

Testimony Before The
HOUSE COMMITTEE ON SMALL BUSINESS
Regarding
"Beyond the Beltway: Successful State Strategies for Small Business Growth"
July 10, 2013
Submitted by: Honorable Robert F. McDonnell
Governor of the Commonwealth of Virginia

Chairman Graves, Ranking Member Velazquez and other distinguished members of the Committee on Small Business, on behalf of the Commonwealth of Virginia, I thank you for inviting me to offer testimony today at this important hearing.

Small businesses are the backbone of our economy. Across Virginia and throughout the United States small businesses are creating jobs and opportunity. The Small Business Administration estimates that small businesses represent 97.8 percent of all employers in Virginia. Approximately 70 percent of all new jobs created are from small business. The work of a small business owner is not easy. Increased regulation, taxes and other burdens have made it more difficult for small businesses to thrive. Small businesses are critical to ensuring economic prosperity throughout the United States.

In Virginia, we've been intensely focused on job creation and economic development with special attention to the important role of small business in our economy. Last year I announced 2012 as 'The Year of the Entrepreneur in Virginia.' We highlighted Virginia's colleges and universities activities that encourage young Virginians to pursue entrepreneurship as a career option. Throughout the year I held monthly office hours with small business owners, roundtables across the state and featured profiles on entrepreneurship.

One thing is clear, small businesses need flexibility and predictability from government. In Richmond, we are working to do our part.

Fostering an entrepreneurial environment is a team sport in Virginia. In my administration, commerce and trade, administration, agriculture and forestry, technology and veterans affairs work together to create a strong, welcoming economic environment for small business.

During one of my 'Year of the Entrepreneur' office hours, I met NFIB member Timothy Heydon of Shenandoah Growers, located just outside of Harrisonburg, Virginia. Shenandoah Growers was founded over two decades ago by entrepreneur farmers with a dream of bringing fresh culinary herbs to homes throughout the country. Shenandoah Growers has today become a leading provider of fresh herbs in the United States, specializing in supplying the retail grocer.

I recently asked Tim to serve on my Rural Jobs Council. Through his work and the leadership of my Chief Jobs Creation Officer, Lt. Governor Bill Bolling, the Council put forward recommendations that make it clear that entrepreneurs need leaders to be mindful of the unique challenges facing small businesses in today's global economy. The Council recommended that we invest in infrastructure and broadband as well as targeted workforce development efforts. The Council also recommended that we create a Governor's School for Entrepreneurship to encourage middle school students to consider entrepreneurship as a career option.

In Virginia, we continue to focus on things that matter to entrepreneurs – access to capital, workforce development and a predictable and accountable government.

Access to Capital

Virginia's small businesses need to know that when the time is right to grow their business, the capital they need will be readily accessible. In 2012, we worked with members of the Virginia General Assembly and stakeholders to enact a bi-partisan solution that will encourage long-term investments in Virginia's small businesses. The Virginia Small Business Investment Grant helps encourage private investment for two years by providing a grant equal to 10 percent of a qualified investment for an eligible investor.

We've also invested in the Virginia Small Business Financing Authority. The VSBFA aids Virginia's financial institutions to offer business loans that they might not be able to offer without the authority's assistance.

One of the most burdensome taxes in Virginia is the Business Professional and Occupational License (BPOL) tax. We passed legislation to allow localities to exempt from the BPOL tax if they lose money and are unprofitable during the taxable year. We also provided localities a choice in how to impose the BPOL tax. Commonsense tax policy is key to attracting small businesses.

Agriculture and forestry continues to be Virginia's largest industries, generating a combined \$79 billion annually and creating more than 500,000 jobs across the state, most of these agriculture and forestry operations are small businesses. During the 2012 General Assembly session, we introduced legislation to establish a new economic development tool targeted for agriculture and forestry industries, which had been largely overlooked in the state's traditional economic incentive programs. Created as the Governor's Agriculture and Forestry Industries Development Fund (AFID), the legislation passed and was funded with unanimous support from the Virginia General Assembly.

The AFID provides incentive grants for projects that utilize Virginia grown products in value-added or processing facilities. These agriculture and forestry value-added or processing facilities can have tremendous impacts on the regions in which they locate. Areas where these facilities typically locate are rural with higher unemployment. Agriculture and forestry are already economic drivers in the area, so facilities of this kind can build on the region's existing strength. The value-added and processing facilities have a greater economic ripple effect as a result of growers in the region having a new market in which to sell products. Although the program is new and only about a \$1 million has been allocated thus far in economic development and planning grants, we believe that we'll farm revenue increase as a result of these facilities, jobs being created on the farm and in the facility, greater opportunities to increase farm profitability and more farmland preserved, and more economic benefits for the region as a whole as a result of revenue generated on the farms and at the facility.

