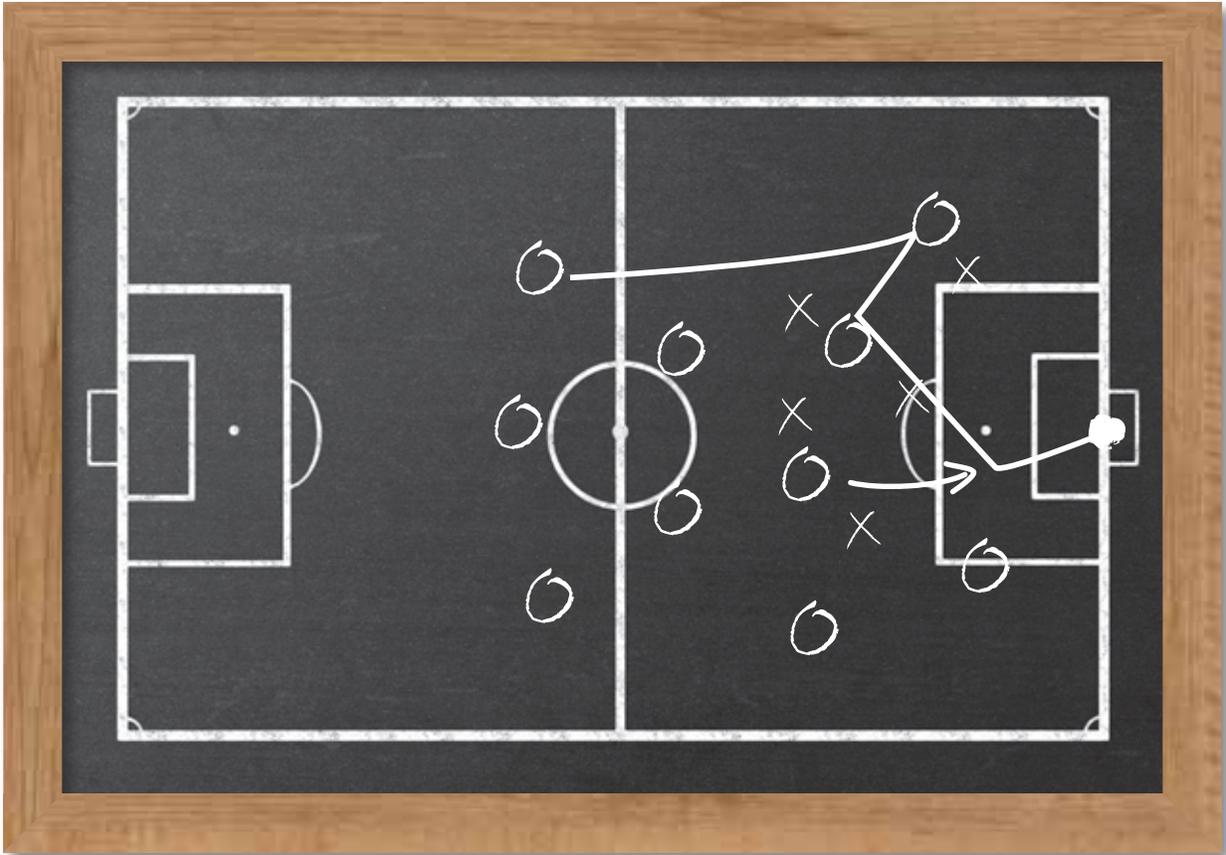


# Taking the Field

## A Game Plan for a Resilient Virginia



AUGUST 2013



THE  
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INSTITUTE



# Taking the Field

## A Game Plan for a Resilient Virginia

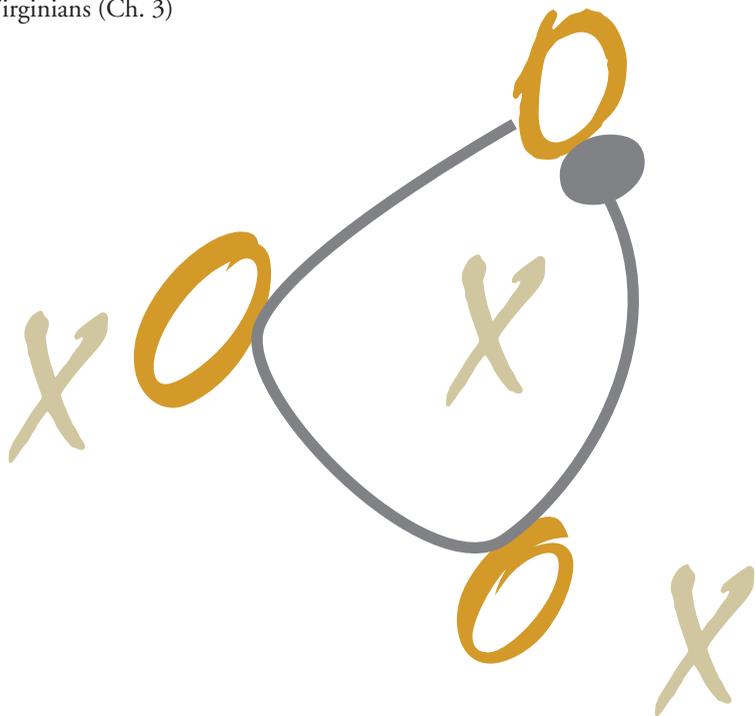
Virginia is one of the wealthiest states in the country. But the recession battered the middle class and undermined our schools, colleges, health care and other foundations of a strong, enduring economy. Yet even in the best of times, too many hard-working Virginia families were left behind as income inequality grew and opportunities to climb the ladder to economic security grew scarce. Virginia’s ability to sustain such strong economic growth appears shaky. Our reliance on the federal government for jobs has placed too much of our fate in the hands of Washington, making us subject to shifting political winds. In a word, Virginia is vulnerable.

A brighter future depends on building an economy capable of sustaining the kinds of jobs that allow families to get ahead: a resilient economy that will allow Virginians to innovate, thrive, and rebound from setbacks inflicted by forces beyond our control.

Many of the building blocks are in place, but much work remains to be done. While we must continue to invest in the things we know create jobs and a more robust economy – healthy families, an educated workforce, and well-maintained roads, transit systems and other infrastructure – we must also make new investments to prepare for our economic future and lessen our overreliance on federal jobs and contracts.

A stronger and more resilient commonwealth, where all Virginians can thrive, requires that we:

- Diversify the Economy and Train for the Future (Ch. 1)
- Protect and Support Working Families (Ch. 2)
- Invest Wisely for all Virginians (Ch. 3)





# Diversify the Economy and Train for the Future

The greatest challenge facing Virginia is getting Virginians back to work – not just any work, but work that equips families with the resources they need to support themselves, get ahead, and thrive.

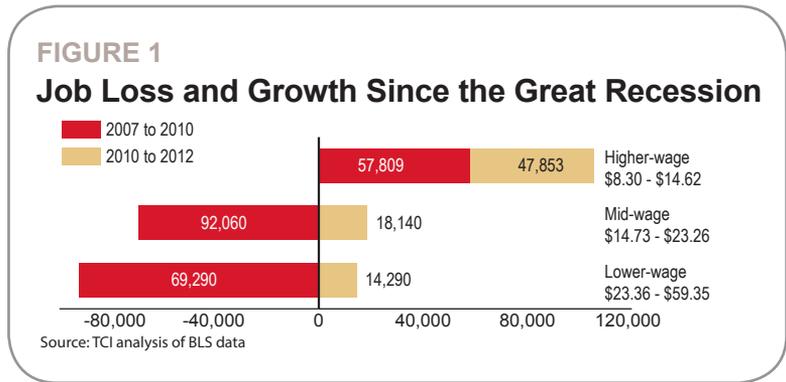
Making the right investments in Virginia’s people and public services is more important than ever.

