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The State of the Region: Hampton Roads 2014

James V. Koch

Old Dominion University, jkoch@odu.edu

Vinod Agarwal

Old Dominion University, VAGARWAL@ODU.EDU

Chris Colburn

Old Dominion University, ccolburn@odu.edu

Vicky Curtis

Old Dominion University

Steve Daniel

Old Dominion University

See next page for additional authors

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Authors

James V. Koch, Vinod Agarwal, Chris Colburn, Vicky Curtis, Steve Daniel, Elizabeth Janik, Feng Lian, Sharon Lomax, Alice McAdory, Janet Molinaro, Ken Plum, Ayush Toolsidass, Shara Weber, Luke Watson, and Gilbert Yochum



The State of the Region

HAMPTON ROADS 2014

REGIONAL STUDIES INSTITUTE | OLD DOMINION UNIVERSITY

**VIRGINIA BEACH-NORFOLK-
NEWPORT NEWS, VA-NC
METROPOLITAN STATISTICAL AREA**



October 2014

Dear Reader:

This is Old Dominion University's 15th annual State of the Region report. While it represents the work of many people connected in various ways to the university, the report does not constitute an official viewpoint of Old Dominion, or its president, John R. Broderick. The State of the Region report maintains the goal of stimulating thought and discussion that ultimately will make Hampton Roads an even better place to live. We are proud of our region's many successes, but realize it is possible to improve our performance. In order to do so, we must have accurate information about "where we are" and a sound understanding of the policy options available to us.

The 2014 report has a strong economic development flavor and is divided into seven parts:

Rebounding, Albeit Slowly: In a nutshell, our regional economy continues to recover, but still has not regained the jobs lost in the 2008 recession.

Mixed Signals: Migration Data and Regional Economic Vitality: Between 2010 and 2013, our region experienced net out-migration, after taking account of births and deaths. We are, however, attracting many new immigrants from abroad.

Megachurches in Hampton Roads: There are 14 "megachurches" in Hampton Roads and each enjoys an average attendance in excess of 2,000 weekly. They are redefining organized religion in our region.

Homeless Children in Hampton Roads: Estimating the Costs to Society: More than 22 percent of homeless people are children under age 18. We focus on the work of the organization ForKids Inc. as a way to estimate these costs and benefits of homelessness to society.

The Impact of Vehicle Tolls on Hampton Roads: Job Mobility, Residential Living Choices and Regional Cohesion: This was one of the hottest topics in Hampton Roads this past year and we analyze the probable effects of those tolls on our region.

Economic Development Incentives: Competing Against Ourselves? Is the time-honored strategy of providing financial incentives to attract new firms the most productive way for our region to proceed, or instead should we be looking at alternatives such as "gardening" existing firms and creating "innovation districts"?

The Answer Is Always "Yes": In a related chapter, we point out that our cities persistently ignore available evidence and choose to provide large financial subsidies for arenas, stadiums, convention centers and hotels.

Old Dominion University continues to provide support for this report. However, it would not appear without the vital backing of the private donors whose names appear below. They believe in Hampton Roads and the power of rational discussion to improve our circumstances, but are not responsible for the views expressed in the report.

The Aimee and Frank Batten Jr. Foundation
R. Bruce Bradley
Ramon W. Breeden Jr.
Arthur A. Diamonstein
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The following individuals were instrumental in the writing, editing, design and dissemination of the report:

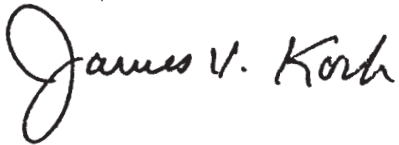
Vinod Agarwal	Elizabeth Janik	Janet Molinaro	Luke Watson
Chris Colburn	Feng Lian	Ken Plum	Gilbert Yochum
Vicky Curtis	Sharon Lomax	Ayush Toolsidass	
Steve Daniel	Alice McAdory	Shara Weber	

Special recognition is due Vinod Agarwal, director of the Economic Forecasting Project for his help and assistance.

Our hope is that you, the reader, will be stimulated by the report and will use it as a vehicle to promote productive discussions about our future. Please contact us at jkoch@odu.edu (757-683-3458) or gwagner@odu.edu (757-683-3500) should you have any questions.

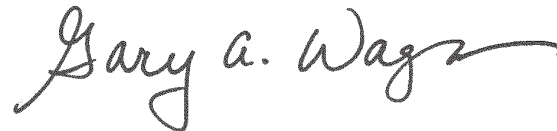
All 15 of the State of the Region reports may be found at www.odu.edu/forecasting and www.jamesvkoch.com. Single paper copies may be purchased for \$25.

Sincerely,



James V. Koch

Board of Visitors Professor of Economics
and President Emeritus



Gary A. Wagner

Professor of Economics

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Rebounding, Albeit Slowly



REBOUNDED, ALBEIT SLOWLY

The Great Recession inflicted significant damage upon the citizenry of Hampton Roads. The Bureau of Labor Statistics reports that our regional rate of unemployment more than doubled from 3.4 percent in April 2008 to 8.2 percent in January 2010. Meanwhile, between 2007 and 2010, we lost almost 40,000 jobs in Hampton Roads (see Graph 1).

Even so, cushioned by Department of Defense (DOD) spending, our regional recession turned out to be milder than that of the nation. When the U.S. rate of unemployment topped out at 9.9 percent in March and April of 2010, this was considerably higher than our regional 8.2 percent peak.

DOD spending in Hampton Roads was indeed the key to our more sedate economic decline; it increased in our region by an average of 6.1 percent annually between 2000 and 2011. Unfortunately, this powerful growth engine began to sputter in 2012 and as Graph 2 indicates, absolute DOD spending in Hampton Roads in 2014 likely will barely exceed our 2011 level and actually be below our 2012 level.

DOD expenditures on military personnel have been a significant driving force in our regional economy for at least the last decade. One can observe in Table 1 that the *average* compensation of an active-duty military member in our region increased by more than 95 percent between 2001 and 2011, while average federal civilian employees' compensation increased a bit more than 54 percent, average state and local government employees' compensation by 39 percent, and average private non-farm employees' compensation by almost 31 percent. However, the political/economic energy for these DOD compensation increases is dissipating; it appears that the next wage increase will be 1 percent.

Note that the compensation data reported in Table 1 include the value of all fringe benefits received by active-duty personnel. Thus, an economic value is

placed on all food, uniform and housing allowances, etc. Active-duty military wages did not increase by 95 percent between 2001 and 2011.

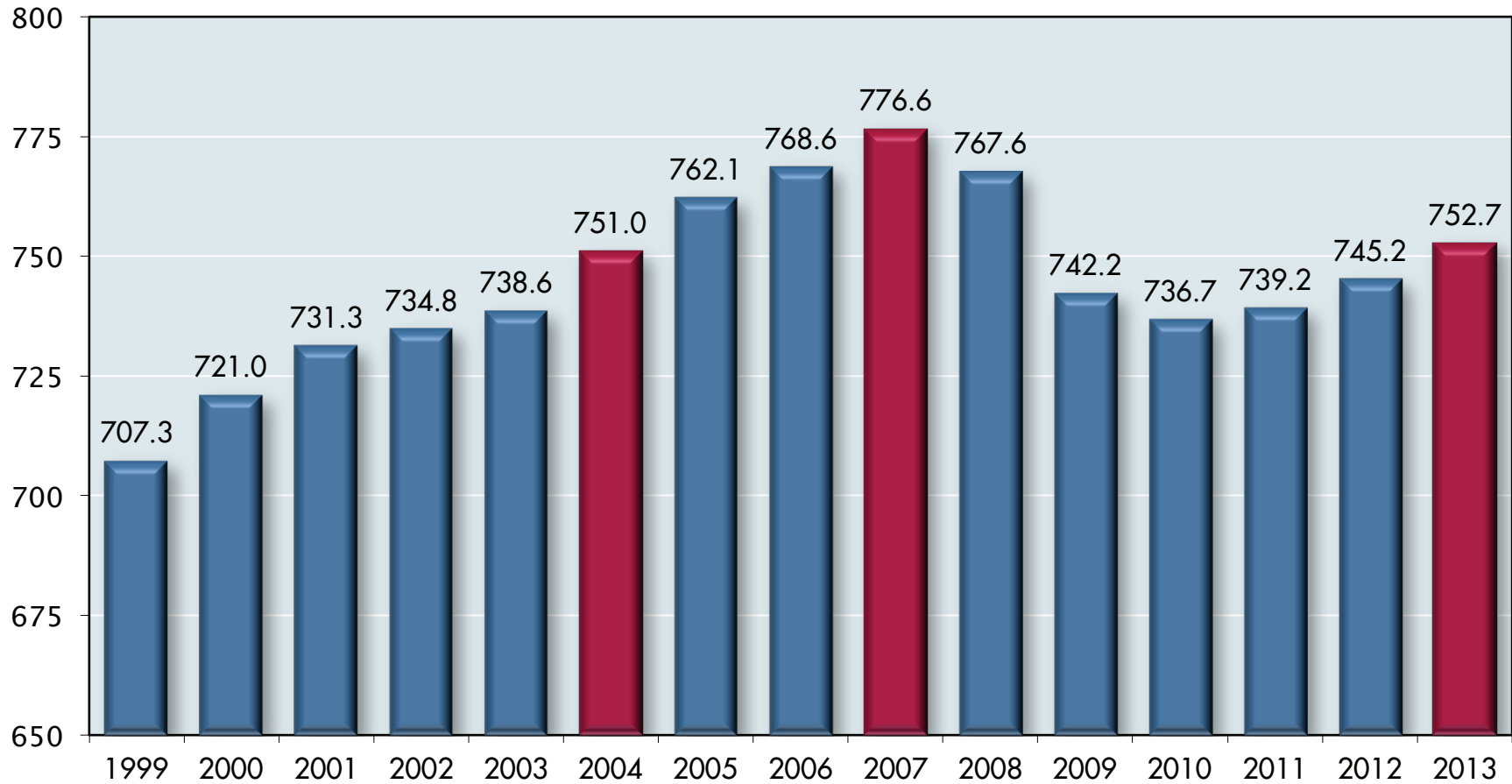
Ironically, the deceleration of defense spending has enabled us to achieve a long-sought regional goal – the diversification of our regional economy. As Graph 3 reveals, in 2014, we expect that only 42.2 percent of our regional economic activity will be directly and indirectly attributable to DOD spending; this would be down from our recent peak of 46.6 percent in 2011. Alas, we have achieved our economic diversification for the wrong reason – a decline in DOD spending rather than a spirited increase in our private-sector activity.

In any case, while we have been experiencing economic growth in Hampton Roads (roughly 1.54 percent over the past year after removing inflation), this has not translated to significant job growth. A review of Graph 1 demonstrates that we have yet to recover all the jobs we lost in the Great Recession. Our regional economic recovery has trailed that of both the Commonwealth and the United States. As Graph 4 illustrates, the country finally recovered all of the jobs it lost in the recession in May of this year and Virginia is less than 1 percent away from doing so. We, however, are sputtering along at almost 4 percent below our 2007 peak of 776,600 regional jobs.

There are, however, some bright spots in our regional economic picture. In the next few sections we will examine them and our prospects for the future.

