

This week, the second full week of the General Assembly session, is when the legislative action really hits high gear. Friday, January 22 was the last day for legislators to introduce new bills, and several important bills hit the hopper. As is traditionally the case, committees also started their real work as bills began to filter up out of subcommittees. The highlights this week are:

The Budget

One of the first budget battles of the session occurred this week on Friday. One of the methods Governor Kaine used to balance his budget was a proposal to increase the personal income tax by one percentage point. This increase would've allowed the dreaded personal property tax (also known as the car tax) to go away forever. It also helped prevent more severe cuts. On Friday, the bill came up for a vote on the floor of the House of Delegates. The result was a resounding 97-0 defeat of the proposed increase in the personal income tax. This is a clear signal that tax and fee increases will not be an acceptable method of closing the \$4.3 billion budget shortfall. Deeper cuts will be the primary method of closing the gap, and that means there will be further budget pain to come.

The Dealer Discount

As you probably recall, Governor Kaine for the second year in a row has proposed eliminating the dealer discount from the budget. He views the dealer discount as an antiquated way of allowing retailers to recoup the cost of doing the state's tax collecting work. In essence, he argues that greater automation in the accounting process means that retailers don't bear any additional costs for collecting taxes on behalf of the state. Obviously, our retail community disagrees and so do we. We argue that eliminating the dealer discount represents a \$60 to \$70 million tax increase on Virginia businesses at a time when they can least afford it. If you want the dealer discount to remain in effect in Virginia, please pick up your phone and let your legislator know how it will impact you.

Financial Literacy

This week our coalition of business interests reached an agreement with several legislators on the issue of teaching financial literacy in public schools. In essence, we've agreed to a one year moratorium on the mandated instruction on financial literacy in order to allow school divisions to improve their financial situations. We've also agreed to help train teachers in this curriculum since our banking, accounting and financial services members have the expertise to train the teachers at virtually no cost. By all measures, this is a positive outcome.

Early Childhood Development Funding

Legislators have also submitted hundreds of amendments to the Governor's introduced budget in the last week. Some of these spend money, some save money, and others move money between programs and accounts. Several of these amendments reduce funding for the Virginia Early Childhood Foundation (VECF) and the Virginia Preschool Initiative (VPI) by varying amounts, up to and including elimination of both programs. We are very early in the budget process, but we are very concerned about these amendments. Every

public dollar invested in leverages almost \$7 from the private sector and local governments. These dollars help local governments and other private partners (such as private preschools) build systems that help preschool aged children get ready to succeed in school and life. For many of the 20,000 children in Virginia using VPI, VPI is the only preschool option available to them. We know that participation in high quality preschool programs such as VPI makes kids more likely to graduate, participate in the workforce, and pay taxes themselves later in life. We therefore believe cutting VPI is akin to cutting your primary investment in the Commonwealth's future. We'll be following these amendments with great interest.