Virginia’s economy benefits greatly from the state’s proximity to Washington DC. One of every 12 workers in Virginia is directly employed by the federal government, more than double the national share of one in every 27. But this reliance on direct federal employment and federal contract work puts the commonwealth at risk, too. Of the total job losses expected from across-the-board federal spending cuts (known as sequestration) in 2013, nearly 10 percent will come from Virginians – a share second only to California’s.<sup>1</sup> These cuts are expected to cost Virginia’s economy over \$15.4 billion in 2013.

Clearly, Virginia cannot continue to rely so heavily on this single economic driver. As we recalibrate our economy to prepare for a leaner federal government, the state must be committed to creating not just more jobs, but also better jobs. The Great Recession ravaged middle- and low-wage job opportunities in Virginia. Lower-wage occupations – those paying around \$10.90 per hour or less – accounted for 57 percent of the total job losses,

**GAME PLAN**

- p6 **Foster the Creation of Good Jobs**
- p7 **Promote Innovation to Make Virginia’s Economy More Diverse and Resilient**
- p8 **Strengthen Today’s Workforce**
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and occupations in the middle of the wage range – paying around \$15.70 per hour – comprised the remaining 43 percent.

While some high-wage occupations were hit, they continued to grow overall. (See Figure 1.) Since the start of the recession high-end wages have grown almost 9 percent. But when it comes to federal deficit-reduction, even the state’s high-wage jobs will not be immune to losses.

On top of the elimination of so many jobs, a continuing decline in pay for lower-wage workers means that many Virginia families are still falling behind. Since the start of the recession, low-end wages have collapsed by over 7 percent.

Creating better jobs for Virginians requires substantial public investments in areas like education, health care, and other foundations of economic growth. A pipeline of skilled and versatile workers is essential, along with forward-thinking investments in technology and other tools that support innovation and a thriving economy. Together, this will increase the likelihood that the jobs of tomorrow are created and waiting to be filled by Virginians.

## Foster the Creation of Good Jobs

As much as shifting priorities at the federal level pose challenges for Virginia they also create opportunities. Virginia must not only prepare to deal with the employment challenges created by federal spending cuts, it must also be ready to take advantage of new opportunities and resources available to expand into growing areas of the economy.

**Grow the “green” economy.** “Green jobs” produce goods or provide services that benefit the environment, conserve natural resources, involve making production processes more environmentally friendly or ensuring that they use fewer natural resources. Beyond that, green jobs also are more economically resilient. During the last recession, states with a high concentration of green jobs generally fared better than other states. Industries with high concentrations of these jobs are projected to grow faster over the next 10 years than all others. There are a number of ways Virginia can become part of this growth.

- Invest in making existing public schools and other public buildings more energy efficient to create jobs and reduce future operating costs.
- Help homeowners and businesses afford the costs associated with becoming more energy efficient. For example, the state could offer low-interest financing through a revolving loan fund, link homeowners and businesses with experienced contractors, and allow homeowners to use “on-utility bill financing,” which is a way that the up-front cost of installing solar panels can be repaid through monthly charges on the utility bill.
- Encourage installation of home solar- and wind-generating capacity by making sure standby charges for Virginia’s “customer-generators” are reasonable compared to actual costs and benefits to the utility associated with providing infrastructure to the customer-generator.

**Make state partnerships with businesses more beneficial to workers.** Virginia was a pioneer in developing public-private partnerships to plan, finance, build and operate roads and other transportation projects. Now the state is poised to expand that experiment to other types of public projects. With billions of taxpayer dollars at stake, Virginia should put the interests of Virginia’s workers first when contracting with business partners. For example, Virginia could establish minimum hiring requirements for unemployed or underemployed workers, women, people of color, residents in close proximity to project sites, and low-income adults. In addition, the state should make sure that private employers respect the freedom workers have to choose whether to have union representation.

**Expand Medicaid to create new health care jobs.** Health care is one of the few employment sectors that grew during the recession, and continues to grow. Virginia has the opportunity to build on that growth and create nearly 30,000 high-paying health care jobs by extending Medicaid coverage to thousands of residents who struggle to afford health insurance or go without it altogether. Federal funds would pay the entire cost of the expansion through 2016, and even after that the state would cover no more than 10 percent of the cost. New federal funding coming into Virginia would average \$2.4 billion annually. By accepting federal dollars that have already been designated for Medicaid expansion, Virginia can move aggressively into the growing health care field.

## Promote Innovation to Make Virginia's Economy More Diverse and Resilient

Virginia has a long history of economic booms and busts because of heavy reliance on only a few major industries – crab and oyster harvesting in the Tidewater region, coal mining in southwestern Virginia, federal employment and contracting in northern Virginia. While those industries were fruitful for many years, even generations, they have gradually declined and stagnated or – in the case of federal employment – are subject to cutbacks that cost jobs. Diverse economies, by contrast, are innovative and thrive.

But innovation doesn't happen in a vacuum. Entrepreneurship and development of small businesses – the largest source of job creation – need to be fostered by providing Virginians with the economic tools and supports they need. By focusing the state's considerable resources on technology and innovation, Virginia can break new ground to further diversify and expand its economy.

**Establish a Virginia development bank.** State development banks team up with local banks and credit unions to invest public dollars in local business initiatives. Instead of investing the state's money in Wall Street banks, the state invests in local banks and credit unions, which then use the money to provide loans to local farmers and other businesses. This helps create new jobs and spur broader economic growth, increase state revenues, strengthen local banks by increasing deposits, and return profits to the state. This is especially important in hard times, when more traditional sources of business loans and other credit dry up. For the past 94 years, North Dakota has operated a state development bank to provide steady, reliable access to capital for local businesses, farmers, and banks, no matter what was happening at the big financial institutions in New York. For example, in 2012 the Bank of North Dakota partnered with local banks to help a nonprofit developer renovate a shuttered hospital and turn it into a senior residential community, and they helped a young start-up farmer purchase cattle at a loan rate more reasonable than the traditional banks. During the Great Recession, when national financial institutions pulled back from lending to even the most credit-worthy businesses, the Bank of North Dakota put state money into productive lending, creating local jobs and local revenue.

**Ensure that tax breaks benefit the public and create jobs.** Virginia has nearly 190 tax breaks that cost the state general fund about \$12.5 billion each year. To put the figure in perspective, that's nearly as much revenue as the state collects to fund essentials like education, public health, and safety. While some are cost

effective and produce positive results – fostering fledgling industries for example – other tax breaks no longer meet their goals or have outlived their purpose. Yet they remain on the books, reducing the amount of resources available for important purposes and complicating the tax code. Virginia now has a commission to review tax breaks. Their work should focus on making sure that outdated and inefficient tax breaks are eliminated and that the goals behind tax breaks still make sense.