GRAPH 1

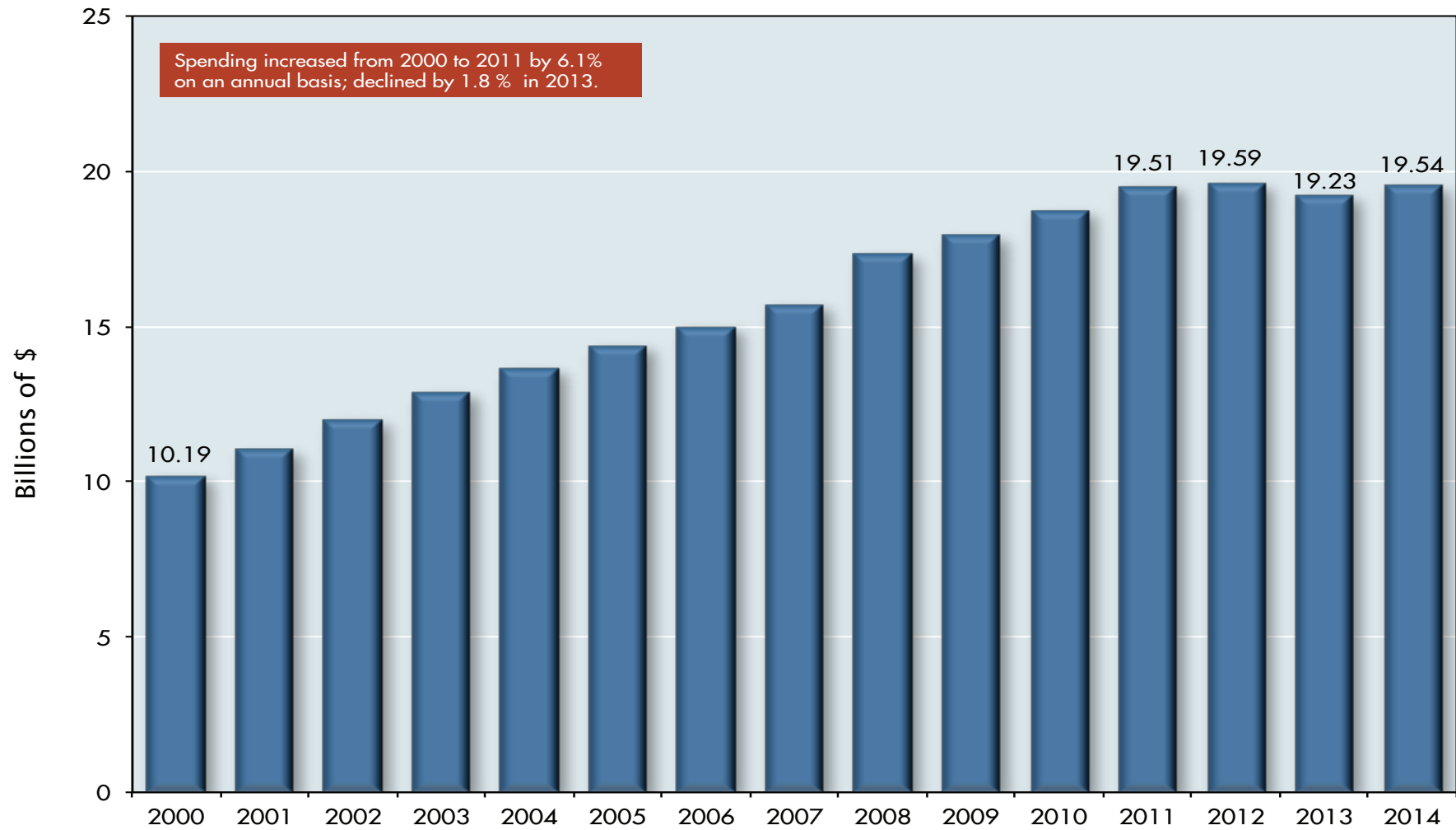
TOTAL CIVILIAN EMPLOYMENT IN HAMPTON ROADS, 1999-2013 (THOUSANDS OF JOBS)



Sources: U.S. Department of Labor CES data and the Old Dominion University Economic Forecasting Project. Not seasonally adjusted. Revised data March 17, 2014.

GRAPH 2

ESTIMATED DIRECT DOD SPENDING IN HAMPTON ROADS, 2000-2014



Sources: U.S. Department of Defense and the Old Dominion University Economic Forecasting Project. *Includes federal civilian and military personnel and procurement spending.

TABLE 1

**ESTIMATED AVERAGE COMPENSATION (WAGES, SALARIES AND FRINGE BENEFITS) FOR SELECTED CATEGORIES
IN HAMPTON ROADS, 2001, 2011 AND 2012**

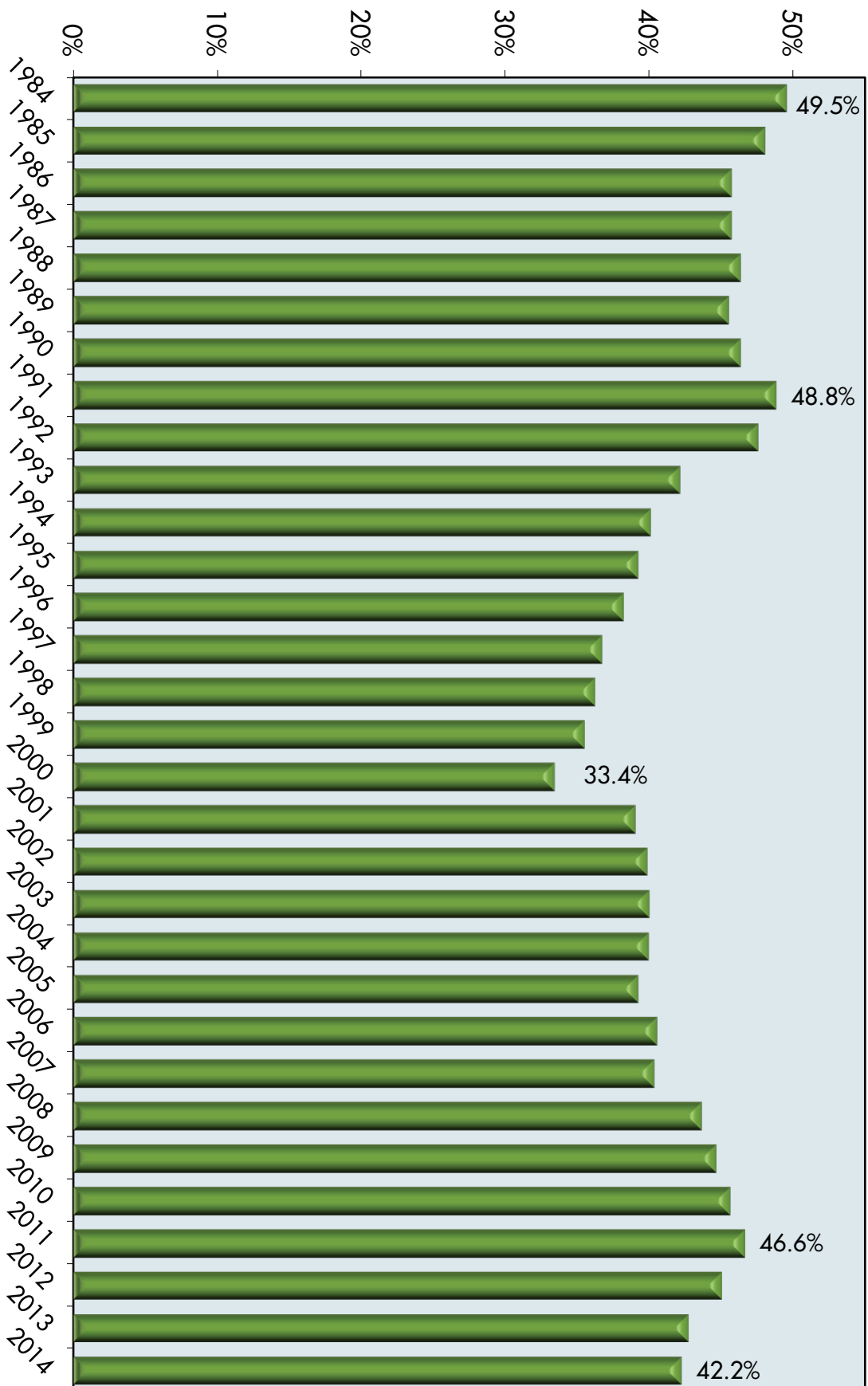
	Earnings in 2001	Earnings in 2011	Earnings in 2012	Percent Increase 2001 to 2011	Percent Increase 2011 to 2012
Military	\$47,077	\$92,054	\$93,346	95.5%	1.4%
Federal Civilian Government Employees	\$63,631	\$98,296	\$98,166	54.5%	-0.1%
State and Local Government Employees	\$40,251	\$55,931	\$56,334	39.0%	0.7%
Private Non-farm	\$29,155	\$38,166	\$39,499	30.9%	3.5%

Sources: U.S. Bureau of Economic Analysis and the Old Dominion University Economic Forecasting Project



GRAPH 3

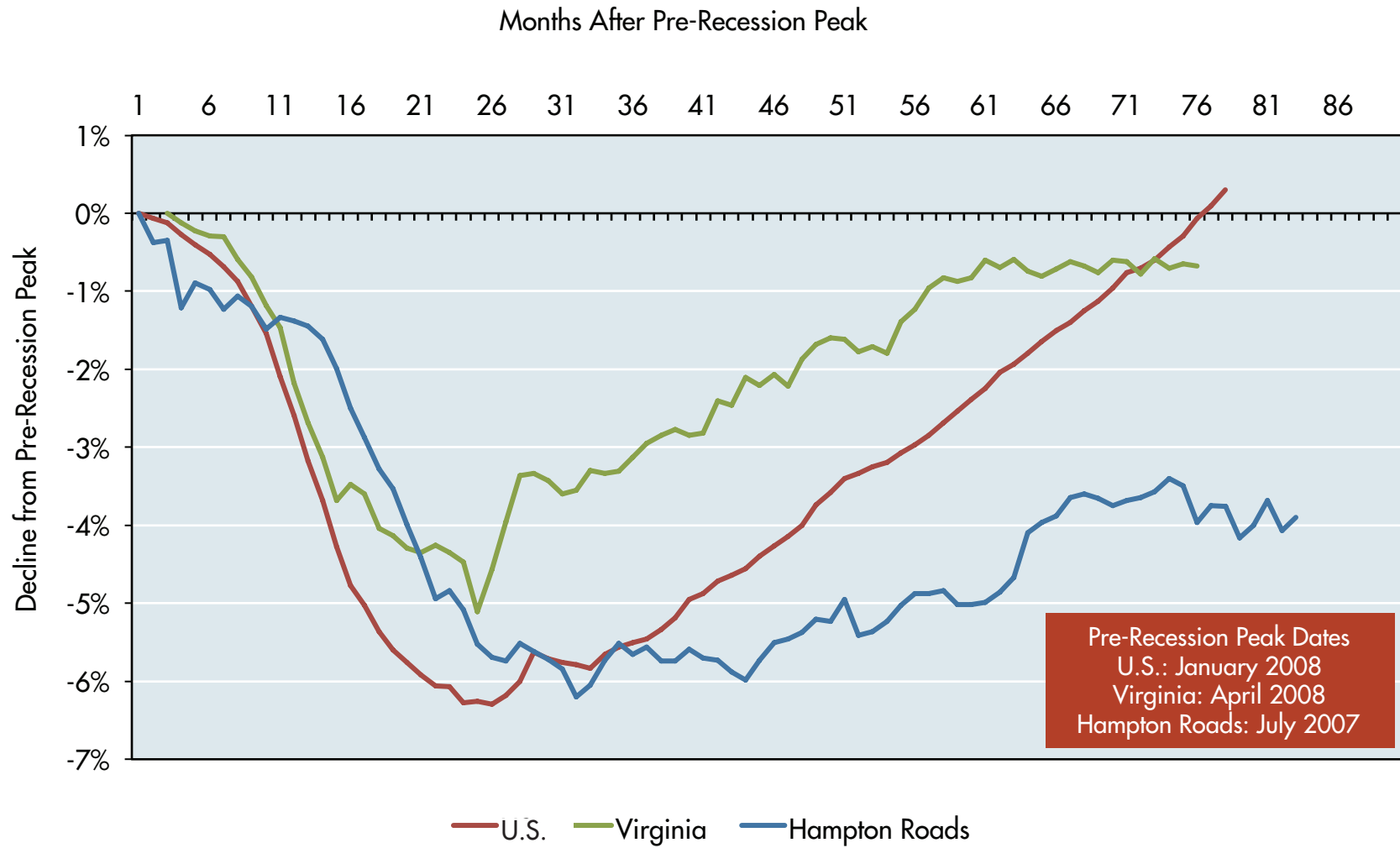
HAMPTON ROADS GROSS REGIONAL PRODUCT ATTRIBUTABLE TO DOD SPENDING, 1984-2014



Sources: U.S. Department of Defense, U.S. Department of Commerce and the Old Dominion University Economic Forecasting Project

GRAPH 4

**RECESSION RECOVERY IN THE U.S., VIRGINIA AND HAMPTON ROADS
MEASURED BY THE PERCENTAGE OF TOTAL JOBS RESTORED, 2007-2014***



Sources: Bureau of Labor Statistics and the Old Dominion University Economic Forecasting Project. *Data for 2014 are through May.

