Thank you and introductions.

Toolkit Messaging
We all want to believe that if we meet our obligations -- we take care of our family, we manage our finances -- and if we work hard at the things we choose to do -- our education, our careers -- that we'll be rewarded with the opportunities we seek to get ahead.

And for many in Virginia that works, and works well. Virginia overall is among the richest states in the nation. But for many of our neighbors -- in every community across the state -- the promise of opportunity, the hope to build a bright future, remains just a blueprint of ideas despite hard work, despite playing by the rules.

That's not right. It's not fair. And it's time for us to build an economy that works for everybody.

At The Commonwealth Institute, we have drafted a policy toolkit with ideas on how state and local leaders can use budget and policy to make Virginia a better place for all its workers and families.

Building Opportunity

- **A Policy Toolkit from TCI**
- Education
- Revenue




Today, we’re going to go through that toolkit with you and discuss some of the challenges facing communities across the commonwealth and lift up policy tools that could be used to help fix or address some of these problems.

I am going to start by introducing the toolkit and speaking about how it can be used and then I am going to hand it off to some of our issue area experts to discuss the areas of education and revenues in more detail.

We will try to have a few minutes for questions at the end.

The Commonwealth Institute

We provide credible, independent, and accessible information and analyses of fiscal and economic issues with particular attention to the impacts on low and moderate income people.

Timely. Credible. Accessible.

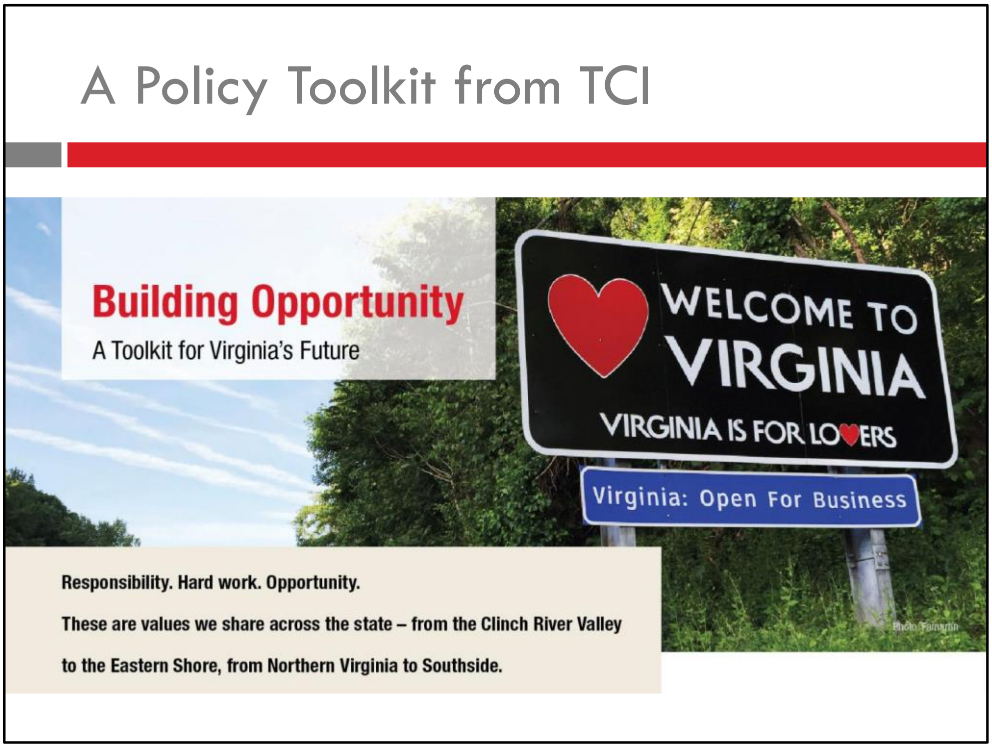
The Commonwealth Institute is privately funded and non partisan, and we do not endorse any candidates.

The Commonwealth Institute

I'd like to start by introducing myself and the work we do at the Commonwealth Institute. I am the CEO and Director of TCI and started this organization over 10 years ago to inform economic and fiscal policy here in the state and pay particular attention to how policies impact low and moderate income Virginians whose interest is too often left out of the conversation.

More than that, we also want our work to be:
Timely: informing policy while it's being made
Credible: an analysis only helps if it's on point
And Accessible: too often what is happening in the state budget gets lost in translation when being relayed to the public.