We have also opened up nine agriculture and forestry trade offices in Asia, Europe and other regions, resulting in record exports in each of the past two years and on the way to a third.

Of great importance to the Commonwealth and the Nation is our ability to compete in technology innovation. With greater than thirty percent of new job creation originating with high growth technology start-up companies, our administration has invested in ensuring that Virginia delivers the economic environment necessary to start and grow successful high technology companies.

We created targeted incentives to recruit and attract angel and venture investment.

- The Angel Investment Tax Credit encourages early-stage investment in technology, biotechnology and energy startups. While Virginia is one of 20 or so states that have an

angel credit, ours is among the most competitive with a 50 percent leverage of the first \$50,000 an investor puts into a qualified Virginia technology startup.

- Another success story is the Capital Gains Tax Exemption. Entrepreneurs and investors who make qualified investments in early-stage technology, biotechnology and energy startups in Virginia, through June 30, 2015, will be exempt from paying state income tax on their long-term capital gains throughout the life of the investment. If and when investments in these qualified companies are successful over the life of a company, any long-term capital gains attributable to the investment will be exempt from Virginia's income tax, facilitating a growth in the growing share facility market.
- We created a very competitive Virginia market for data centers that turned into real jobs and revenue for Virginians. I signed legislation to expand Virginia's current data center sales tax exemption to also include data center tenants.
- We created the Commonwealth Research Commercialization Fund (CRCF) is aimed at advancing science- and technology-based research, development, and commercialization to drive economic growth in Virginia. The CRCF will encourage emerging ideas and turn them into real world solutions and jobs for Virginians.
- The Center for Innovative Technology GAP Funds have underwritten critical and immediate first financing for tech startups with high potential for achieving rapid growth and generating significant economic return. The GAP Fund's targeted areas include software, telecommunications, semiconductors, media and entertainment, e-commerce, networking and equipment, electronics/instrumentation, industrial/energy, computers and peripherals, biomedical and life science applications.

During the past three and a half years, our seed stage investment programs will have created over 75 new high technology companies that have attracted private capital at a rate of \$17 dollars for every \$1 of public funds invested. Successful start-ups like Invincea whose cyber security software will be deployed on every Dell computer help ensure the competitiveness of the Commonwealth and the Nation.

This type of innovative, market facing approach to economic development makes Virginia appealing to entrepreneurs.

Regional Capacity Building

A key strategy to support entrepreneurial growth at the local level is to support regional capacity building. We launched a new grant program called 'Building Collaborative Communities.' The effort is designed to assist regions in creating and sustaining new economic opportunities across Virginia. The program promotes regional economic collaborations in economically-distressed areas to stimulate job creation, economic development and build community capacity and leadership.

Regional economic development leadership is key. An excellent example is the Southwest Virginia Blueprint for Entrepreneurial Growth and Economic Prosperity, a community-based initiative designed to promote entrepreneurial activity in the region. The Blueprint was developed to inspire collective action, impact policy, foster regional networks, build on the region's assets and to seek new investment.

Workforce Development

One of the most important issues to small and growing business is workforce development and the quality of education. Small businesses thrive because of their ability to recruit, train and retain qualified employees. From a small manufacturer that is able to partner with a local community college to a ensure qualified pipeline of workers to a tech start-up that works to

commercialize and license technology from one of Virginia's public institutions of higher education, human capital matters.

The Virginia Higher Education Opportunity Act of 2011," known as the "Top Jobs Act," adopted unanimously by the 2011 General Assembly demands more access at lower costs to Virginia's universities. The reforms make clear link between higher education and job creation.