Defense Spending

In light of the data just presented, is it possible to pose DOD spending as a positive factor in our economic future? Yes, but primarily because over the next few years we will not experience the much more substantial reductions in defense spending that might have occurred.

In order to decipher what DOD spending is likely to be in the future, it is necessary to distinguish between “discretionary” DOD spending and “overseas contingency” DOD spending. Discretionary defense spending is best viewed as constituting the DOD’s base budget. Overseas contingency defense spending relates to wars and conflicts that are thought to be temporary, for example, U.S. activities in Iraq and Afghanistan. In FY 2015, \$85 billion is designated for such purposes.

There is, however, a third category worthy of note: “support” spending related to U.S. defense needs that includes certain expenditures in the Department of State, cyber security in the Department of Justice, nuclear security in the Department of Energy and the now famous Department of Veterans Affairs. Table 2 summarizes what has been happening to these three classes of defense or defense-related expenditures since FY 2009. With the exception of FY 2012 and FY 2013, support expenditures have been growing steadily over time and their growth is not likely to abate. This reflects both the continued growth of fringe benefit expenditures (including health) for active-duty and retired personnel and an increased emphasis on nonconventional warfare.

The three lines in Graph 5 illustrate the impact of DOD budget cuts in recent years. The blue line depicts discretionary DOD spending caps between FY 2012 and FY 2021 approved under the Budget Control Act of 2011. The red line illustrates the additional spending cap reductions – also known as sequestration – that were also set in place in the Budget Control Act of 2011. The green line reflects sequestration relief (increased DOD spending caps) that was approved in the Bipartisan Budget Act of 2013. The area of the green trapezoid is equal to \$31.5 billion and represents DOD spending caps that have been restored for FY 2013 and FY 2014.

TABLE 2

**TOTAL DEFENSE-RELATED SPENDING (IN BILLIONS OF \$)
IN FISCAL YEARS ENDING ON SEPT. 30 OF EACH YEAR**

Fiscal Year	DOD Base Budget	Overseas Contingency	Support	Total
FY 2008	\$686.0	\$197.5	N.A.	N.A.
FY 2009	\$513.5	\$145.9	\$149.2	\$808.7
FY 2010	\$530.1	\$167.3	\$159.5	\$852.2
FY 2011	\$528.1	\$159.4	\$165.0	\$862.7
FY 2012	\$530.4	\$126.5	\$159.3	\$816.2
FY 2013	\$495.5	\$ 93.0	\$163.8	\$752.3
FY 2014	\$496.0	\$ 91.9	\$168.6	\$756.5
FY 2015	\$495.6	\$ 85.4	\$175.4	\$756.4

Source: http://useconomy.about.com/od/usfederalbudget/p/military_budget.htm

The salient point is that we were spared many of the sequestration cuts that had been scheduled for FY 2013 and FY 2014. The Bipartisan Budget Act of 2013 also provided a 1 percent pay increase for active-duty personnel and a 4.2 percent hike in housing allowances.

What does all this mean for Hampton Roads? In a nutshell, it’s not going to be as bad as it might have been. Graph 6, which shows the region’s median household income, demonstrates this. We’ve averted the largest DOD cuts, but smaller cuts remain. Further, Congress has blocked any consideration of closing military bases, so that potential problem is off the table, if only for a few years.

Of greater concern to us should be four potentially adverse trends relating to DOD spending. First, the total number of active-duty military personnel in our region continues to decline and is now about 20,000 below our numbers at the beginning of this century. The decline between FY 2010 and FY 2012 was relatively modest where the U.S. Navy was concerned – 1,133 fewer

active-duty individuals, or about 1.6 percent of its regional complement. However, we should not forget that active-duty personnel and their dependents buy homes, purchase automobiles, attend colleges, patronize restaurants, etc. We will feel the economic effects.

Second, the U.S. Navy continues to grow smaller in terms of the number of active ships in the fleet. In FY 2010, 72 ships were homeported in Hampton Roads, but this had fallen to 68 by FY 2012, continuing a long-term trend. Smaller ship numbers eventually translate into diminished ship repair and maintenance activity, which is a multibillion-dollar industry in our region. More than the Norfolk Naval Shipyard will be affected. Firms such as BAE Systems and Colonna's Shipyard will experience reduced business and subsequently find it challenging to refocus their attention toward non-DOD activities.

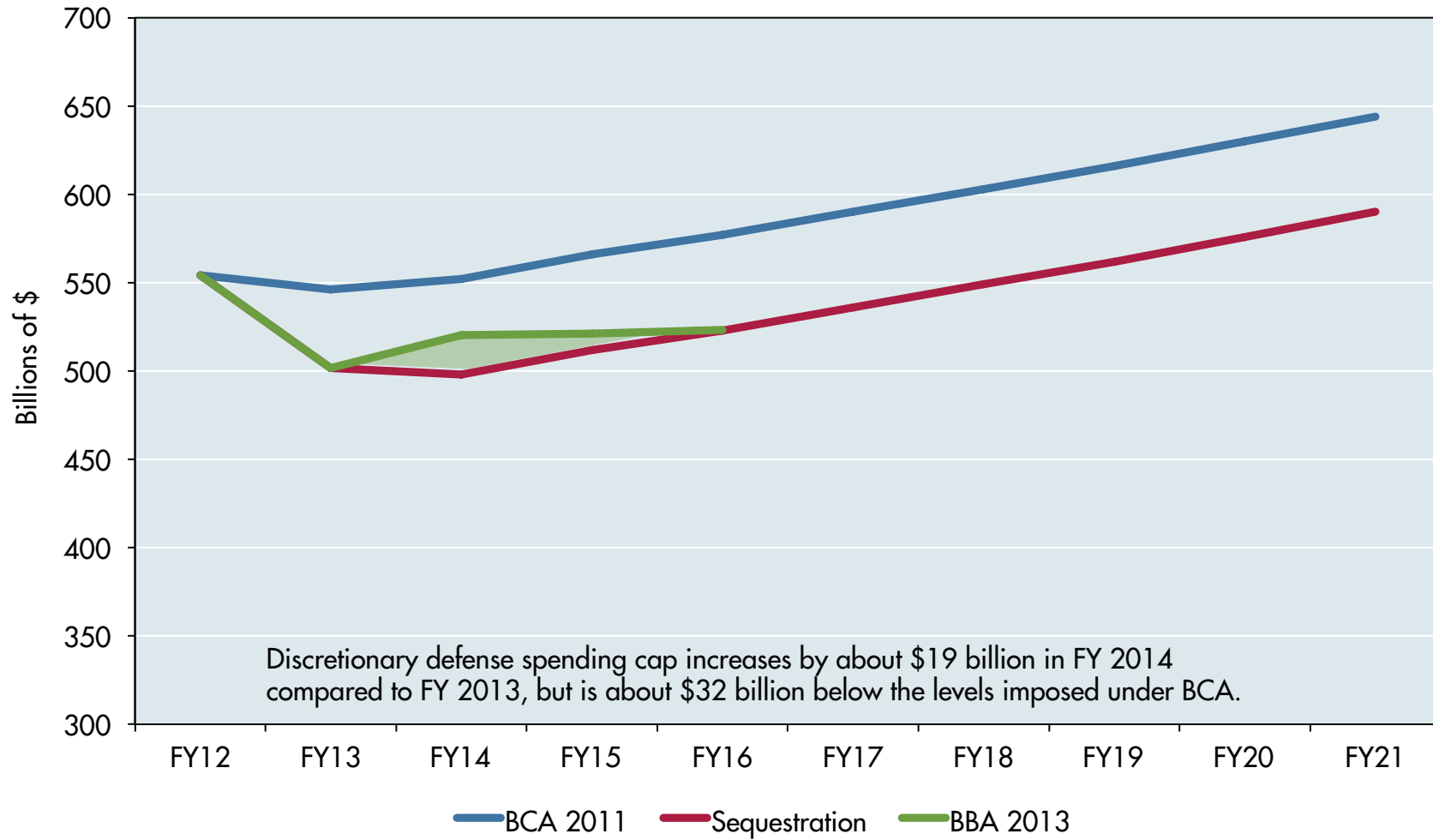
Third, the escalating costs of building and producing major defense assets, such as aircraft carriers and state-of-the-art fighter airplanes, mean that the DOD will not be able to purchase as many in the future. They're simply too expensive. This will result in lower levels of activity at firms such as Newport News Shipbuilding. In the long term, if fewer such assets are being produced, this also will accelerate the decline in the number of active-duty personnel and civilian counterparts employed by the DOD.

Fourth, the military challenges and conflicts the United States has confronted in the 21st century have not always matched up well with the powerful traditional military assets the country has the ability to deploy. We clearly have the most powerful military force on earth and any and all opponents shrink from entering any battlefield where the U.S. is able to deploy its traditional military assets, such as aircraft carriers, nuclear submarines and advanced fighter aircraft. However, growing in importance are anti-partisan and anti-terrorist operations, the use of Special Forces, cyber warfare and a variety of policing and prevention activities. If this trend away from the use of traditional military assets continues, it is likely to be disadvantageous for Hampton Roads, because we are substantially (though not totally) a traditional, conventional forces bastion.



GRAPH 5

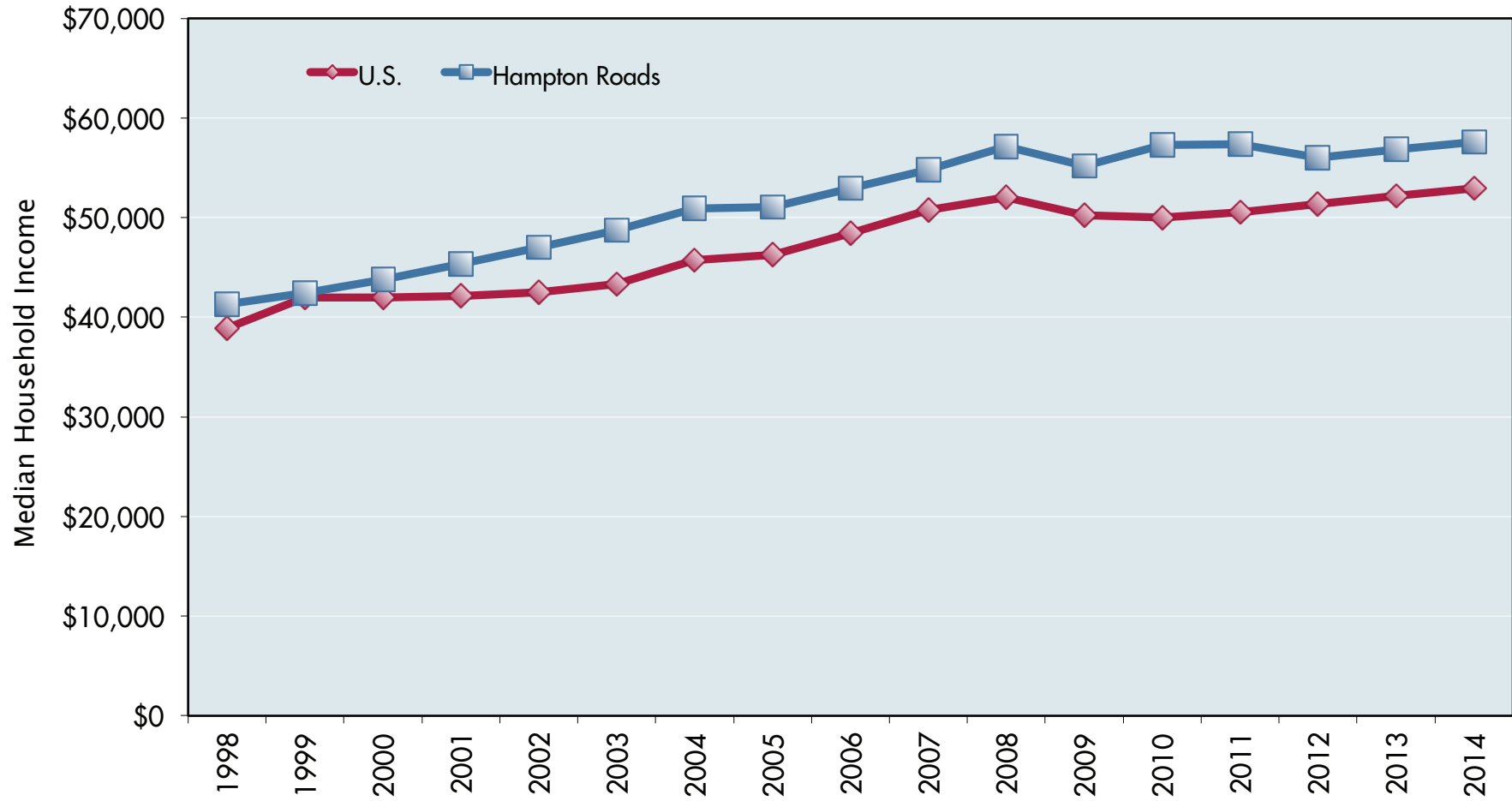
CAPS ON DEPARTMENT OF DEFENSE DISCRETIONARY SPENDING, FY 2012 TO FY 2021



Sources: Budget Control Act 2011, budget requests for FY14, Congressional Budget Office Sequestration Update Report and the Old Dominion University Economic Forecasting Project