We are also independent, as a 501(c)(3), we do not non partisan and do not endorse any candidates.



Every two years, we produce a policy vision for the state for how we can spur our economy and make the needed investments -- whether it's education or health care -- to give every Virginia an opportunity to live a healthy life and pursue their career ambitions.

We time this product with statewide elections to meet our goal of being timely.

That is the policy toolkit that we are sharing with you today. Our goal is to discuss the challenges facing residents of the Virginia and identify specific policy changes that we can make to move our communities forward.

A Policy Toolkit from TCI

Opening up the landscape, you'll see we discuss many of the big issues facing local governments. That includes the economy, health care, education, and revenue. We are going to focus on education and revenues today, but are happy to answer questions that you may have for the other sections in the discussion at the end.

The 2017 Elections -- ***CRITICALLY IMPORTANT***

This is important because there are key statewide elections happening just next month including governor, lieutanant governor, and attorney general as are all 100 of the house of delegates seats. With new leadership will come a new agenda and priorities and it’s important that we lift up those priorities that will move the state forward.

Transition to Kenneth

Building Opportunity

- A Policy Toolkit from TCI
- **Education**
- Revenue




Education

Our future depends on having a talented, well-educated workforce that attracts and creates opportunities. To accomplish that, Virginians in every ZIP code need access to strong, well-supported education and training programs — from children entering preschool all the way to adults looking to retool their skills. The strength of our schools and training programs is what builds the foundation for our communities and economy to grow upon.

The centerpiece for education and training — Virginia's preK-12 schools — had dramatic reductions in state support during and after the recession that equaled over one billion dollars in real dollars at the height of the cuts in 2012. Only about forty percent of the per student cuts in real dollars have been restored since then.Most alarming, these cuts hit areas of the state with the highest school-aged poverty rates particularly hard — almost three times larger in the highest poverty communities compared to the lowest poverty communities.

For Virginia to grow a strong workforce and economy, we need a strong foundation, and that starts with our investments with preK-12 schools. Doing so will provide all Virginians real opportunities to achieve their goals and career ambitions and lift the state as a whole to new heights.

Virginia's Early Education

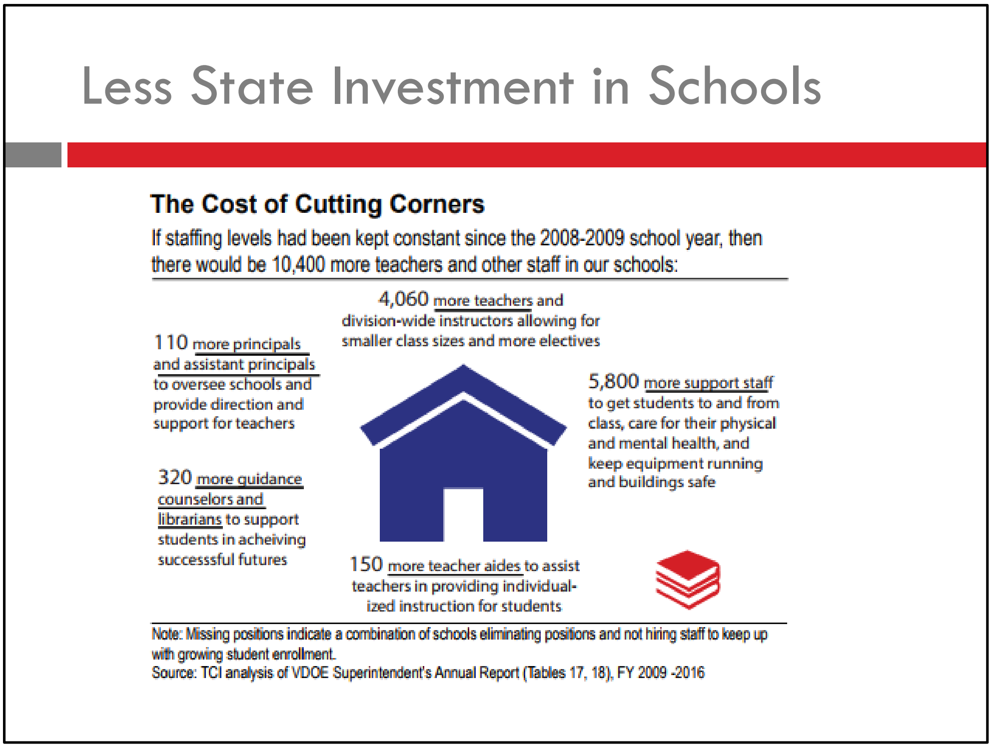
Strengthen the Virginia Preschool Initiative (VPI)