- Provides a roadmap for achieving an additional 100,000 undergraduate (associate and bachelor's) degrees for Virginians over the next 15 years by (1) increasing enrollment of Virginia students, (2) improving graduation and retention rates, and (3) incentivizing higher education to lower tuition increases.
- Focuses additional degree attainment in high-demand, high-income fields (e.g., STEM, healthcare) that are keys to top jobs in the 21st Century economy. Incentivizes public-private collaboration on STEM-related and other commercially viable research.
- Higher education's return on investment is proven. The Weldon Cooper Center's study for the Virginia Business Higher Education Council shows that every 1 dollar currently invested in Virginia's public higher education system yields 13 dollars in increased economic output. College graduates on average earn twice as much as those without college degrees.
- Provides for sustained reform-based investment and innovation in delivery of higher education services, as well as extending college degree opportunities to more citizens in creative, cost-effective ways. Institutions' must generate six- year plans to address strategies and use of incentives for:
 - Year round use of physical facilities and instructional resources
 - Technology-enhanced instruction and resource-sharing across the higher ed system
 - Innovative and economical degree paths
 - Ongoing restructuring and managerial reforms
- Reverses the dramatic funding reduction cycle to higher education through a new comprehensive funding model framework with four components: basic operations and instruction; enrollment growth funding; need-based financial aid (for low- and middle-income families); and financial incentives to promote innovation and increased research and development;
- Creates a collaborative Higher Education Advisory Committee consisting of executive and legislative branch representatives and representatives of higher education institutions to develop performance criteria for incentives, institution-specific base funding policies, economic opportunity metrics for degree programs, opportunities for additional, cost-saving managerial autonomy and efficiency reforms, and other key policies.
- Provides enrollment-based funding to increase access for qualified Virginia students at public and private colleges and universities.
- Enhances long-term affordability through a three-prong strategy: (1) puts in place a model for stable and predictable state funding support, relieving the upward pressure on tuition; (2) provides for development of need-based financial aid options aimed at middle-income as well as low-income families.

The workforce development pipeline starts in K-12. Virginia is competing internationally for job creating businesses. I have put forward necessary reforms to ensure our K-12 system is preparing the next generation of small business owners and entrepreneurs.

This year, we passed bold and innovative education legislation that ensures that every child has great teachers, that sets clear and high standards for our schools, and that establishes a roadmap to provide choice, accountability and opportunity for every student in Virginia. We passed the Opportunity Educational Institution to turn around chronically underperforming schools. The Teach for America Act, which passed unanimously in both chambers, will give difficult to staff schools another tool with which to bring in talented and motivated teachers. Virginia will soon increase accountability and transparency with A-F school grading, giving parents and families another tool to advocate for and achieve better schools for their communities. With passage of the Educator Fairness Act, we have reformed the teacher contract and grievance system to ensure that our children have the best possible educators.

Government Reform

Small businesses need predictability and efficiency. Last year, we launched a regulatory reform initiative to reduce the number of burdensome regulations placed on small businesses. Since September 2012, 562 sections in the VAC have been identified: and 157 sections have already been repealed. We asked industry and small business for ideas and specific sections of the code that were overly burdensome.

Virginia also offers small business owners a 'Business One Stop' for business formation. Rather than seeking permits and formation documents from a handful of agencies, we offer a streamlined one stop shop.

We worked with the legislature this year to merge small business agencies into one to focus on small business. As of January 2014, Virginia will have one small business agency – the Department of Small Business and Supplier Diversity. The new streamlined agency will be laser focused on small business and economic development.

The most important thing government can do is listen to industry needs and be responsive. Last year for example, we heard from Virginia's craft beer industry that they needed a legislative fix to allow retail sales of beer and sampling on the premises of Virginia breweries. We worked with stakeholders and made the case for legislation. Senate Bill 604 passed and as result we've seen more jobs and increased interest in Virginia as a tourism and craft beer destination. This legislation directly resulted in a major west coast brewery deciding to locate its east coast brewery in Virginia. In fact, Hardywood Brewery in Richmond launched 'Session Beer 604,' brewed to commemorate the signing of SB604 into law.

We have put a special focus on developing new businesses where we have unique strengths. Virginia's wine, film production and tourism industries are among those with new targeted tax incentives and offices to promote development. All have grown at a rapid pace.

In Virginia we are working to keep taxes low, and regulation and litigation to a minimum in order to allow our entrepreneurs and job creators to grow their businesses and create the private sector jobs our economy needs.

Ultimately, it is not what the federal or state government can do for small business that matters, but how government can ensure it does not erect unnecessary barriers to job creation. We must ensure an environment conducive to economic vitality and guard against extinguishing the entrepreneurial spirit with overly burdensome laws and regulations.

Our work has gotten results. When we took office, unemployment in Virginia stood at 7.3%. Now, it stands at 5.3%, our lowest unemployment rate in over 4 years. Virginia also has the

lowest unemployment rate in the Southeast, the second-lowest rate east of the Mississippi River, and an unemployment rate that is more than a full point lower than any of our neighboring states. Since the beginning of our administration, Virginia has added 171,000 net new jobs, 153,000 of which are in the private sector, and the number of unemployed Virginians has decreased by a total of 80,164, or 36%. Simply put: More Virginians are working today.

Thank you and I look forward to your questions.