GRAPH 6

COMPARISON OF MEDIAN HOUSEHOLD INCOME, HAMPTON ROADS AND THE U.S., 1998-2014



Sources: U.S. Census Bureau and the Old Dominion University Economic Forecasting Project

Employment And Job Markets In Hampton Roads

Even though we have yet to recover all of the jobs we lost in the Great Recession, some sectors of our economy have done rather well. Graph 7 reports sectoral winners and losers in Hampton Roads in 2013 in terms of jobs gained and lost. Continuing a long-term trend that was not altered by recession (see Graph 8), the health care and social assistance sector exhibited a strong increase in employment. Reflecting economic recovery, professional and business services, retail and wholesale trade, and even manufacturing, recorded significant increases in jobs.

At the other end of the spectrum, government jobs declined across the board – federal, state and local – within Hampton Roads. This is indicative both of disappointing tax collections and citizen resistance to expanded governmental activity. Governments collectively shed approximately 1,600 jobs in our region in 2013.

Hampton Roads, however, is not a high-wage oasis. Table 3 reports average weekly wages in various economic sectors at the end of 2003 and at the end of 2013. Our largest growth in jobs has been occurring in health care and social assistance, but average weekly wages in this sector grew only 27.4 percent in Hampton Roads over the 2003-2013 period. Unfortunately, during the same years, the CPI-U (consumer price index for all urban consumers) grew 26.5 percent. Thus, these workers experienced only a scant 1 percent increase in their real incomes. Following national trends, the big winners regionally in terms of increased real incomes over this decade were finance and insurance workers, whose real incomes increased by almost 16 percent. The big losers were retail trade workers (many of whom are salespeople) – their real incomes fell by 13.6 percent during this decade.

TABLE 3

AVERAGE PRIVATE-SECTOR WEEKLY WAGES IN SELECTED INDUSTRIES IN HAMPTON ROADS, 2003 AND 2013

Industry	4th Quarter 2003	4th Quarter 2013	Changes
Construction	\$709	\$938	\$246 (34.7%)
Manufacturing	\$908	\$1,120	\$212 (23.3%)
Wholesale Trade	\$947	\$1,176	\$229 (24.2%)
Retail Trade	\$405	\$457	\$52 (12.8%)
Transportation and Warehousing	\$790*	\$1,066	\$276 (34.9%)
Information	\$795*	\$1,044	\$249 (31.3%)
Finance and Insurance	\$867	\$1,234	\$367 (42.3%)
Professional and Business Services	\$1,075	\$1,430	\$355 (33.0%)
Health Care and Social Assistance	\$696*	\$887	\$191 (27.4%)
Accommodation and Food Services	\$242	\$303	\$61 (27.4%)

Sources: U.S. Department of Labor Quarterly Census of Employment and Wages in Private Sector and the Old Dominion University Economic Forecasting Project. *Wage data shown for Transportation and Warehousing and Information industry are for second quarter 2005. Data for Health Care and Social Assistance are for first quarter 2007.

Hence, in Hampton Roads, we find ourselves in a good news/bad news situation with respect to jobs and labor markets.

The good:

- Our regional rate of unemployment (5.8 percent in July 2014) continues to hover well below the U.S. unemployment rate (6.5 percent in July 2014).
- As Graph 9 reveals, the number of people seeking unemployment insurance in Hampton Roads continues to decline.
- All things considered, the private-sector economy in our region has not performed too badly. There is private-sector economic growth and there has been some job creation.

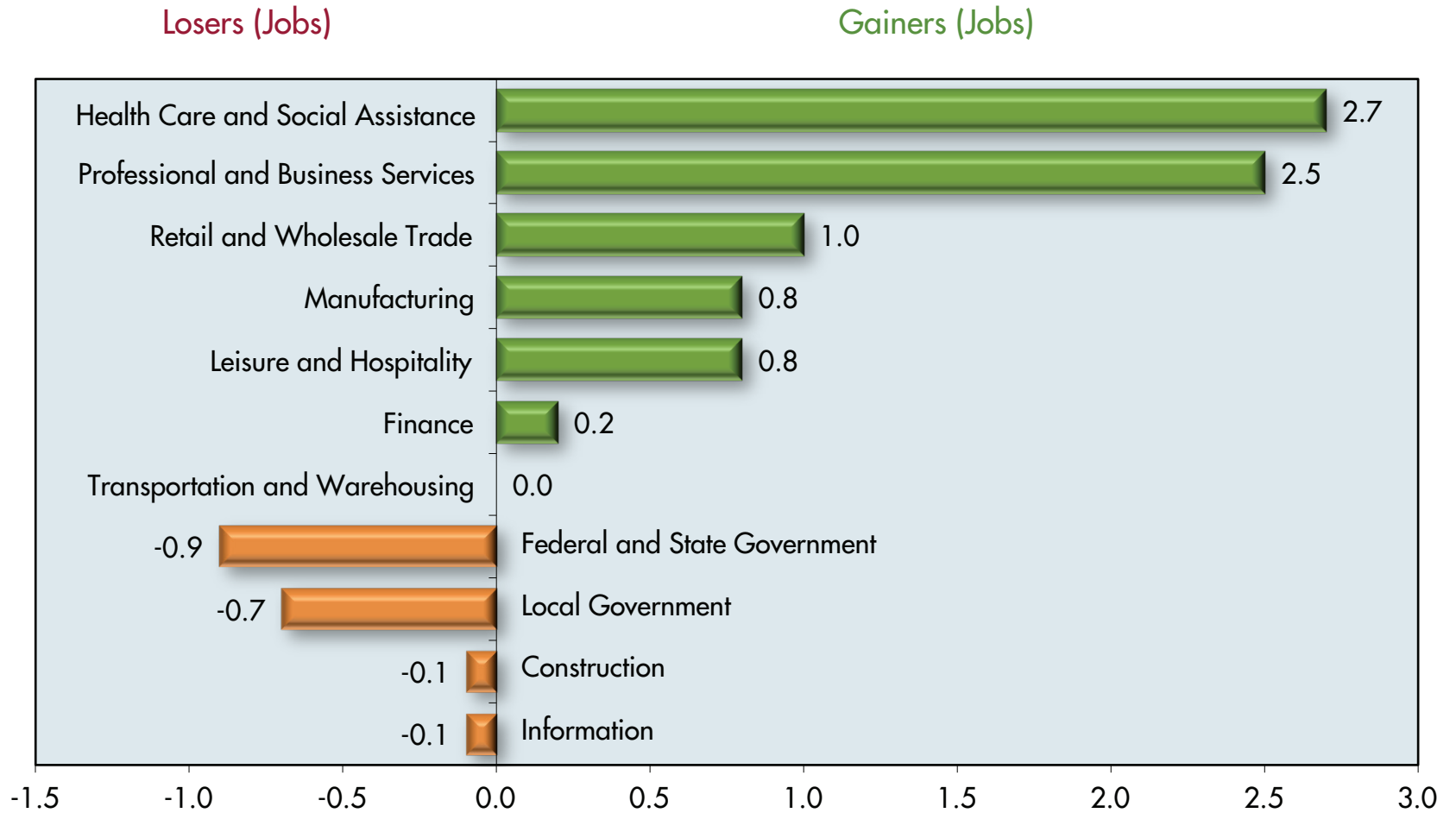
The bad:

- We simply aren't creating enough new jobs; we have yet to replace all of the jobs we lost in the Great Recession.
- Labor force participation in Hampton Roads (and in the U.S.) continues to decline, reflecting the reality that an increasing number of people of working age are not seeking work. Hence, they are not counted as unemployed.
- Growth in real, inflation-adjusted incomes has been minimal overall and in many job sectors income growth has not kept up with the rise in the Consumer Price Index over the past decade.
- While we are doing better than the U.S., our July 2014 unemployment rate (5.8 percent) was higher than Virginia's (5.4 percent) and Richmond's (5.7 percent).



GRAPH 7

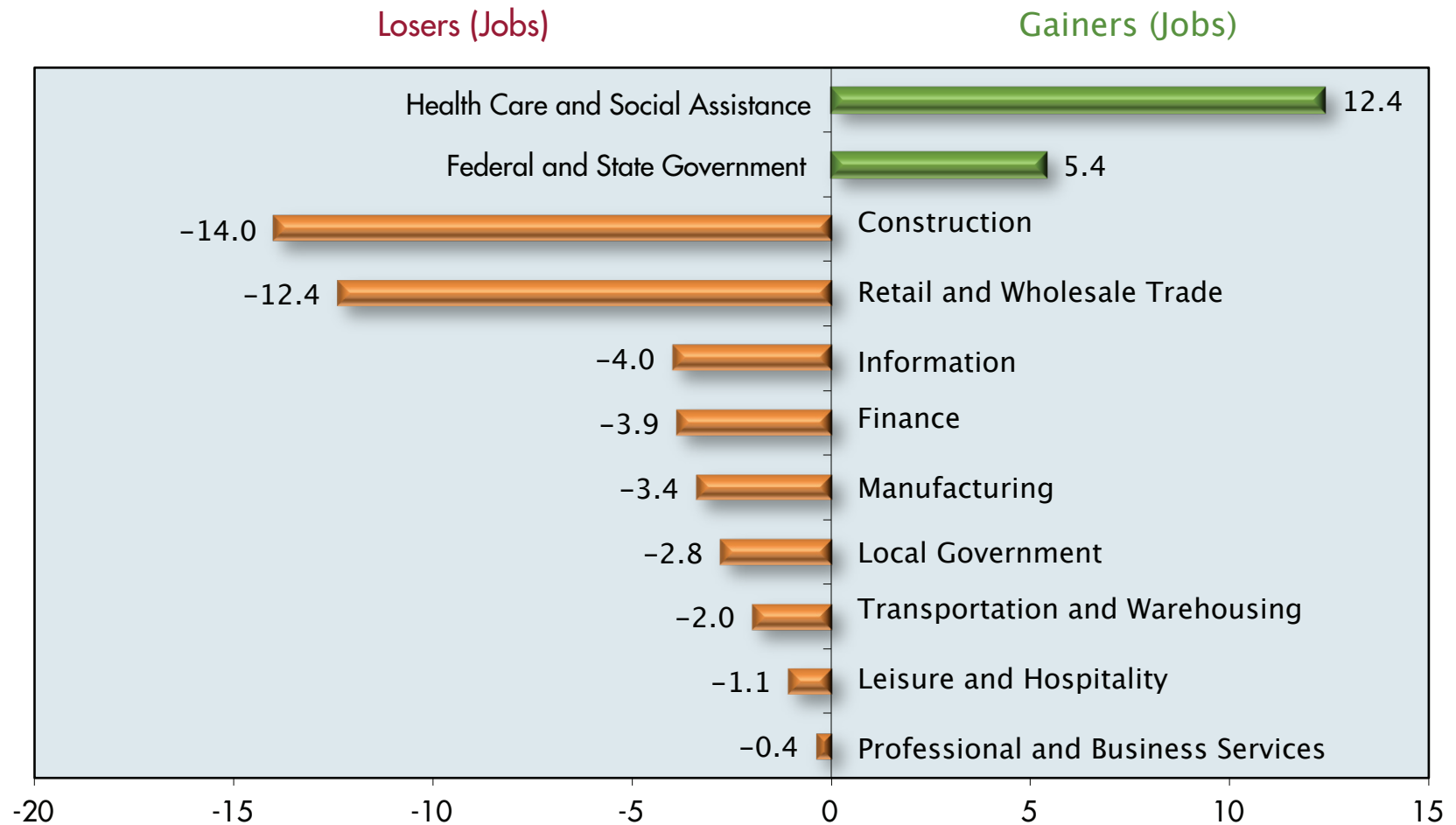
JOBS GAINS AND LOSSES IN HAMPTON ROADS, 2013



Sources: U.S. Census Bureau and the Old Dominion University Economic Forecasting Project