- VPI has long-demonstrated success
- Yet, thousands of Virginia children cannot attend

Tools

- Boost investments in VPI to maximize participation
- Encourage partnerships with private providers

Students that start behind in the classroom tend to stay behind, and this poses a serious hurdle for teachers and parents trying to help all children reach their potential. Early childhood education is a proven, cost-effective strategy that helps lift students up so that they can enter the classroom better prepared to succeed. Here in Virginia, the Virginia Preschool Initiative (VPI) has long-demonstrated success in serving at-risk 4-year-olds by providing high quality early education.



It takes commitment from leaders to fully support its schools and students for Virginia to be at the forefront of innovation and economic opportunity. Sustained investment in K-12 schools has been shown to improve children's performance in the classroom and increase their future earnings, with students from low income families showing more pronounced benefits. Increased state spending also raises students' performance and narrows the achievement gap between low-income and wealthier school divisions.

Yet Virginia made dramatic cuts to its support for K-12 schools during and after the recession and these cuts disproportionately impacted school divisions in high poverty communities where heightened funding can have the greatest impact. In Virginia, state and local governments spend 14 percent less per student in Virginia's highest poverty school divisions compared to the lowest poverty divisions. That means we're investing less in schools with students that start out with less and have the playing field tilted against them. That's not fair and it's no wonder the national report gave Virginia an "F" grade for the fairness of our school funding.

Impacts in Virginia Classrooms

Fewer Teachers and Instructional Specialists

Brunswick County Public Schools

"Every time that the state actually cuts back, we have to cut back on personnel and staff…Before the recession actually hit, you had teachers for everything…And now, it's down to pretty much the bare minimum. Every time a teacher retires or something of that nature, then the position is actually cut."

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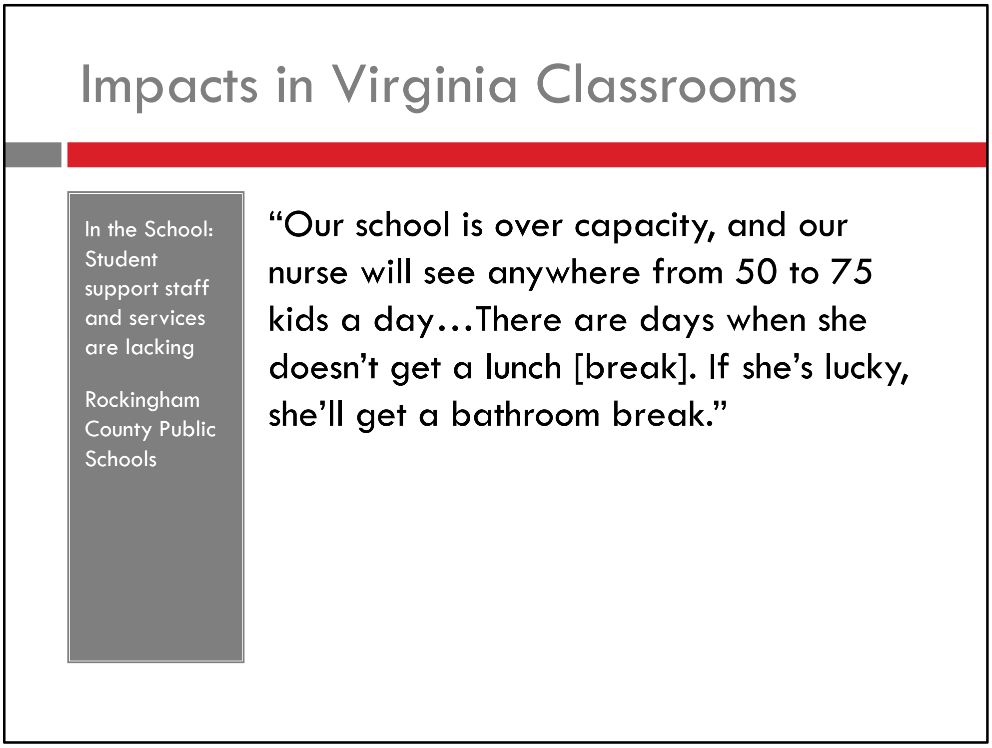