**Promote health insurance and retirement options that liberate workers from job lock.** Too often, people stay locked in a job they don't like or put off pursuing another line of work because they don't want to jeopardize their health insurance and other benefits from their existing jobs. Job lock stifles pursuit of more challenging or rewarding careers, which, in turn, can keep the economy from being as diverse and vibrant as it could be. Workers with access to health insurance and retirement accounts independent of their employer can move more easily to jobs that maximize their potential. Newly emerging options for private health insurance, such as the health insurance exchange, as well as portable retirement accounts can help break the cycle of job lock and free people to pursue the best opportunities for them and their families.

## Strengthen Today's Workforce

People need the right skills and training for jobs in today's rapidly evolving economy.

For years, workforce development in Virginia and elsewhere has focused on short-term training to get workers quickly re-employed. But globalization and advances in technology have transformed the nation's economy, and today's jobs require better-skilled workers and a longer-term approach to training.<sup>2</sup>

Although hundreds of thousands of Virginians get job training through state and federally-funded programs each year, there is a growing shortage of workers qualified for jobs in some of the fastest growing industries. Many Virginians lack the "middle skills"—more than a high school education but short of a four-year college degree—that are most in demand.

Almost half of all jobs in Virginia require middle skills, but only about a third of workers had the proper training and credentials to fill them. Over the next decade, demand for workers with middle skills will continue and jobs requiring these skills will be found in trades including public safety, health care, and advanced manufacturing

**Expand the "Career Pathways" Model of Job Preparation.** Career Pathways is an approach to workforce development that helps workers progress from high school to post-secondary education and then to jobs in growing industries. The model is a demonstrated success, and Virginia has several regional career pathways initiatives for low-skilled and laid-off workers. But these initiatives need greater investment to get more people the skills they need so employers in high-demand, growing industries can fill their openings.

**Increase Enrollment in Adult Basic Education and Literacy Programs.** Community colleges are among the main providers of middle skills training and credentials, but most courses require students to be proficient in English and have a high school diploma or its equivalent. Only 3.5 percent of adults in Virginia who speak English less than "very well" are enrolled in English literacy programs, and less than 2 percent of adults with less than a high school education are enrolled in adult basic or secondary education programs.<sup>4</sup> Helping more people through adult

basic education and English literacy programs means workers will get the basic skills and education to move on to post-secondary education and meaningful employment.

**Prepare for the New GED.** In 2014, Virginia will roll out a new Graduate Equivalency Diploma exam—designed and administered by a private company—that has been restructured to gauge college readiness and basic job skills. However, fees to take the test will more than double—to \$120 from \$58—and the exam will be entirely computer-based, raising barriers for low-income students and those without consistent access to a computer. Educating students for the new test will strain the budgets of adult education providers, who will have to change and add curriculum, retrain teachers, and obtain classroom computers. Virginia should keep this critical pathway to a high school diploma affordable and give adult education providers the resources to prepare students for the new exam.

## Cultivate the Workforce of Tomorrow

Preparing young people to think critically and making sure they are college- and career-ready are crucial for success in today's volatile economy. Although Virginia's public education system has been recognized as one of the strongest in the country, students from low-income households face higher barriers to learning than others. Young immigrants also face significant challenges, particularly those who are undocumented. More than 15 percent of all children in Virginia – about 280,000 – lived in poverty in 2011. But the right supports at school can help ensure that all of them have a fair shot at success.

Sustaining our commitment to high-quality public education will give Virginia the edge it needs to compete in a global marketplace and ensure that Virginians are among tomorrow's innovators and entrepreneurs.

### Expand early childhood education.

Pre-kindergarten learning has tremendous value beyond just higher grades later on in school. Early education results in better health and increased wages and productivity later in life. To give more young Virginians the opportunity to reach their full potential, the commonwealth should boost funding for pre-K to make it available to more students.

Enrollment today in the state's pre-K program, the Virginia Preschool Initiative (VPI), is limited to a set number of state-funded openings per locality based on demographic and program data. The formula however leaves several school divisions with no openings for a VPI classroom. To increase the number of openings, Virginia could ensure that every locality is funded for a minimum of one VPI classroom or create a competitive grant program for localities that want to expand or start-up a VPI program.

To attract even more families to enroll their kids into VPI and also address costs to localities, the state could work with school divisions to create an income-based fee schedule for parents whose pre-K costs are not covered by the state. Virginia could also routinely update the VPI funding formula when they revise and update the basic data for funding public education. Unlike other education costs, the per-pupil cost of VPI is not subject to this process of re-benchmarking.

### Boost Third Grade Reading Proficiency.

Third grade represents a critical transition for students, when learning to read becomes reading to learn. Early reading proficiency sets a solid foundation for academic success. In Virginia, 14 percent of third grade students were reading below grade level in 2012. To improve that track record Virginia should allow all schools to focus on reading development in the third grade by limiting the

number of standardized tests that third-graders take to two (reading and math). Virginia should also provide additional resources to nurture further professional development for local school divisions, and provide extra support for literacy coaches and reading aides. Policymakers should resist mandating that students be kept from advancing to the next grade solely based on failing standardized tests, a policy which has been suggested by state lawmakers. Holding a child back because of one bad assessment can create more psychological harm to the child and can outweigh any possible academic benefit.

### Reduce barriers to higher education for all Virginians.

Going to college opens many doors and opportunities. Earnings for adults increase with the number of years of education they have and the type of degree they earn. And the state sees a clear return on its investment in higher education since higher-earning individuals purchase more goods and services and pay more in state and local taxes. Proposals that extend eligibility (but not guarantee approval) for in-state tuition to Virginia's public colleges and universities for all students, regardless of citizenship status, would be a smart option to boost the number of diplomas awarded in the state. Not only does tuition equity make college a reality for more Virginian students, it also helps the state retain qualified, college-educated workers who will earn more and consequently invest more. In addition, with the recent changes granting federal work authorization to eligible undocumented college students, tuition equity would help Virginia compete against other states for top students.



## Protect and Support Working Families

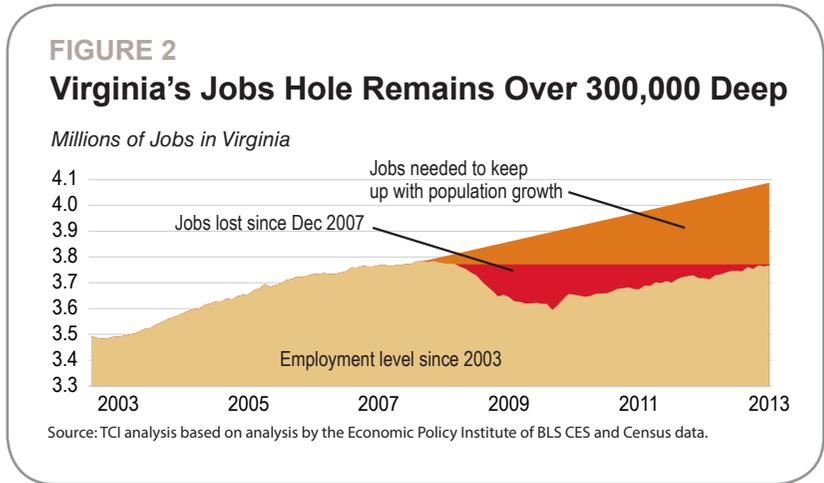
The recession took a heavy toll on Virginia's workers and their families, and those troubles are far from over.

While the overall number of jobs in Virginia has nearly returned to pre-recession levels, it is still lower than the number of working age Virginians, because population grew faster than jobs over the past five years. (See Figure 2.) More workers competing for too few jobs creates a serious challenge for unemployed Virginians, recent graduates, and people seeking better jobs. Over a third of Virginia's unemployed workers have been unable to find a job for six months or more.