GRAPH 8

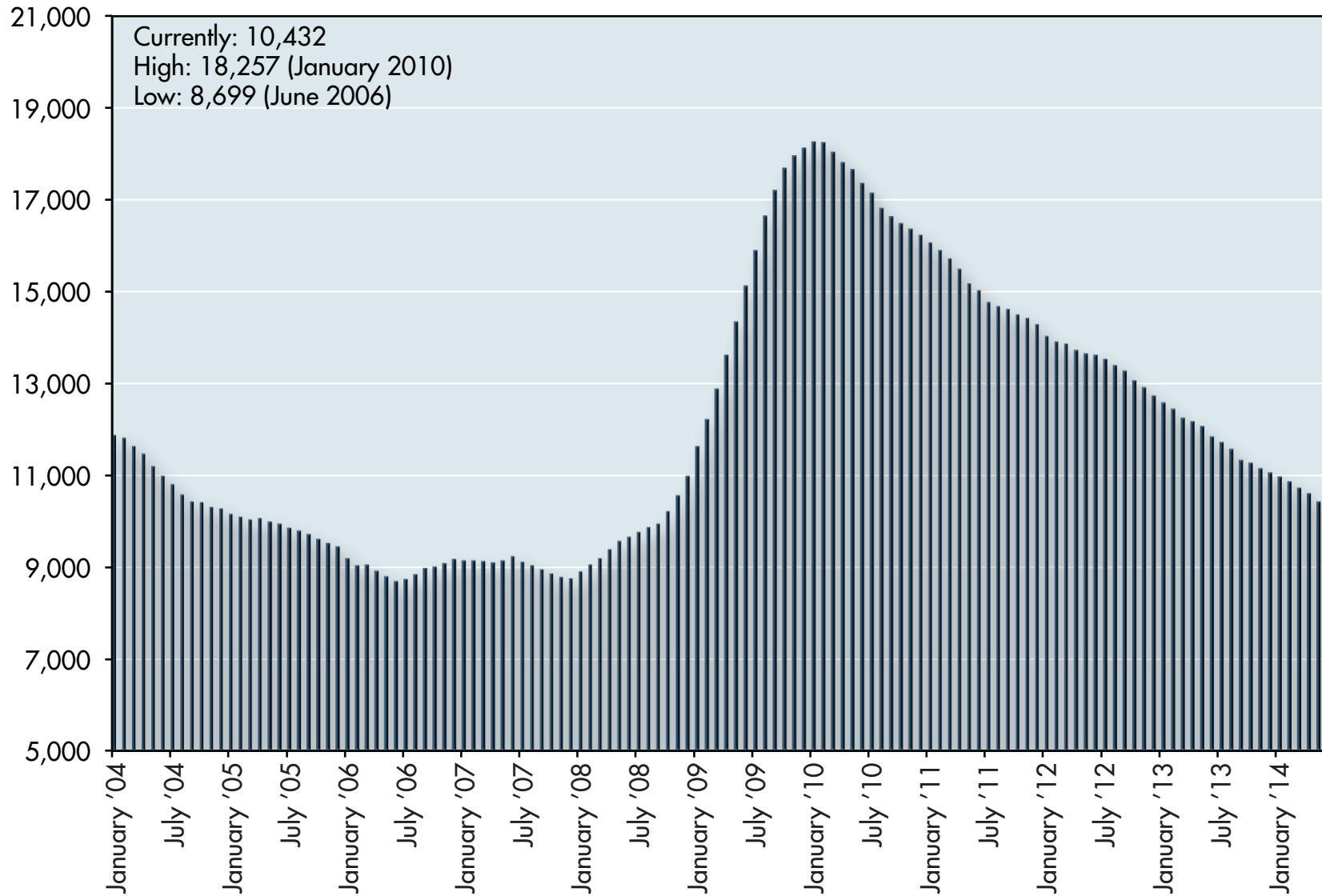
JOB GAINS AND LOSSES IN HAMPTON ROADS, 2007-2013 (IN THOUSANDS)



Sources: U.S. Department of Labor CES data and the Old Dominion University Economic Forecasting Project. Not seasonally adjusted. Revised data March 17, 2014.

GRAPH 9

TOTAL MONTHLY UNEMPLOYMENT CLAIMS FOR HAMPTON ROADS, JANUARY 2004 THROUGH MAY 2014 (12-MONTH MOVING AVERAGE)



Sources: Virginia Employment Commission and the Old Dominion University Economic Forecasting Project

The Port

"If you want to know who the players are, you'd better buy a program." This baseball park bromide also applies to the Port of Virginia, where both the Port's management and the membership of the Virginia Port Authority board have changed several times in recent years.

Politically, governors Bob McDonnell and Terry McAuliffe are far apart, but both have gone on the record expressing dissatisfaction with various aspects of the operation of the Port. During his term, McDonnell considered privatizing the management of the Port, but this proposal succumbed to a flurry of objections. More recently, McAuliffe has been vocal in his criticisms of financial losses sustained by the Port and his administration also appears to be dissatisfied with the Port's lease arrangements with APM Maersk in Portsmouth.

Meanwhile, the Port is more active than ever. It recorded an all-time high in cargo tonnage handled in 2013 and is on track to set another record in 2014 (see Graph 10). The Port also set a record in handling the ubiquitous 20-foot equivalent (TEU) containers in 2013 and likely also will exceed that number in 2014 (see Graph 11). Further, the Port has been grabbing market share away from its major East Coast competitors – New York/New Jersey, Savannah and Charleston. Graph 12 demonstrates that the Port has decisively reversed the decline in East Coast market share that it suffered 2007 through 2011 and, counting 2014, will have increased its market share three years in a row.

One indicator of the Port's recent success is the increase in the proportion of containers that have been moving out of the Port by means of rail rather than trucks (see Graph 13). A significant proportion of truck cargo leaving the Port is "captive," that is, it is cargo that is most likely to be carried by truck from the Port because we are closest to the customers and have a cost advantage in this method of delivery. One can draw a radius around the Port of Virginia extending as much as 250 miles in some directions, and high proportions of the cargo delivered within that radius are captive because we enjoy a delivery cost advantage compared to more distant ports such as New York/New Jersey or Savannah.

The same cannot be said for prospective customers located in metropolitan areas such as Columbus, Detroit, St. Louis, Chicago, Cincinnati and Cleveland. Multiple ports can and do compete for this cargo, which typically is delivered via rail. It is a good sign that the Port of Virginia's market share is increasing in this highly competitive arena. We are competing and winning in a very tough environment for "discretionary" cargo.

The good news does not stop there. Because the Port of Virginia is the largest deepwater port on the East Coast (and will remain so for several years), we can handle larger ships than most of our competitors. **Graph 14 reports that there has been a general upward trend in the average number of TEUs handled by the Port of Virginia per single vessel call.** Not only is this good for business, but also it enables the Port to realize economies of scale and potentially to exert control on its costs and prices as we continue to invest in Port infrastructure.

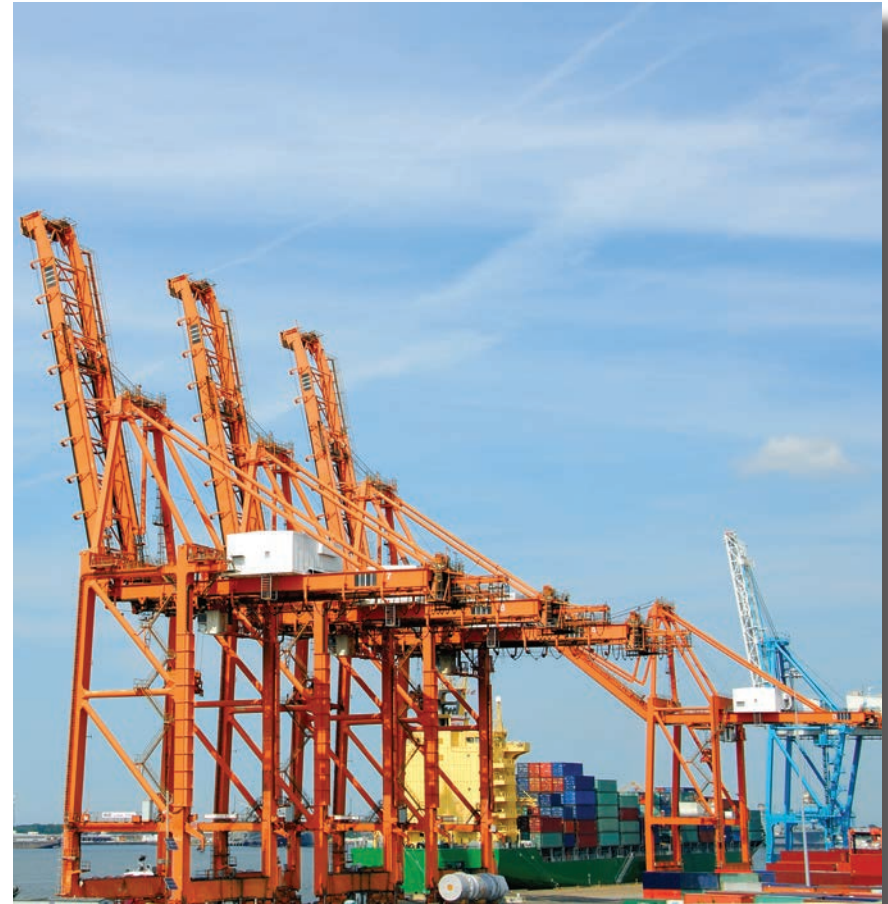
In addition, the Port of Virginia is realizing dividends from Norfolk Southern Corp.'s Heartland Rail Corridor, which, among other things, allows double stacking of TEUs headed to the Midwest; from CSX Corp.'s on-dock rail services at Portsmouth's APM Terminals; and from more "first-in, last-out" service by ships coming and going to and from Hampton Roads.

Why, then, the current angst over the Port's performance? Why did The Virginian-Pilot's editorial board choose to label the recent past a "legacy of chaos?" (June 1, 2014). First, the Port (as outlined in previous State of the Region reports) has been losing money, if one accepts the precepts of accountants and economists. Indeed, the Port recently has been in the unenviable position of losing money on some of the record number of TEUs that it has been handling, in some cases because it sometimes has offered "sale" prices for its services. Second, there is growing recognition that there was some validity to the assertions of those who were competing to manage the Port privately that they could in fact manage it more efficiently by reorganizing its operations and instituting new cost controls. Third, and related to reason No. 2, there is agreement that the previous management structure of the Virginia Port Authority (VPA) and its operating arm, the Virginia International Terminals (VIT), resulted in overlapping responsibilities, excessive managerial expenditures and sometimes-laggard reactions to changing circumstances. Fourth, the Port has

suffered from instability; its operational and board leadership has turned over several times in just a few years.