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VA's Students and Future Workforce

Tools

- Fund Board of Education's recommendation
- Better target resources to high-poverty school divisions
- Make teacher pay competitive
- Increase availability of free meals

Reducing Barriers for All

College Affordability & Workforce Training

- Cost of higher education continues to rise, making it unaffordable for many
- Workforce Innovation and Opportunity Act (2014)

Tools

- Benchmark employment opportunities
- Increase investments in higher education
- Make two-year colleges debt-free
- Offer translation services at all workforce centers

Access to education or training after high school is critical to succeed in today's economy and it will be even more important in the future. Here in Virginia we have built a world-class system of higher education that's helped hundreds of thousands of Virginians learn the skills they need to succeed, while also nurturing new ideas and innovation that help drive our economy forward.

Yet too many cannot afford to access that system without taking on crushing debt. Funding cuts to higher education have increased tuition and mandatory fees across the state, making college less affordable and jeopardizing the ability of many students to receive the college education they need. We should reinvest in our higher education institutions and boost financial aid to ensure all Virginians have the opportunity to pursue promising careers.

1. WIOA requires states to give priority to low-income individuals and other high need adults. Virginia has not yet mapped out how they are going to target services to these individuals. This is needed to make sure they have access to workforce training services so all Virginians can earn a paycheck.
2. Virginia is in the top third of states in the country with the most severe reductions in per-student state investment from 2016 to 2008. This has forced schools to increase tuition and mandatory fees, which have skyrocketed across Virginia's public two-year and four-year colleges and universities from 33 percent all the way to 123 percent. This places a greater burden on students and their families. We can fix this problem

by restoring support for our higher education institutions, including our community colleges, and boosting financial aid.

3. Education and training beyond high school is becoming the expectation for job seekers and that is only going to increase. Two-thirds of jobs are projected to require some level of post-secondary education in Virginia by 2020. We need to shift our thinking on education to meet this changing expectation. Other states like Arkansas, Kentucky, Minnesota, Nevada, Oregon, and Tennessee have already taken that next step by creating programs that offer free community college to eligible students. Here in Virginia we can take this step too and make sure we're in position to meet the needs of tomorrow
4. Virginia's current WIOA plan does not provide direction to local workforce development boards in which translation services they should offer or bilingual staffing they should provide. The state should take the lead in helping all workforce centers provide these essential services.

Building Opportunity

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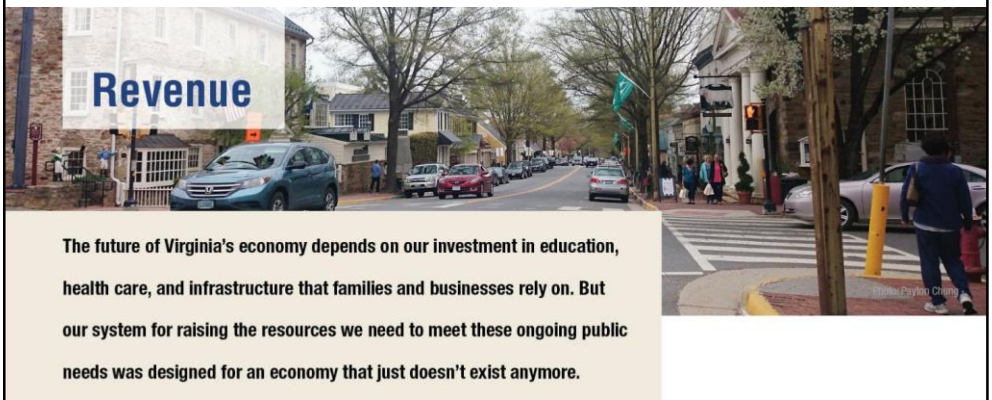
- Education
- **Revenue**