There is also a growing gap between what high- and low- wage workers are paid. Virginians already earning lower wages before the recession have seen sharp declines in their wages, even as their neighbors in higher wage brackets have seen their median wages increase. This leaves too many Virginians without enough income to support their families despite their hard work. There are now more than 202,000 workers in poverty, 33,000 more than before the recession began.

**GAME PLAN**

- p12 *Protect and Strengthen the Safety Net*
- p13 *Make Quality, Affordable Health Insurance Available*
- p14 *Promote the Rights of Virginia Workers and Protect Businesses that Play by the Rules*
- p15 *Promote Savings to Improve the Economic Security of Families*



Struggling families and workers need help to make sure that their hard work pays off and can help bring them into the middle-class and achieve greater economic security. As we slowly emerge from the recession, there are steps Virginia

can take to help families get ahead, enable them to save for emergencies and retirement, increase access to affordable medical care, and ensure they are treated fairly by their employer.

## Protect and Strengthen the Safety Net

Four years after the official end of the Great Recession there were still well over 200,000 unemployed Virginians – over 80,000 more than when the recession began. With federal spending cuts and other deficit reduction measures taking effect, Virginia must prepare for more layoffs in government jobs and at companies that rely on the federal government for contracts. Implementing a few key reforms to ensure Virginia has a well-functioning safety net would help stabilize those Virginia families and communities that are facing hard times. While some of the changes may seem obscure or technical, they could make a big difference for Virginia's families and economy.

### **Reform our unemployment insurance system.**

Virginia has one of the lowest levels of unemployment insurance coverage in the nation. In the fourth quarter of 2012, just 19 percent of unemployed workers received benefits, ranking us 44th nationally. Our highly restrictive eligibility rules are out of touch with the realities of today's economy. For example, Virginia is one of just four states that does not allow job searches using the telephone to count toward the weekly work search requirement. Virginia also faces serious challenges when it comes to financing unemployment insurance. The taxes that employers pay to fund the insurance fall far below the national average. They only apply to the first \$8,000 of an employee's salary and the tax rate is relatively low, which keeps average employer contributions in the state low at about \$210 per employee. The result is that not enough money has been put into the system to respond to the size and scope of the need. While the fund is starting to work its way back to more solid footing, it is unlikely to build sufficient resources to be ready for the next downturn.

**Restore a basic level of assistance to struggling Virginia families.** Virginia's Temporary Assistance to Needy Families (TANF) is crucial for the most vulnerable families. But through legislative inaction it has steadily weakened over the years and needs revision.

- The purchasing power of TANF cash benefits has eroded 26 percent since 2000, the last time they were increased. The maximum monthly amount a family of three can receive is \$389, less than one-fourth the poverty line. Virginia should restore TANF benefits to at least 2000 levels in inflation-adjusted terms, which would mean a maximum monthly amount for a family of three of \$529.

- The number of families being helped by TANF has failed to keep up with the growing need in the Commonwealth. The number of children living in households receiving TANF cash assistance is less than half the number of very poor children in the state. That means temporary help isn't getting to some of the people who need it most. Virginia should assist more very poor families and children through reforms such as eliminating the gross income test and raising TANF assistance amounts.
- Too many Virginia families are stuck in cycles of unstable low-wage employment and being jobless. Virginia's TANF work program should encourage training and education; put more emphasis on job quality; and develop long-term education and work plans for all participants.

**Promote "work-sharing" as an alternative to layoffs.** "Work-sharing" allows businesses to reduce employees' hours as an alternative to laying off workers during a temporary decline in business. This cost-effective approach to human resource management has proven successful where it has been tried, but it needs legislative backing of the General Assembly and an adjustment to the rules governing who qualifies for unemployment insurance. The workers who have their hours reduced are compensated with partial unemployment benefits. This arrangement benefits workers, employers, and communities without significantly depleting the state's unemployment insurance trust fund. Twenty-three states and the District of Columbia offer work sharing.

## Make Quality, Affordable Health Insurance Available

Men and women with health insurance are healthier, more financially secure, and more productive because they are able to take care of medical needs better than people without insurance. Yet Virginia faces significant challenges in making sure that everyone has insurance. About one million Virginians, including more than 130,000 children, have no health insurance, according to Census Bureau data. (See Figure 3.) Many who do have coverage struggle to afford it in the face of rising premium costs and stagnating wages.

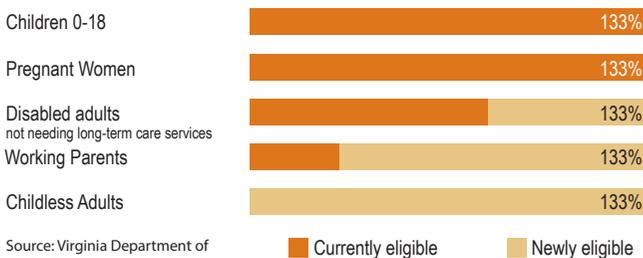
While some who are unable to afford coverage on their own can turn to Medicaid, Virginia doesn't make it easy. Parents of low-income children generally cannot get Medicaid coverage for themselves unless their annual income is less than about \$6,000 for a family of three. Children face similar difficulties, with income eligibility for the state's health insurance program for children (FAMIS) more restrictive than similar programs in 42 other states.

The new national health care law (the Affordable Care Act) gives the commonwealth an opportunity to meet everyone's health care needs. If Virginia embraces the law we can significantly improve the quality of life for all Virginians, our children can grow up to be healthy and productive, and adults who have fallen on hard times can focus on getting back to work.

**FIGURE 3**

### How does Expansion Change Eligibility?

New coverage groups will be added and the income eligibility will increase up to 133% of the federal poverty level for most adults.



#### Expand Medicaid to provide coverage to more low-income working Virginians.

Virginia has created a path for expanding Medicaid under the health care law to cover all non-elderly residents with incomes below about \$27,000 for a family of three. The state should move forward with expansion as quickly as possible to provide coverage to nearly 400,000 Virginians who don't have it now. To do this, Virginia gets 100 percent federal funding through 2016. After that, the federal share will decrease slightly, with the state paying only 10 percent of the cost by 2020. Since Virginia restricts Medicaid eligibility to only the poorest households, with some of the most restrictive income eligibility requirements for adults in the country, the state will benefit more than most other states from the generous federal support. Virginia uses federal funds for all kinds of things like transportation and information technology. We should also use it to improve health and well-being.

#### Involve small businesses and consumer groups in developing new marketplaces for private health insurance.

The federal government is setting up and will operate the Web-based marketplace, known as the exchange, which will offer health insurance to small businesses and consumers in Virginia. Consumer representatives need to work with state and federal officials to ensure that Virginia's marketplace is user-friendly and displays health insurance options clearly. It is especially important for low- and moderate-income Virginians

and diverse communities to have easy access to the marketplace because gaining comprehensive coverage will have tremendous benefits for these traditionally underserved populations.

To help consumers afford health insurance, individuals with incomes between about \$19,530 and \$78,120 for a family of three will be eligible for federal tax credits to offset a portion of the cost of coverage. As part of the application process, those who are found to qualify for Medicaid or FAMIS should be directed to that coverage. Consumers who would be eligible through Medicaid expansion but cannot enroll yet because Virginia has not approved expansion should be documented so that once the state expands the program and they become eligible they can be readily contacted.