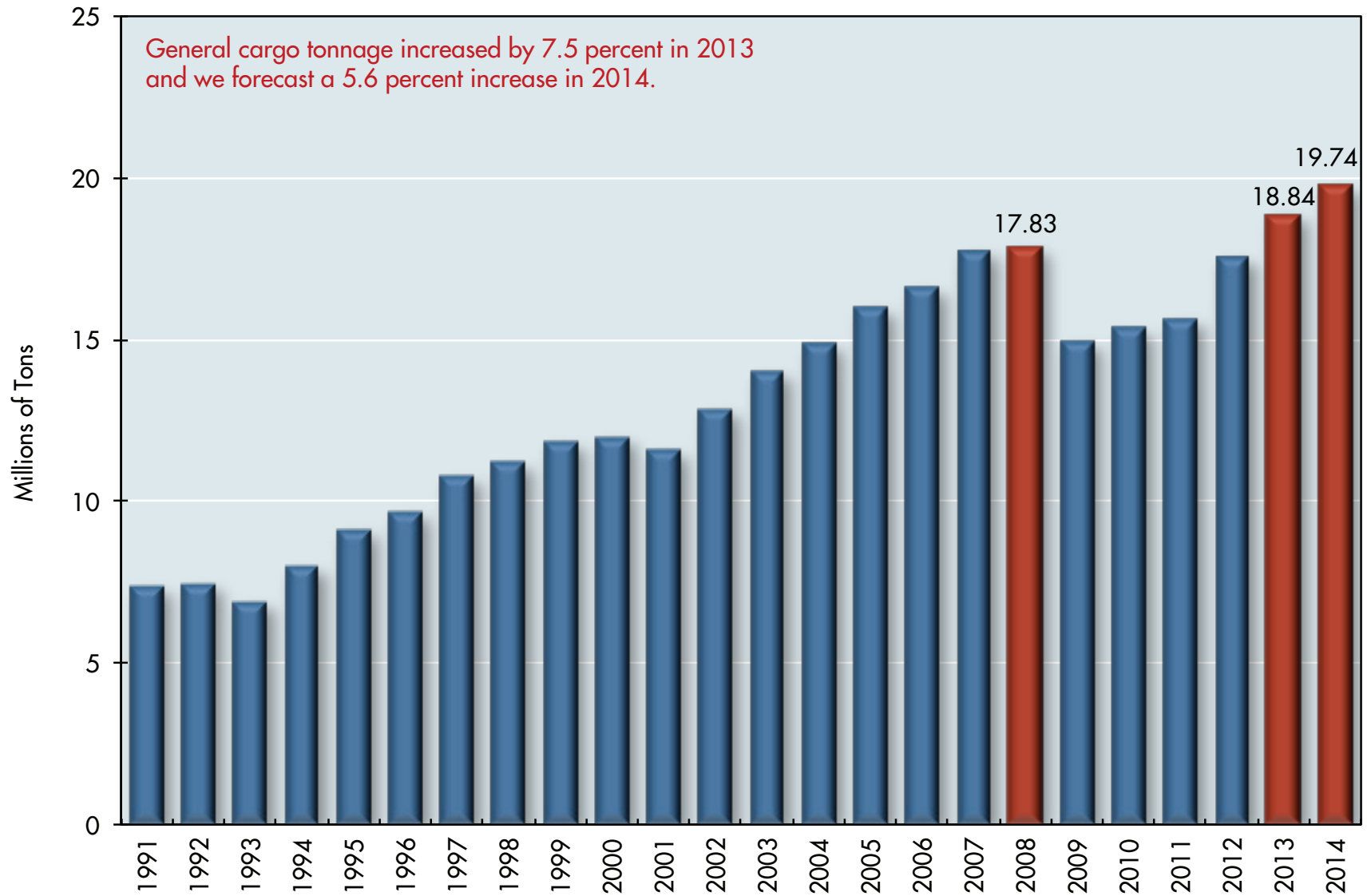
Since late February 2014, the Port has been led by an experienced and respected hand, John Reinhart, who knows the industry well and understands the range of tasks in front of him. Visible changes have occurred in cargo handling, and various efficiency-oriented, cost-containing activities are in process. The basic outlook for the Port of Virginia is favorable. Port activity likely will grow much more rapidly than gross regional product; our Port is well situated geographically; we are a deepwater port; we benefit from excellent rail connections; we have the ability to expand; and our labor relations have generally been good.

The Port of Virginia has been a bright spot, economically speaking, over the past few years despite the challenges noted above. At a time when defense spending and tourism are stagnant, we have a special need for the Port to surmount the challenges facing it and augment its regional leadership role.



GRAPH 10

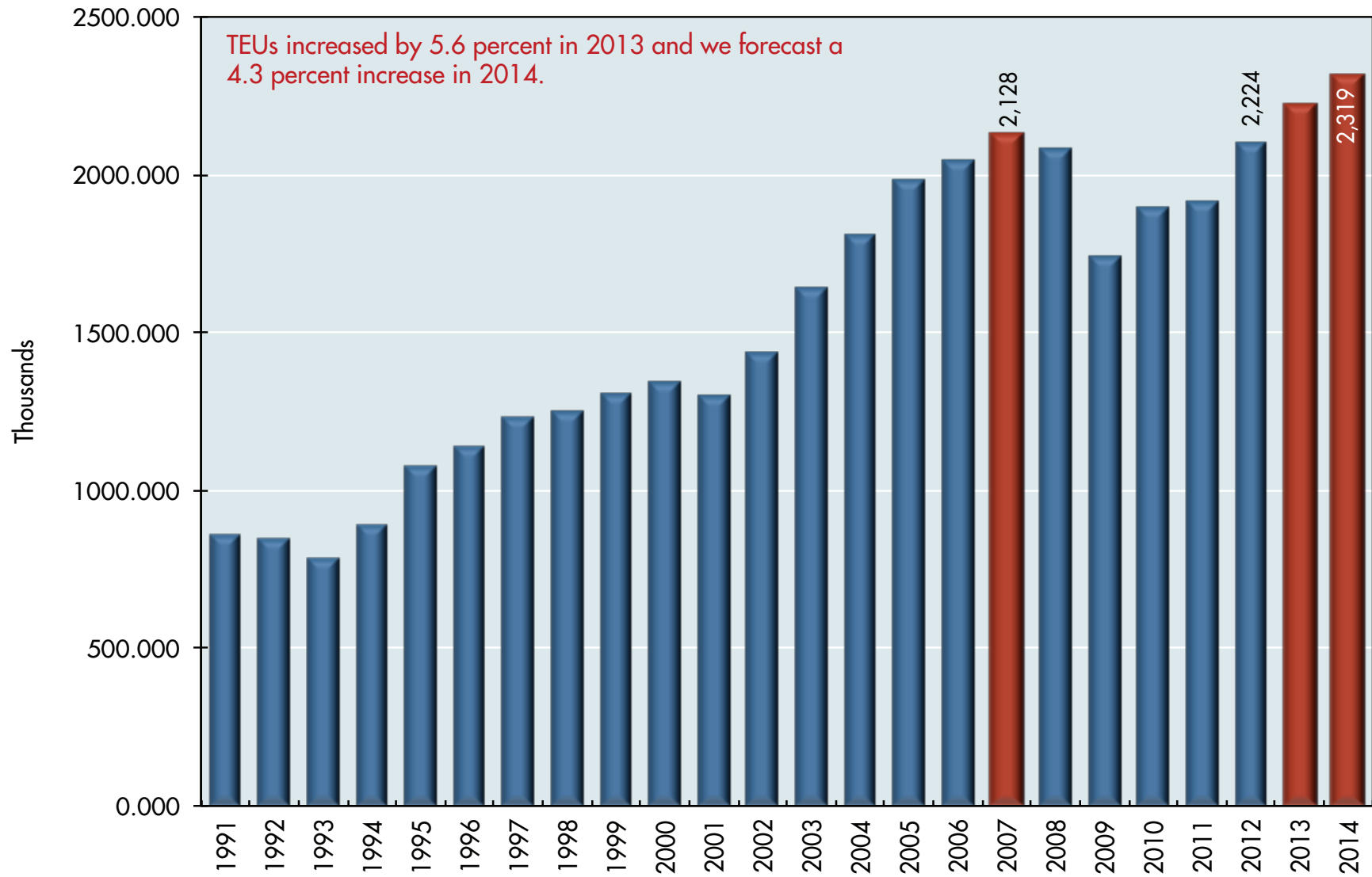
GENERAL CARGO TONNAGE AT THE PORT OF HAMPTON ROADS, 1991-2014



Sources: Virginia Port Authority and the Old Dominion University Economic Forecasting Project

GRAPH 11

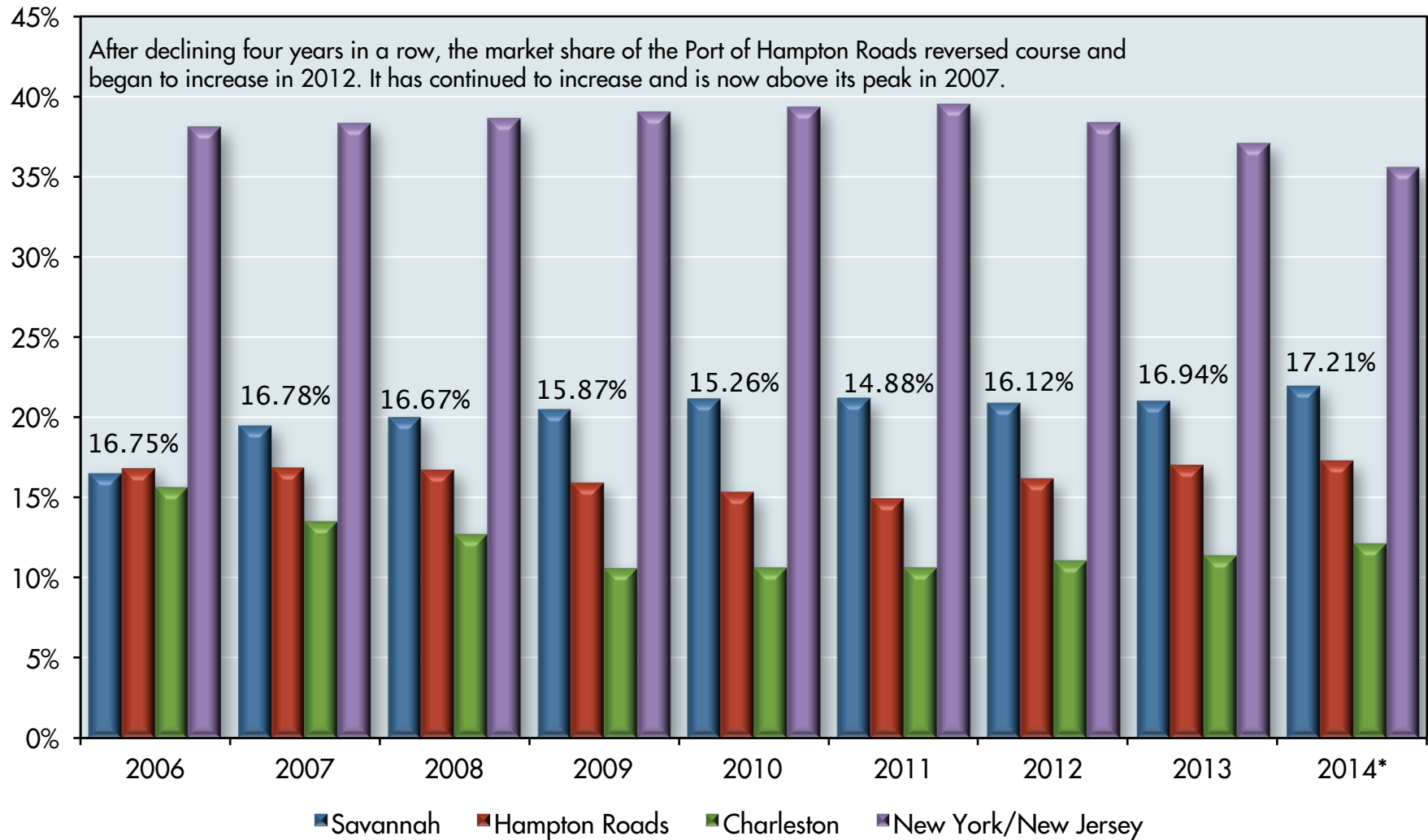
TWENTY-FOOT EQUIVALENT CONTAINER UNITS (TEUS) IN THE PORT OF HAMPTON ROADS, 1991-2014