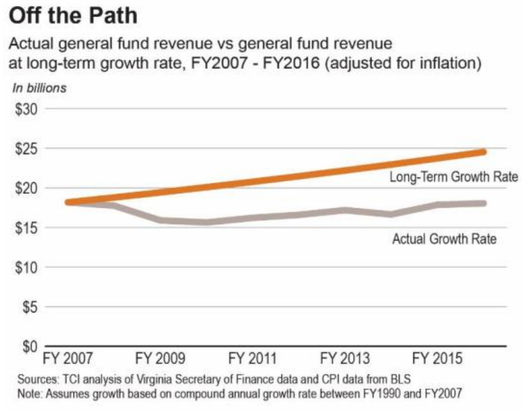

Revenue



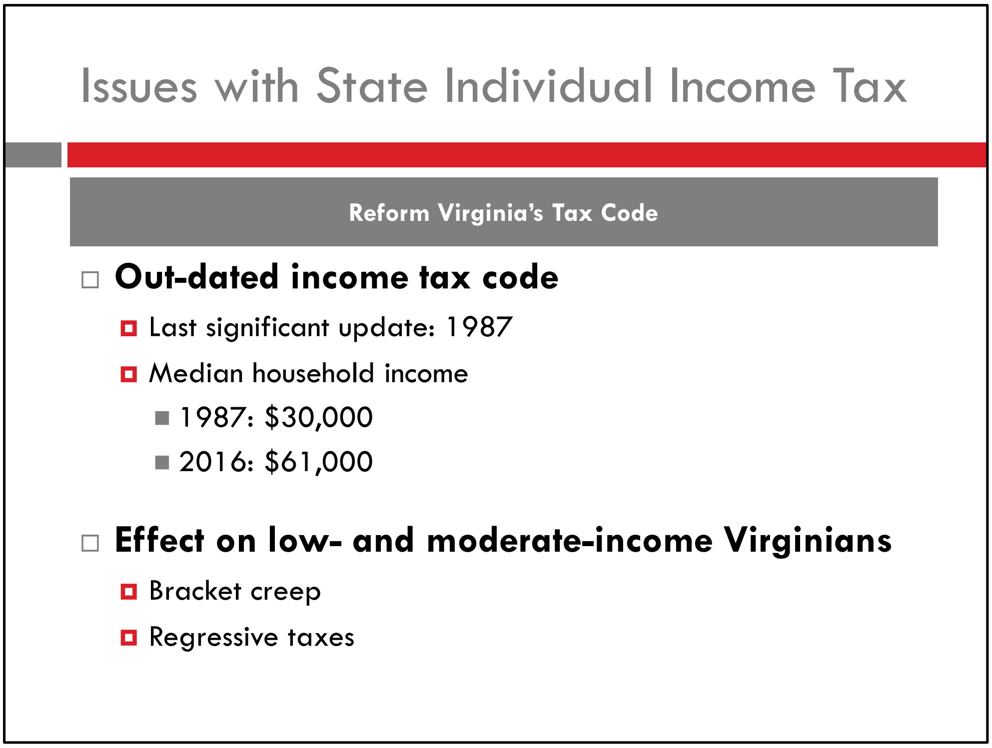
To create a strong foundation going forward, we'll need to make public investments in areas like our economy, education, and health care, and in supporting our localities. However, as we'll see, Virginia's state revenues since the recession have lagged behind historical trends. Why is this? We'll take a look at some of the likely culprits and what can be done to address this issue. We'll start by looking at trends in income tax revenues on the individual side and later on the corporate side. We'll talk about changes in consumer spending. Also, we have to talk about the role of tax breaks and other tax expenditures on our overall revenue picture.

The Big Picture

- Lagging state revenue growth since recession
  - Or as share of economy, nearly $2 billion per year



Big picture: our overall general fund revenues since the recession are growing much more slowly than they had in earlier periods. This shows how revenues growing at the annual growth rate (with compounding) from FY 1990 through FY 2007 differ from what we've actually collected since FY 2007.