#### Level the playing field and require all health insurance plans in Virginia to follow the same rules.

Health insurance will not be affordable for many people in the exchange if insurance companies that don't participate sell bare bones plans to younger, healthier Virginians outside the exchange. This would leave the exchange serving less healthy consumers who need more assistance paying for premiums and other costs, driving up premiums and making the insurance options less attractive. Virginia should create an equitable system by requiring all health insurance plans – inside or outside the exchange – to cover all essential health benefits and operate under the same rules.

## Promote the Rights of Virginia Workers and Protect Businesses that Play by the Rules

To have an economy that works for Virginia's employers and employees alike, the state must make sure that everyone plays by the rules. Businesses doing the right thing by their workers are sometimes undercut by other employers that misclassify employees as independent contractors to avoid paying taxes, refuse to pay workers the wages that they are owed, and discriminate against certain types of workers. Such abuse denies workers the wages and benefits they need to support their families. Tax evasion by employers also reduces the resources available for education, transportation, job training, public safety and other services that all Virginia businesses rely on. Enforcing and strengthening existing laws against workplace discrimination will protect Virginia's workers and the businesses that are already following the rules.

### **Make sure workers are paid the wages they earn.**

Strong enforcement of state and federal fair pay laws ensures that employers don't take advantage of Virginia workers, and that dishonest businesses are not given an unfair advantage over law-abiding ones. Virginia needs to pursue employers who cheat their employees by not paying for overtime, who require workers to attend meetings or training without pay, or who renege on wage agreements. Effective enforcement would protect not only some of the most vulnerable workers but also support the majority of Virginia's employers who do play by the rules.

But under current funding levels, almost a quarter of wage theft claims reported to the state Department of Labor and Industry aren't fully investigated. Policymakers need to invest far more funding in investigations to stop these abuses and ensure that victimized workers get what they are owed and law-abiding businesses aren't placed at a competitive disadvantage.

### **Crack down on worker misclassification.**

When companies cut corners and misclassify employees as independent contractors, everyone else is forced to foot the bill. Workers are cheated out of vital benefits and protections, responsible employers lose business opportunities and the state and federal governments lose out on important tax revenue for K-12 education, health care, colleges, police and fire protection and other services.

A recent state audit of just 1 percent of Virginia employers uncovered 5,600 misclassified employees in 2010 and a loss of \$1 million in state income tax revenues. The auditors estimate that 214,000 workers statewide may be misclassified and Virginia may lose \$28 million annually in state income tax revenue as a result.

### **Prohibit employer discrimination against the unemployed and limit the use of credit checks in the hiring process.**

With unemployment still running high in Virginia, state lawmakers are introducing bills to prohibit discrimination against the unemployed in either hiring or advertising job openings. Personal bankruptcy filings dramatically increased 92% in Virginia between 2007 and 2010. Such proposals enjoy broad support and deserve to be enacted. In a similar vein, lawmakers have introduced proposals to limit employers' use of credit information in hiring decisions.

## Promote Savings to Improve the Economic Security of Families

Too many Virginia families are one car repair or doctor's bill away from being deeply in debt or simply being unable to pay their bills, and even more are unprepared for retirement. Even before the recession caused a massive loss of assets for middle-class families, 21 percent of Virginia families did not have enough savings or other assets to survive above the poverty level for three months if they lost their job or retired. Nearly three-quarters of Virginia households nearing retirement were likely to run out of money during retirement, according to an estimate by the accounting firm Ernst & Young.

This level of financial instability is bad for families, businesses, and communities. Policymakers can improve the situation by removing barriers to responsible saving.

### Offset some of the larger share of taxes paid by low-income Virginians.

In 2012, low-income Virginia families paid an average of 8.6 percent of their income toward state and local taxes, while the highest-income Virginia families paid just 4.9 percent. The high share of taxes paid by low-income Virginia families makes it hard for them to make ends meet on a daily basis, much less build their assets. To help these families, Virginia lawmakers should:

- Allow low-income working Virginians who qualify for the state's earned income credit to collect a refund if the credit exceeds the amount of income tax they owe. Refundable tax credits in other states have boosted family income by offsetting the cost of payroll, sales and other taxes and help single mothers with children stay employed.
- Provide a sales and excise tax rebate to low-income households in order to offset the disproportionate impact of these taxes on struggling households.
- Enact property tax relief for homeowners and renters whose taxes, whether paid directly or via higher rent, represent a large share of their income

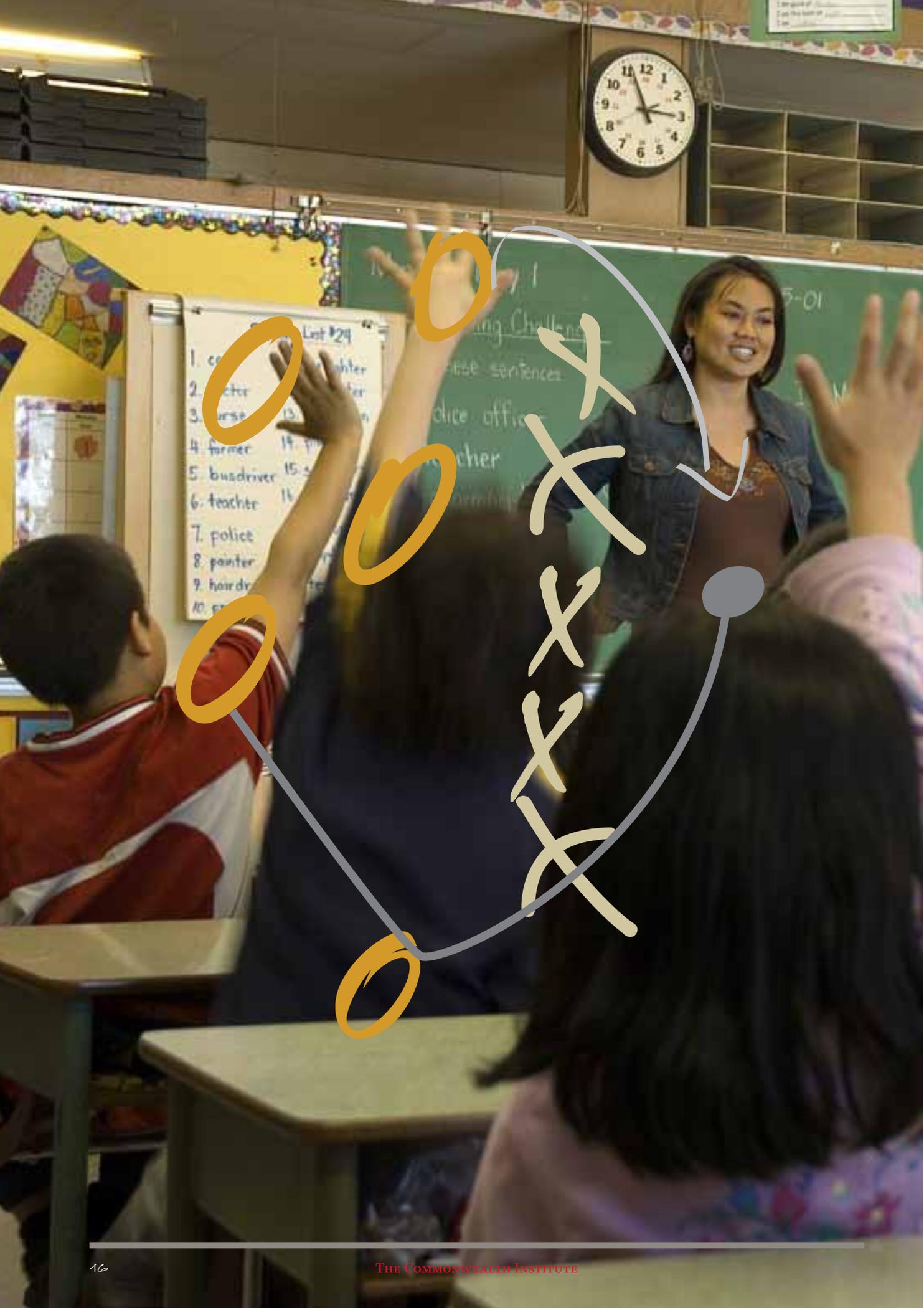
### Make it easier for Virginians to save for retirement.

