trying to solidify the Commonwealth's business-friendly status. Having a favorable tax and regulatory environment is a huge determinant in whether or not businesses locate in Virginia, and similarly, whether businesses – especially small businesses – already operating here are able to grow and flourish.

Through tax and regulatory reform, Virginia can help businesses both large and small, while creating a tax and regulatory structure that is equitable and encourages economic growth. Key to a growing state economy is attracting new businesses to the state and giving those new businesses every chance to succeed. Virginia seems to have figured this out when it comes to large business: in 2010, the Virginia government spent \$23.8 million on incentives to bring business to the Commonwealth. Of that \$23.8 million, three-quarters went to Fortune 500 companies, including Northrup Grumman, Microsoft, and Capitol One. And some of those investments actually resulted in net job losses.

It would seem that Virginia has part of the formula wrong when it comes to bringing business to the Commonwealth. What if, instead of offering large companies tax credits and exemptions that most economists agree distort the marketplace, Virginia could reform its tax code in a way that incentivized businesses of all sizes to locate and to expand in the Commonwealth? What if, instead of excluding small business from these outreach efforts, Virginia actively sought to reform its policies in a way that helped small businesses thrive? And what if those reforms directly led to private-sector job growth, increased investment, and more disposable income for all Virginians?

Likewise, we also strongly believe that Virginia should make regulatory reforms that are in line with promoting private sector growth. Doing so can only enhance the Commonwealth's tax revenue base, as businesses feel more and more comfortable establishing and expanding here in Virginia due to common-sense, fair and balanced rules and regulations. Small business is the backbone of Virginia's economy. 97.8% of employers in Virginia are small businesses, and those small businesses employ 47.9% of the private-sector workforce. In 2010, there were 656,288



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small businesses in Virginia, compared to just 3,280 large businesses. It only makes sense that Virginia should do as much to help small business as it does to help large business.

Challenges and Problems Surrounding Taxation and Regulation in Virginia

On the taxation side, businesses in 171 localities in the Commonwealth of Virginia are subject to three taxes that are levied regardless of whether or not a business makes a profit: the Business Professional Occupation Licensing (BPOL) tax, the Machine and Tool (M&T) tax, and the Merchants Capital (MC) tax. Panel participants believe that these taxes restrict job growth. The challenge here is that cities, counties, and municipalities depend on the revenues from these particular taxes, and would be negatively impacted if those taxes were eliminated without a way to replace lost revenues.

On the regulatory side, participants all agreed that the Commonwealth needs to do a better job clearly defining the appropriate roles of both private enterprise and government. Small businesses are finding themselves losing out on important bidding opportunities and contracts due to unfair competition from government agencies, who instead of governing, are providing commercial activities traditionally left to the private sector. One such example is the Mason Inn on the grounds of the George Mason University campus in Fairfax. As a state university, George Mason is technically a state agency and is exempt from local property taxes. The Inn still lost millions each year it was in operation though, and ultimately ceased operations in 2014 with underuse cited as the reason. This is unfortunate, because there is no reason for a state university to be in the hotel and hospitality business, especially when there are countless comparable, and successful, private venues in the same vicinity that do *not* post losses that come out of taxpayers' wallets, and who *do* contribute to the local tax base.

Additionally, there is no cost-benefit analysis conducted at the state level that looks at outsourcing vs. government performance of commercial activities, and there is no system in place for Virginia's businesses to petition an agency commercial activity that duplicates or unfairly competes with the private sector. The only real forum for businesses who felt they had been unfairly treated by the government in this manner – the Commonwealth Competition Council – had its staff cut drastically over the last several administrations, and the program was eventually scuttled under former Governor Bob McDonnell. Currently, the Department of Planning and Budget has absorbed this role, but they seem to lack the resources to accomplish much.



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Lastly, panelists noted that agency-to-agency transactions are *not* subject to Virginia's Public Procurement Act, meaning that agencies have no obligation or incentive to reach out to the private sector marketplace, and are possibly wasting already limited state resources in areas where the private sector could provide the same or better goods and services at a more competitive cost.

Recommendations

Recommendation: Restructure taxes in a way that encourages businesses to incorporate in Virginia – expand the sales tax to services except for healthcare, while reducing/eliminating income tax brackets, eliminating the grocery tax, the BPOL tax, the machine and tool tax, and the merchants capital tax.