Source: Virginia Port Authority and the Old Dominion University Economic Forecasting Project

GRAPH 12

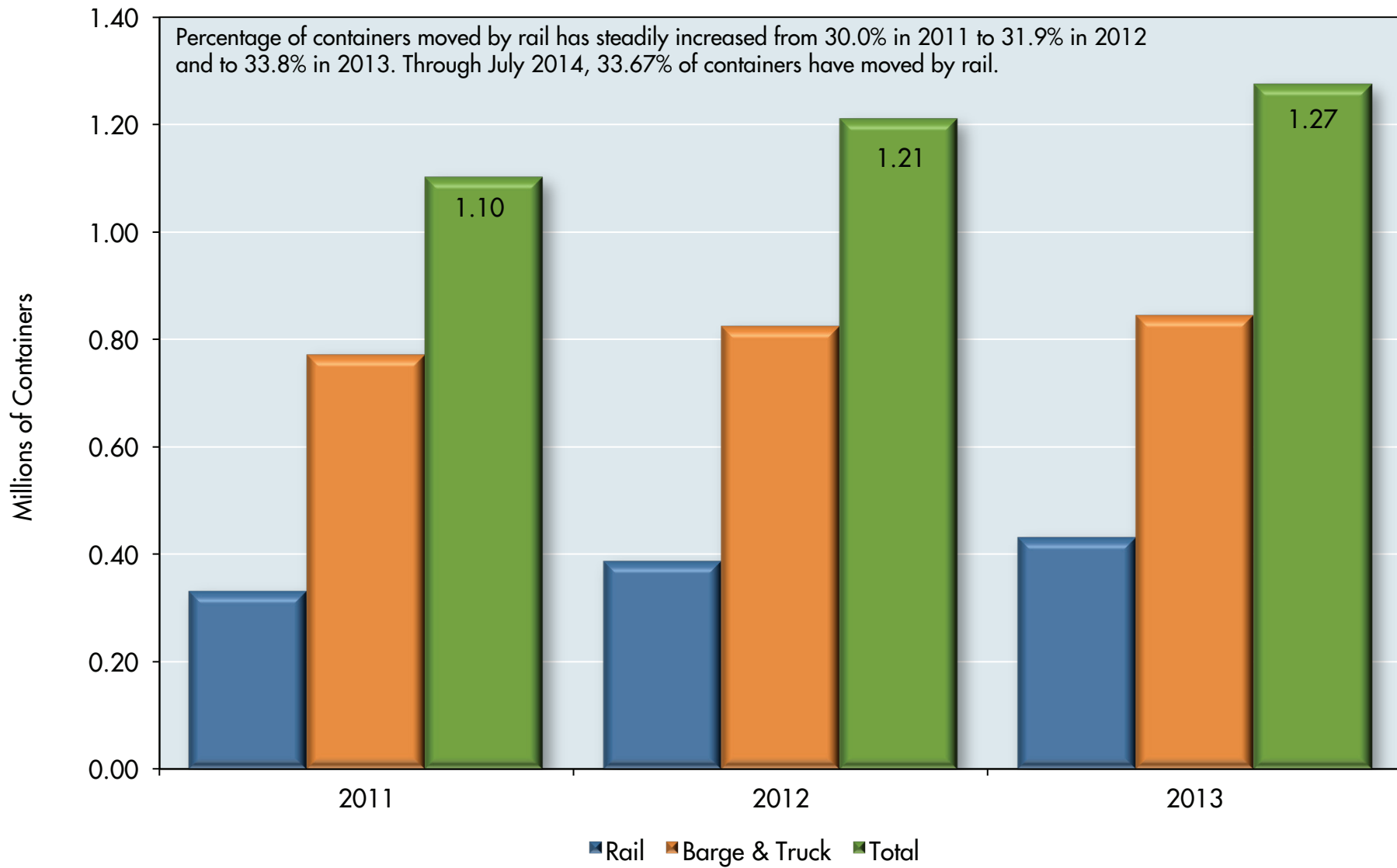
SHARES OF TOTAL LOADED TEU CONTAINERS FOR SELECTED PORTS ON THE EAST COAST, 2006-2014*



Sources: American Association of Port Authorities and the Old Dominion University Economic Forecasting Project. Market shares exclude TEUs for Philadelphia, Miami, Palm Beach and Port Everglades. *Data for 2014 are through April.

GRAPH 13

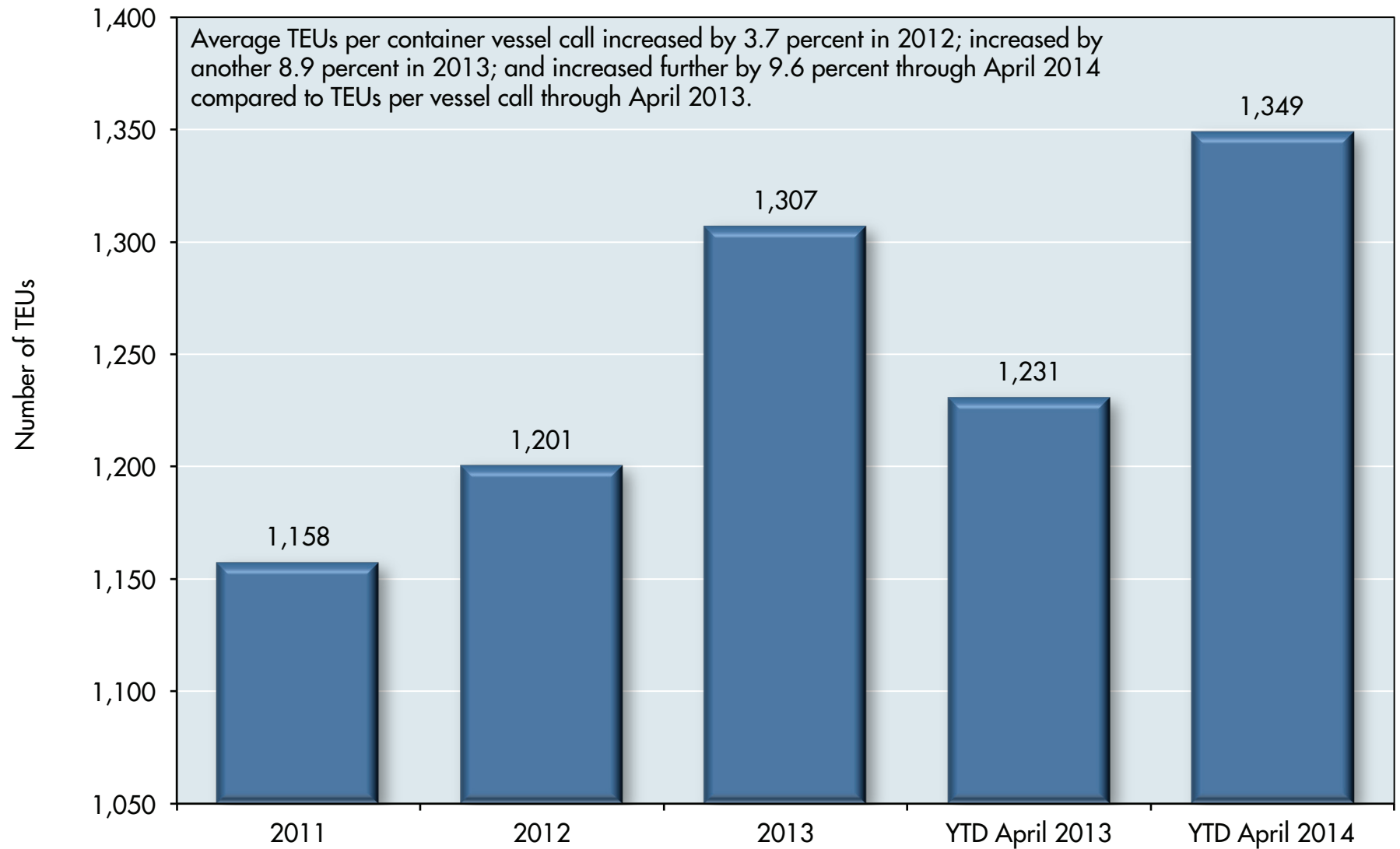
MOVEMENT OF CONTAINERS AT THE PORT OF HAMPTON ROADS BY TYPE OF TRANSPORTATION, 2011-2013



Sources: Virginia Port Authority and the Old Dominion University Economic Forecasting Project

GRAPH 14

AVERAGE TEUs PER CONTAINER VESSEL CALL, 2011-2014*



Sources: Virginia Port Authority and the Old Dominion University Economic Forecasting Project. *Data for 2013 and 2014 are through April.

Tourism

The sluggish recovery of our tourism industry epitomizes the slow recovery of our regional economy. As one can see in Graph 15, total hotel revenues peaked in Hampton Roads in 2007 and by 2013 were still \$48.6 million (or 6.8 percent) below the record 2007 level. In real, inflation-adjusted terms, 2013 revenues were 18.6 percent below those of 2007.

Much the same story holds true for REVPAR – revenue received per available room. This is the single best indicator of how well a hotel or motel operator is doing because it is a measure that takes into account both supply and demand (see Table 4). REVPAR in Hampton Roads fell by 10.7 percent between 2007 and 2013 – and almost 25 percent in inflation-adjusted terms. Virginia Beach, which performed the best in our region, suffered a 0.1 percent decline in REVPAR in nominal terms over this period, but a more than 14 percent decline once price inflation is taken into account.

The long-term shift in tourists away from the Historic Triangle (Williamsburg, Jamestown, Yorktown) moderated in 2013, but the continuing reality is that the Historic Triangle’s share of regional tourism revenues declined from 31.5 percent in 1999 to 18.3 percent in 2013 (see Graph 16). The winner in the market share derby was Virginia Beach, whose share increased from 33.2 percent in 1999 to 40.8 percent in 2013.

While the Historic Triangle has been reducing its supply of rooms (see Graph 17, which shows a decline in available room nights from 3.45 million in 2005 to 3.11 million in 2013), this also has been accompanied by a slow attrition in the number of actual hotel nights it has sold. Counteracting this long-term trend – which appears to reflect a change in the tastes of the public – represents a major challenge for the Historic Triangle, which is one of our region’s treasures.

We will give considerable additional attention to the evolution of the hotel/motel market in a succeeding chapter, titled “The Answer Is Always Yes,” which considers the hotel/motel market in conjunction with the construction of new convention centers and arenas.