In 2012, less than half of employed Virginians had access to a pension or other retirement plan at work. Furthermore, high turnover in certain occupations discourages some workers from participating in employer-sponsored plans, since many benefit packages have a delay before the employer will match contributions and workers may be confused by having a number of different plans from different employers. Virginia should establish state guaranteed retirement accounts that would automatically move with a worker from job to job.

These accounts would provide a means for workers to save for retirement without the administrative burden on small employers to maintain their own systems. Workers or their employer would contribute to an individual account, just as with a 401(k) plan. A minimum rate of return would be guaranteed, with a portion of the returns above that level being saved to make up for times of low market returns, and the workers would receive a lifetime annuity upon retirement to ensure their savings do not run out. The accounts would be professionally managed, and insurance policies paid through a portion of returns would guarantee against default and protect the state from liability.

### Protecting Virginia taxpayers from unfair fees.

The tax refunds of Virginians should not be subjected to unfair fees from private companies. Yet this is precisely what happened for the 2012 tax year. Instead of mailing checks to taxpayers who chose not to have their refunds directly deposited in a bank account, the state sent them debit cards for the amount of the refund. While this was intended to reduce paperwork and protect these households from check-cashing fees, many Virginians ended up being charged fees by the private administrator hired by the state, just for trying to access their refund or ask questions about the cards. Virginia should fix this so no taxpayer is hit by fees just for receiving a tax refund.



- List #24
1. firefighter
  2. doctor
  3. nurse
  4. farmer
  5. busdriver
  6. teacher
  7. police
  8. painter
  9. hairdresser
  10. ...



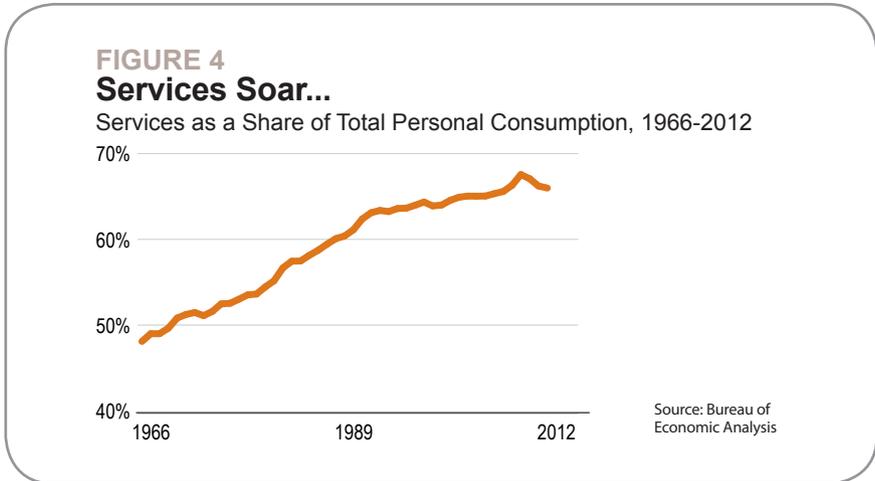
## Invest Wisely for All Virginians

Sustaining a thriving middle class and a resilient Virginia economy requires significant investments in high-quality schools, state of the art roads and transit systems, safe communities, a fair legal system and other building blocks of a solid foundation for growth. But it takes resources to make those investments. Cutting key revenue sources like Virginia's individual and corporate income taxes would only undermine our ability to create jobs and boost the state's economy.

While the recession caused a sharp drop in revenue, even during good times Virginia's revenue system is incapable of generating the resources it takes to grow and prosper. It is badly outdated, and the longer we put off fixing it, the longer we will be held back by inadequate resources that keep us from meeting the needs of Virginians.

While we have taken a small step toward modernizing our state sales tax, much more work remains. For example, the new transportation funding package relies on passage of federal legislation that would allow Virginia to require merchants to collect State sales tax from online and catalog purchases made by Virginians. This is an important step for modernizing the sales tax, as online

**GAME PLAN**  
p18 *Make Sure Every Dollar Counts*  
p20 *Bring Virginia's Revenue System into the 21<sup>st</sup> Century*



commerce has increased more than four-fold in a little over a decade and is expected to keep growing. (See Figure 4.)

But Virginia lawmakers should take another step into the modern era by extending the sales tax to more services, which are a much bigger part of our economy than they were four decades ago and which remain largely untaxed. And that's just the sales tax. Virginia's basic income tax structure

hasn't changed since 1987, a quarter century ago.

Lawmakers also need to thoroughly examine the tax breaks and other benefits the state extends to businesses in the name of economic development to ensure that taxpayer dollars aren't being wasted.

## Make Sure Every Dollar Counts

Virginians have a right to know if tax breaks and other public benefits for private businesses are paying off or failing to generate jobs and economic growth. Those that are falling short of their intended goals should be ended, so the money can be used more wisely. Lawmakers and citizens also need a broader gauge of economic and social well-being to guide decisions about where we invest our resources.

**Ensure economic development deals benefit the public and require repayment if promises aren't kept.** Virginia's economic development funds provide a potentially powerful tool to create good jobs and set standards for employers. On the other hand, subsidizing jobs that pay poverty wages, do not offer health benefits, or employ few Virginians makes no sense. Corporate tax credits, tax abatements, grants, economic development deals, and other state contracts must include strong job creation and job quality goals. And when companies fail to create the jobs they promised or miss the mark on job-quality goals they should be required to refund some or all of their subsidy to the state.

**Ensure privatization deals are structured to protect the public interest.** In recent decades, many lawmakers and business interests have pushed to turn over core public services and assets – from prisons to highways – to private corporations.

While in some instances privatization has the potential to cut costs and make services more efficient, it can also backfire, leading to waste, fraud, diminished services, abuses of workers, environmental harm and corrupt contracting. That's why strong safeguards are necessary to protect the public interest and weigh costs against benefits of pursuing the privatization of key public services and assets like the Port of Virginia or the new Route 460.

In addition, public-private ventures need to be scrutinized more closely, particularly unsolicited proposals. Significant concerns have emerged with unsolicited proposals, namely that

they may not reflect the public will or the fit into existing public agency plans or priorities. Profit-seeking private vendors may advance projects that generate the most financial return but do not meet the public's most pressing needs. Proposals from businesses should be reviewed by a neutral third party to ensure independent cost-benefit analysis and go through a comprehensive analysis of their environmental impact before they are approved. Full proposals, including key business details, should be made public and adequate time should be allowed for public review and comment.