This proposal results in a revenue-neutral tax code reform that is favorable to businesses and encourages growth. It will also be a strong incentive for businesses to locate, re-locate, and/or expand their operations in Virginia. VASBP strongly encourages the Commonwealth to consider the different scenarios laid out by the Thomas Jefferson Institute for Public Policy that address this proposal – one such scenario estimates the Commonwealth could stand to increase its real GDP by over \$5 billion over 5-6 years!

Recommendation: Establish a cost/benefit analysis of outsourcing vs. government performance of commercial activities, which would consider the costs and benefits of hiring full-time state employees instead of using contractors (including costs of health insurance and other employee benefits).

With the Commonwealth's budget already stretched to its limits, we believe it is incumbent on the Administration to fully examine the costs and benefits associated with insourcing work that could potentially be contracted out to the private sector. Having a full knowledge of the true costs of hiring full-time state employees – including overhead, healthcare, and other associated benefits – will be a powerful tool in helping to determine how best to allocate the state's limited resources. We believe, more often than not, the results will show that the private sector - who carry the burden of salaries, overhead, healthcare, benefits, and more entirely on themselves – are ready, willing and eager to provide a better value for the dollar than insourcing could accomplish.

Recommendation: Establish a process for Virginia agencies to review and implement privatization opportunities, and require inter-agency compliance with the Virginia Public Procurement Act.



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We believe that the diminished role and ultimate elimination of the Commonwealth Competition Council was a misstep over the past several administrations, and efforts should be made by this Administration and General Assembly to reintroduce such a program. Whether it is a standalone executive advisory body as originally implemented, or a re-configured office within the Department of Planning and Budget, we feel there is a real opportunity here for the Commonwealth to address inefficiencies that are a drain on state resources. The re-envisioned Council could be tasked with establishing a process and providing a forum for the private sector to petition the Administration on issues of fairness related to insourcing vs. outsourcing (see the example of the Mason Inn above), in addition to issuing guidance and recommendations on specific privatization opportunities. To complement this, we urge the General Assembly to give more teeth to the Virginia Public Procurement Act by requiring inter-agency transactions to comply. The re-envisioned Council could then also serve as a clearinghouse of information for compliance with the Act.

Conclusion

As Virginia competes to remain among the most competitive and most attractive places to do business, it would behoove lawmakers to examine the Commonwealth's tax and regulatory structure. We strongly believe that a restructuring of the tax code and regulatory framework will result in an environment that encourages investment and job growth, and leads to economic prosperity.



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Virginia Technology and Telecommunications Challenges and Solutions

Opening Statement

The technology industry is critical to all of Virginia. The fact that one-quarter of Northern Virginians work in technology oriented jobs should not surprise anyone, but in the Commonwealth as a whole 16% of the workforce and 31% of the wages generated are technology oriented. But if nurturing technology businesses is critical to maintaining Virginia's recognition as one of the leading business states, we must continue to innovate in our policies as well as with our technology.

Likewise, as technological advancements continue to proliferate, making doing business from anywhere easier than ever before, we need our Administration and General Assembly to act together to ensure we are not leaving ourselves vulnerable to attack and are not sacrificing public safety for the sake of innovation.

Challenges and Problems Surrounding Technology and Telecommunications in Virginia

As noted in earlier sections, getting students interested at a young age in STEM careers is key to developing the workforce our Commonwealth needs for the future. With Virginia becoming a hub for the burgeoning cybersecurity industry, technology jobs will continue to be plentiful for years to come, and qualified graduates in STEM disciplines will be in high demand. Unfortunately, there is a disconnect between academia and the workforce because they each seem to be operating in their own individual bubbles.

Additionally, the Commonwealth's private sector – particularly in the technology and telecommunications industry – is heavily reliant on contracting with the public sector (federal, state and local governments, school systems, etc.). Continuing on as we are, with ever-shrinking public sector budgets, will be a detriment to us all.

Lastly, citizens' online and public safety is threatened every day by technological advancements. One doesn't have to look any further than this fall's Apple iCloud security



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breach or the even more recent reports of privacy concerns from apps like Uber to realize that we all need to come to the table – government, large businesses, small businesses, and citizens alike – to address how we can protect ourselves against these threats.

Recommendations

Recommendation: Create incentives for small businesses to work with local higher education institutions to promote small business needs; Encourage and/or establish certifications at the educational level to allow job seekers to hit the ground running.