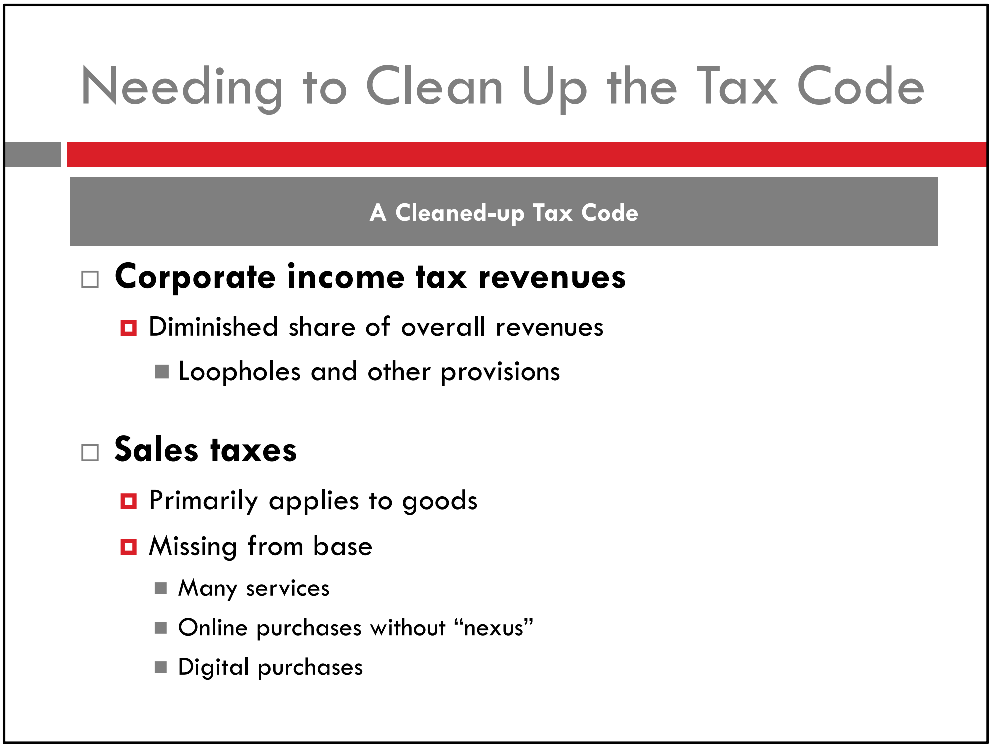
One of the main problems is that our tax code is out of date. This is especially true on the individual side. Lawmakers used to make periodic updates to our rate structure, but the last significant update was made in 1987. The top rate kicks in just above $17,000, and that means very different things today compared to 1987. We see that when looking at how median household income has changed since that time. Because of "bracket creep" and the effect of other state and local taxes, many of which are "regressive," having this out-of-date individual income tax means we're not generating as much revenue as we need and also hurting low- and moderate-income households.

Key individual Income Tax Reforms

Tools

- Modernize brackets and rates
- Automatic adjustments
- Strengthen state EITC
  - Make it refundable

There are ways to solve this problem. We could modernize our brackets and rates, such as creating a new top bracket with a new top rate. And we could index our current brackets to inflation to prevent more and more low- and moderate-income households from being pushed into the higher rates simply through inflation. To account for some of the regressivity in the system and to help working families, we could expand the state's version of the earned income tax credit to be refundable.



We've also seen an erosion of the corporate income tax and the state and local sales tax. Corporate income tax revenues used to account for about 15 percent of state general fund revenue, while today it's closer to 6 percent. One reason is that there are various loopholes corporations can use to minimize or eliminate the amount of taxes they owe. For example, shifting profits to out-of-state subsidiaries is one way to shield certain income from taxation. On the sales tax side, the big issue going forward is that the tax primarily applies to goods and not to many services. However, consumer spending continues to shift away from goods to services, which means even as consumer spending increases, sales tax revenues aren't keep up. In addition, consumers are the ones tasked with self-reporting sales and use tax owed in connection with online shopping from online retailers that lack "nexus" or physical presence. However, this often does not occur, and there's little enforcement that can be done. Finally, the sales tax does not apply to digital purchases of items like music, movie, and e-book downloads. Again, as these types of purchases increase going forward, sales tax revenues will struggle to keep up.

Sensible Fixes

Tools

- Close corporate tax loopholes
- Add “sunset” provisions to tax breaks
- Modernize sales tax
  - Restore sales tax base
  - Level playing field among businesses

We can take sensible measures to address these issues. That includes closing corporate tax loopholes, such as re-enacting the state’s throwback rule to prevent corporations from using “nowhere income” to minimize their amount of taxes owed. It also means attaching “sunsets” to existing tax breaks that are ineffective or wasteful so that they do not remain in the tax code indefinitely. And we need to modernize our sales tax to better align with today’s economy by including more services and online and digital purchases in the tax base.

Questions?

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