**Continue to improve the evaluation of tax breaks.** Many of the tax breaks on the books achieve their purpose, but there are others that deserve greater scrutiny. Each year, Virginia gives up billions in tax breaks that may have made sense when they were enacted but are now outdated and wasteful. The legislature has worked on new rules and created a special committee to put greater emphasis on the numerous tax breaks that litter the state's tax code. While the committee is still in the early stages of its work, some of the largest tax breaks, like the sales tax exemptions and coal tax credits, have already been targeted for closer review.

**Use a more meaningful measure of state economic performance.** In assessing how Virginia's economy is faring, all too often we rely on single measures tracked in isolation. In particular, gross state product (GSP) – the value of all goods and services produced in Virginia each year – trumps all else as the benchmark of economic and social progress. But the reality is that gross state product, or per capita income, or any one of these typically cited measures, misses the mark by glossing over critical aspects of economic and social well-being. For instance, GSP treats all economic activity the same and presumes that more is always better, regardless of whether it's reconstructing after a natural disaster or producing the goods and services that Virginians actually want and need. In addition, it fails to take account of how income is distributed across families, the depletion of natural resources or environmental damage caused by industry and development, and positive things that lack a market price like the hours Virginians spend volunteering, or household production like childcare, meals made at home, housecleaning and yardwork.

In light of these shortcomings, an alternative measure of prosperity known as the Genuine Progress Indicator (GPI) was created to provide a more accurate snapshot of a society's economic welfare and to track growth over time. It uses about 30 positive and negative contributions to the welfare of a state's citizens to make adjustments to GSP. Factors like loss of leisure time, traffic congestion, income inequality, crime, and family breakdown are subtractions, and factors like volunteer work, education, capital investment, and household work are additions. The GPI has been used nationally and internationally to better define what constitutes a real improvement in well-being and

to evaluate the impact of various policies. Maryland has been using the GPI since 2010, and academic and nonprofit efforts to measure GPI are under way in some other states.

Virginia has already taken steps in this direction, laying the groundwork for using a performance measure like the GPI. The Council on Virginia's Future, established by Governor Warner in 2003, tracks state performance across seven categories: Government and Citizens, Economy, Education, Health and Families, Public Safety, Natural Resources, and Transportation. By building on this existing system and incorporating GPI, Virginia could get a much more accurate picture of the well-being of its citizens and the performance of its economy.

#### **Close funding loopholes for "virtual schools."**

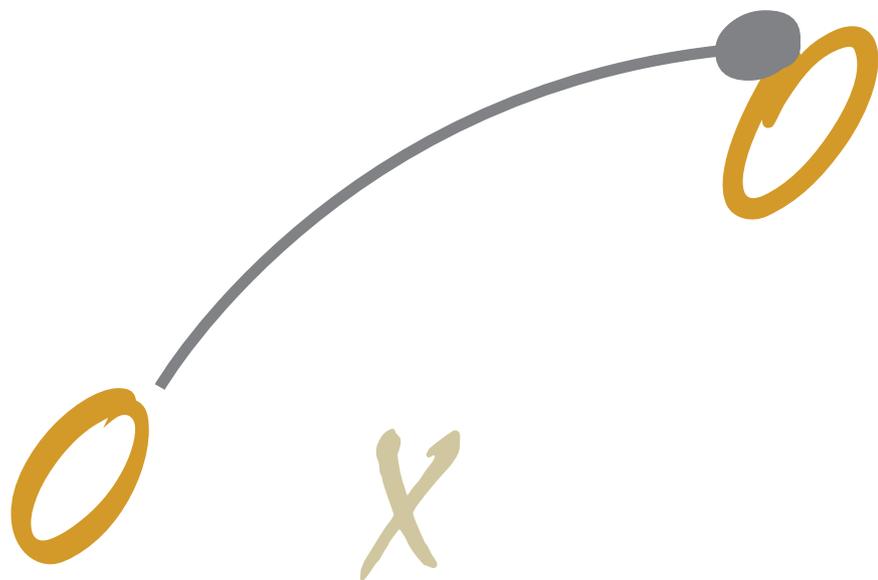
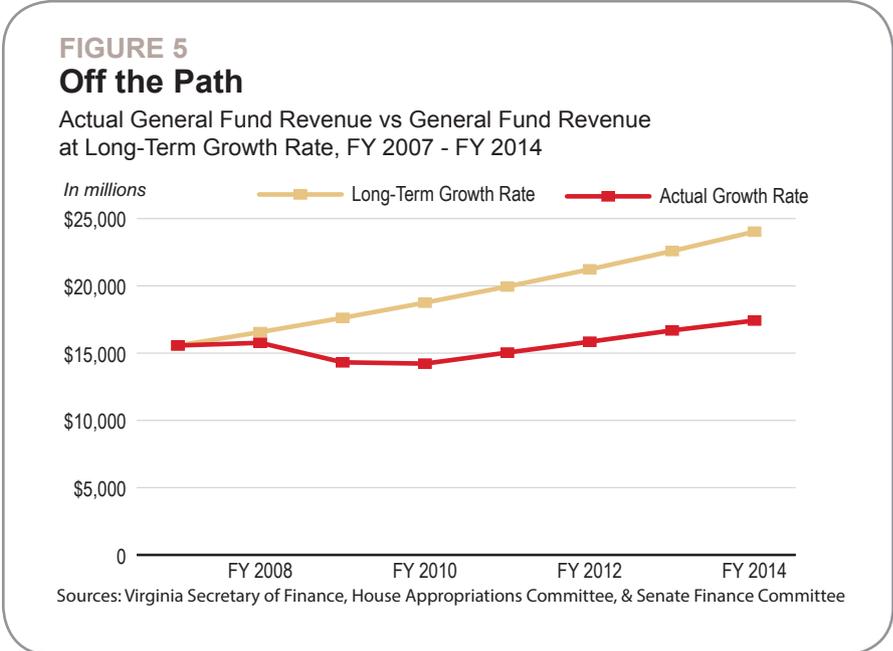
While traditional schools in Virginia are struggling with severe budget cuts, private companies that offer K-12 education over the Internet are exploiting a funding loophole. The companies are reimbursed by the state based on their business location, not where their students live. This gives them an incentive to locate in areas with the highest per-pupil reimbursement rates, something brick and mortar schools obviously can't do. Lawmakers could close this unfair loophole, which is draining resources from traditional schools, by basing reimbursements for virtual schools on the division where each pupil resides, creating a statewide per-pupil rate based on the actual cost of educating students online, or a combination of both. Determining funding for online education should be an open process with public feedback, and not treated differently than funding for traditional schools.

## Bring Virginia's Revenue System into the 21<sup>st</sup> Century

Virginia's taxes were designed for yesterday's economy and are not capable of generating sufficient resources to keep Virginia moving forward. (See Figure 5.)

The transportation funding package enacted this past session is a prime example of how policy makers are hamstrung when it comes to this issue. While the package will bring in substantial new revenue for Virginia's roads, bridges, and mass transit, it pulls a larger share of funds to transportation that would otherwise go toward supporting other important public investments like education, public safety, and health care. If Virginia is going to hold on to its coveted reputation as one of the best states for business and also remain a state whose children have among the highest chances of success, we can't afford to fund one public priority at the expense of another.<sup>5</sup>

By changing the state's tax system to reflect how Virginians actually earn their money and spend it, Virginia can bring in needed new revenue to meet today's public investment needs – and prepare for tomorrow's.