This recommendation goes hand-in-hand with the recommendation from the Education and Workforce Development section to “[i]mplement coaching strategies and other opportunities in our educational system to align supply and demand.” Panelists from both sessions agreed that grant monies ought to be made available to state institutions of higher learning that they can then award to local businesses that fund unpaid internships for students. Not only will this give students that essential hands-on experience, it will also foster a strong relationship between academia and the business community by diminishing the feeling of being closed off from one another and operating in entirely different spheres.

Additionally, panelists echoed the sentiments of the Economic Development session, who recommended both “Prepar[ing] for and welcome[ing] growth in new strategic business sectors, such as cybersecurity,” and “Encourag[ing] educational institutions to offer training/certification in soft skills and promote soft skills certifications to the business community.”

Recommendation: Facilitate the development of incubators within agencies as well as an innovation fast track for businesses to transition work to the private sector from the public sector, create campaigns to increase awareness of these and other programs available to help small businesses and entrepreneurs.

One of the most memorable takeaways from Commerce and Trade Secretary Maurice Jones’ morning keynote speech at our Summit was the heavily reliance of the private sector on contracting with the government to provide goods and services, especially in the technology sector. Jones cautioned that this reliance on providing to the public sector is about as risky as pinning all your hopes and dreams on your star quarterback and failing to develop the rest of the team. What, he asked, will you do if your quarterback gets injured? Jones asked attendees to relate the public sector, with its diminished and uncertain budgets, to that injured quarterback. As a Commonwealth, we must take steps to wean ourselves of our reliance on the public sector for our prosperity. Creating and promoting



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incubators and innovation fast tracks to help businesses, particularly in the technology sector, will ensure that we don't spend too long in our "team rebuilding" stage, by helping the private sector to refocus on how they transition and market their wealth of experience and expertise gained from working with the public sector to other venues.

Recommendation: Create a direct line of communication from small business leaders to the Governor's office.

With ever-increasing security threats related to the advancement of technology, we fully support the goals and mission of the Commonwealth's Cyber Security Commission. We believe, however, that there is room to expand the commission even further to include ALL technology threats, not just those posed by cybersecurity issues. We would like the commission to examine public safety concerns with technology as well – in the case of Uber, for example, addressing issues like how consumers' location data is protected against access by just any employee. We also believe the commission's membership should be expanded to include additional members from the small business community, as these individuals are the ones who stand to gain the most from advancements in technology (cloud computing cutting down on physical infrastructure costs, teleworking cutting down on overhead, etc.), yet they are also often the most vulnerable to security breaches.

Recommendation: Encourage innovation in all sectors, but do not create special carveouts for industries using technologies.

New entrants into an industry, who may be using new innovative approaches to serve customers, should still be required to follow the same industry standards and rules that the state and local jurisdictions implement. The Commonwealth should not be treating individual companies differently just because they are utilizing technology. It should encourage and support new innovative approaches in industry, but not pick winners and losers by creating special rules for "innovators" over more established small businesses in the same industry. As an example, we are concerned that with the advent of the sharing economy – primarily in transportation and lodging, but gradually spreading to other sectors as well – consumers are becoming so enamored with the "gadget" that they do not even realize what they are giving up in terms of privacy and personal safety. We believe that convenience should never take precedence over safety; and while there may be no clear answer on whether or not certain industries should be entirely regulated, de-regulated, or some combination in-between, we feel there definitely needs to be some level of standards that all competitors must meet, and that the Commonwealth issuing rulings on special exceptions or regulations for specific competitors does everyone a disservice.



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Conclusion

If Virginia is going to continue to be one of the most business friendly places in the United States and indeed across the globe, then the Commonwealth is going to have to stay ahead of the curve when it comes to developing its technology and telecommunications industry and addressing technology-related security concerns. Small businesses can offer real solutions to this vision if given a seat at the table and a voice in Richmond. We hope the Governor and members of the General Assembly will work with us to make this a reality.



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Conclusion

We believe our Summit participants have developed and put forth some meaningful and thought-provoking recommendations to help the Commonwealth grow and prosper well into the future. We believe there is a strong role for us as a small business community to consult with the Administration and the General Assembly on these and many other issues affecting our livelihoods. That said, our final recommendation would be to please count on the Virginia Small Business Partnership as a partner to depend upon for reliable, informed, and non-partisan perspectives, and to call upon us as a resource for connecting state government to the voices of small business.

Thank you for your time and consideration, and we look forward to working closely with the Administration and General Assembly during the 2015 session!