**Update the sales tax to include more services.**

When Virginia's sales tax was enacted in 1966, it was charged on the goods that people at the time spent most of their money on. But since then, consumer spending has shifted toward services – which are largely not taxed – and away from goods that are. In 1980, services accounted for a little over half of what people spent their money on. By 2010, that share had grown to two-thirds. But the state sales tax has not kept pace with the changing economy. Virginia taxes only 18 of the 168 services that are taxed by some other states. If Virginia were to tax all feasibly-taxable services (for example, excluding things like business to business sales, health and education), sales tax revenues could increase by 50 percent.

**Modernize the income tax.** State income tax rates and brackets have been largely untouched since 1987. As a result, nearly 60 percent of Virginia taxpayers now pay the top rate of 5.75 percent on some of their income. This relatively flat income tax structure means that millionaires pay the same rate (on every dollar they make over \$17,000) as middle-class Virginians. Modernizing the brackets, and creating a mechanism to automatically adjust the rates in response to inflation, would make Virginia's income tax more capable of growing with the economy and meeting rising needs – and it would reduce the share that middle- and lower-income households pay.

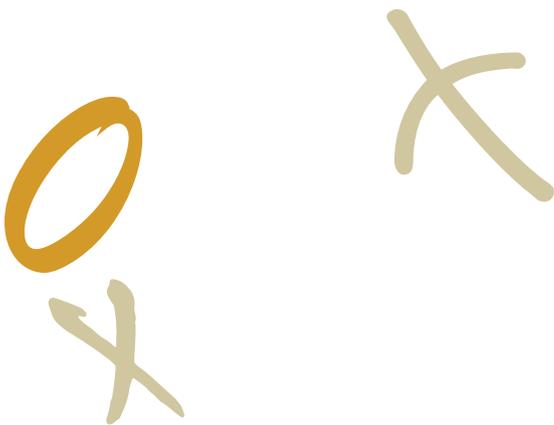
**Include digital downloads in the sales tax.** While it will take congressional action to allow Virginia to require online merchants to collect sales taxes from Virginia customers, the state could take steps of its own to bolster revenue collections from e-commerce. One example is taxing digital goods and services like audio, books, computer programs, and other files downloaded from

the Internet. By extending the state's sales tax to these purchases, Virginia could generate roughly \$11 million more annually.

A significant number of states already tax some digital goods and services. For instance, 33 of the 45 states that have a sales tax, plus the District of Columbia, tax downloaded computer software. Twenty-two of the sales tax states plus the District of Columbia tax downloaded movies, music, and books. Hawaii, New Mexico, and South Dakota tax most digital goods and services, just as they tax most other types of services, and Idaho, Utah, and Washington also have very broad taxation of digital goods and services (extending well beyond software, movies, music, books, and games).

**Empower localities with sufficient, equitable revenue sources.**

Strong localities are the lifeblood of our commonwealth, and they need the freedom to tackle the problems they face in the ways that are most appropriate for them. But Virginia localities have only the powers the state has expressly given to them. For example, they rely on a few state-approved taxes to generate revenue for schools, libraries, police and fire departments, and other functions. Some state lawmakers have suggested that several of these taxes be reduced or eliminated because they view them as unfavorable to businesses. This would limit the tools that localities have to generate revenue and make them increasingly reliant on state taxes. Any move to eliminate local business taxes should also include giving localities the authority to generate revenues in other ways that do not depend on state revenues. This should encompass local corporate and individual income taxes – with rates that vary by income – coupled with a local refundable earned income tax credit.



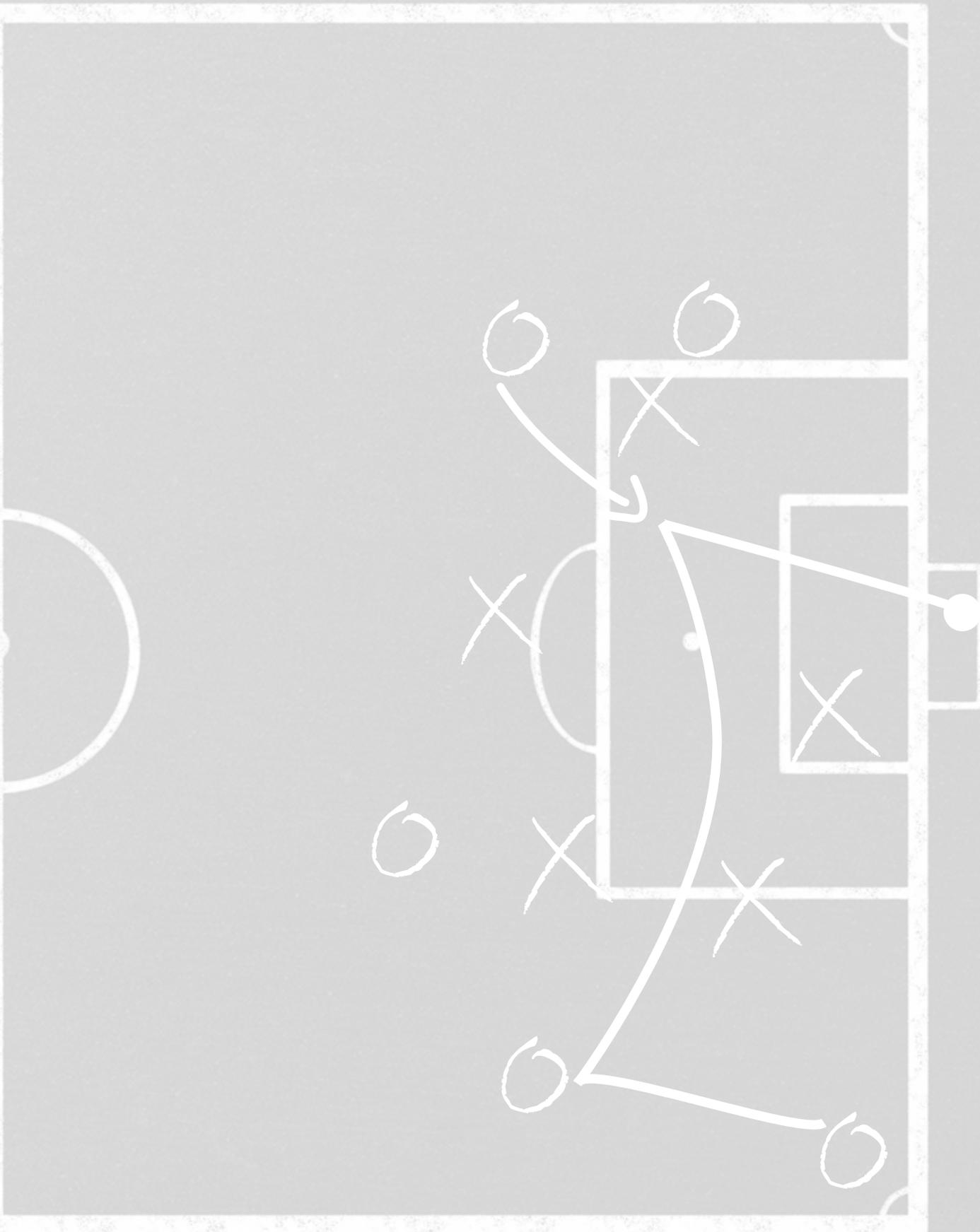
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