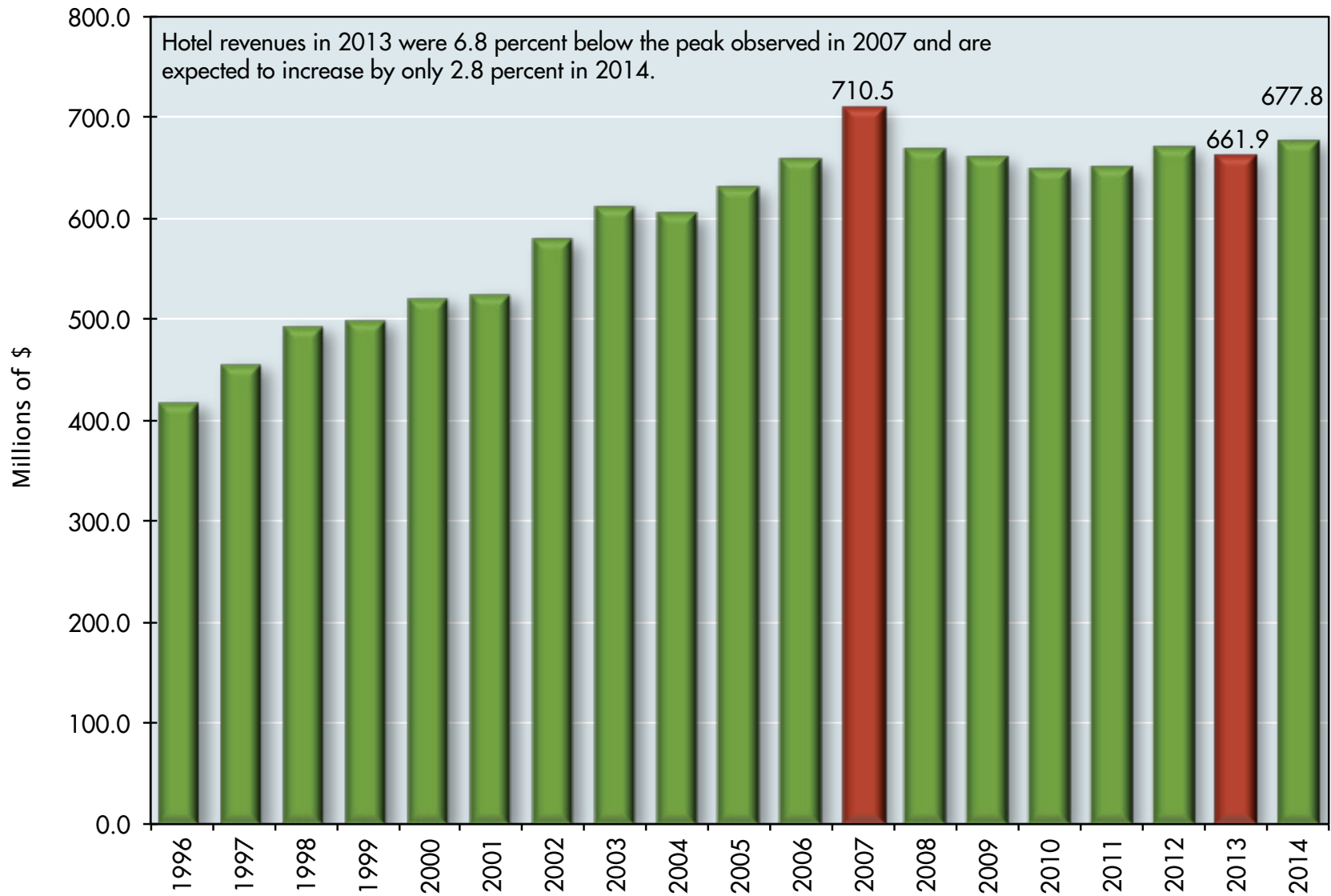
TABLE 4
REVPAR IN SELECTED MARKETS, 2007 AND 2013

	2007	2013	Percentage Change
U.S.	\$65.58	\$68.69	+4.7%
Virginia	\$61.95	\$55.69	-10.1%
Hampton Roads	\$52.90	\$47.25	-10.7%
Myrtle Beach	\$54.03	\$56.40	+ 4.4%
Coastal Carolina	\$55.83	\$56.26	+ 0.8%
Ocean City	\$71.74	\$68.81	- 4.1%
Virginia Beach	\$64.73	\$64.64	- 0.1%
Hampton	\$41.71	\$37.45	-10.2%
Newport News	\$39.69	\$34.29	-13.6%
Norfolk/ Portsmouth	\$54.05	\$45.35	-16.1%
Norfolk	\$54.14	\$45.95	-15.1%
Williamsburg	\$47.48	\$39.08	-17.7%
Chesapeake/ Suffolk	\$52.90	\$41.11	- 22.3%
Chesapeake	\$53.60	\$41.18	- 23.2%

Sources: Smith Travel Research Trend Report, Feb. 17, 2014, and the Old Dominion University Economic Forecasting Project

GRAPH 15

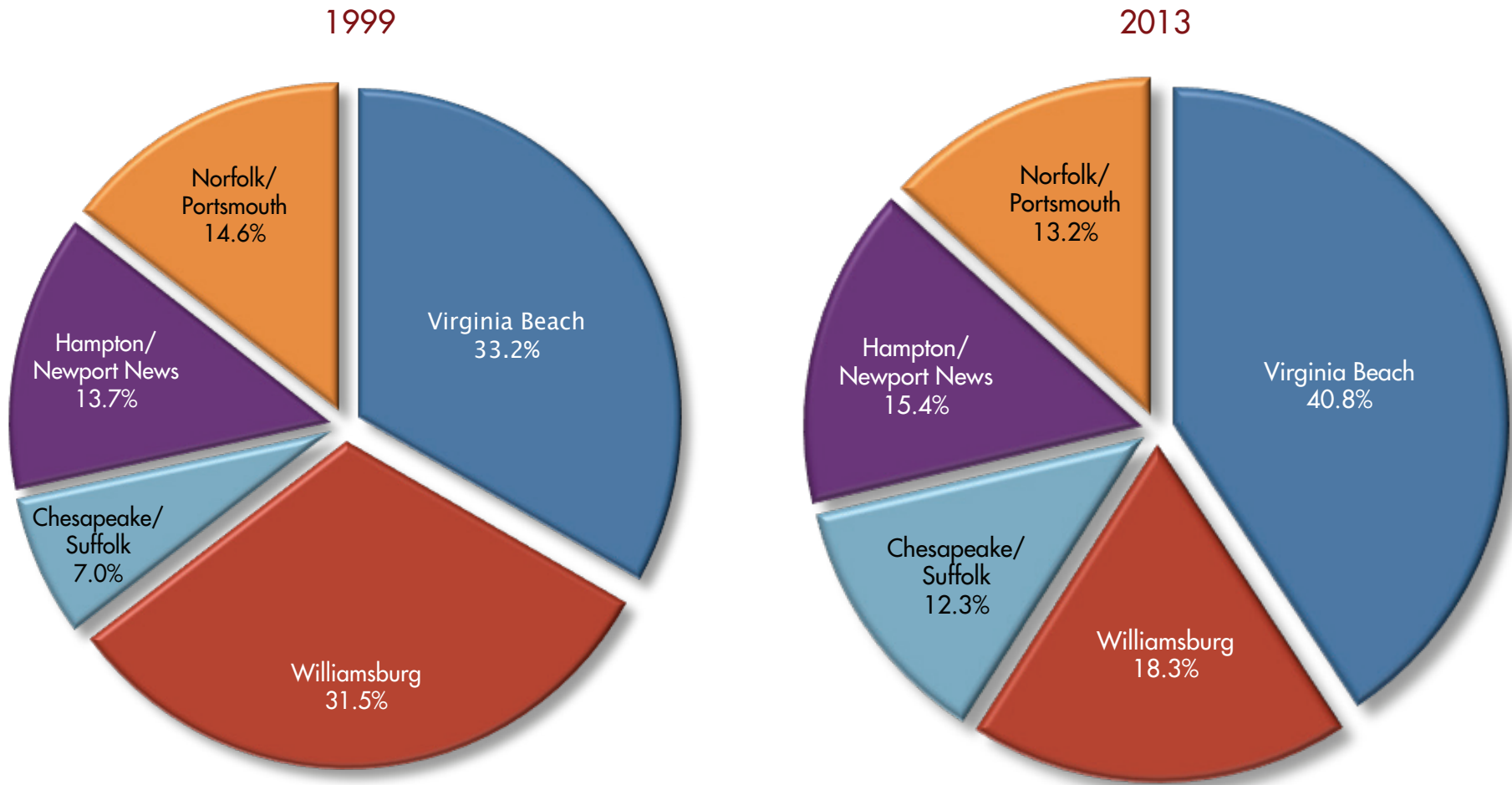
HOTEL REVENUE IN HAMPTON ROADS, 1996-2014



Sources: Smith Travel Research Trend Report, Jan. 7, 2014, and the Old Dominion University Economic Forecasting Project

GRAPH 16

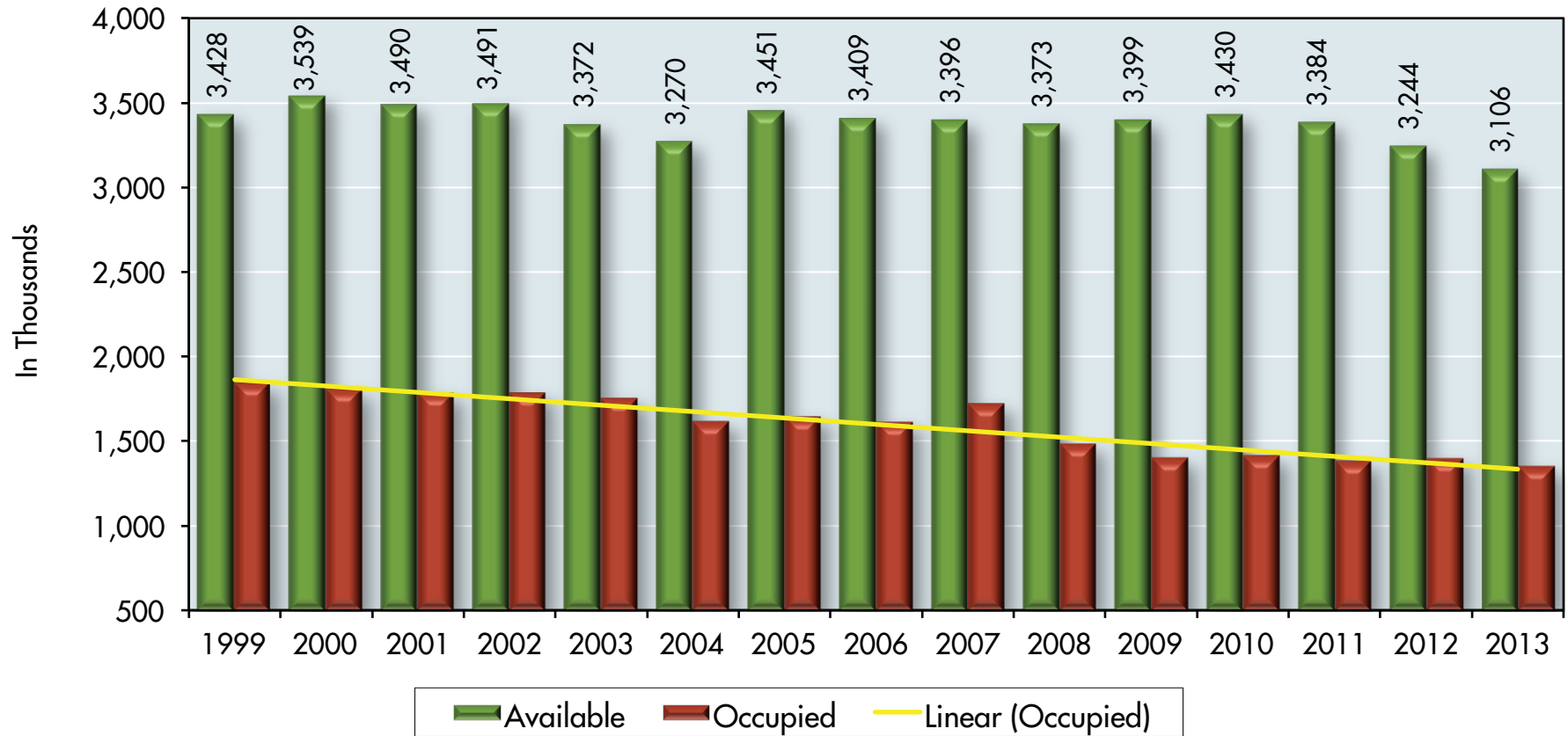
ESTIMATED CITY HOTEL MARKET SHARES IN HAMPTON ROADS AS INDICATED BY INDUSTRY REVENUES, 1999 AND 2013



Sources: Smith Travel Research Trend Report, Jan. 7, 2014, and the Old Dominion University Economic Forecasting Project

GRAPH 17

HOTEL ROOM NIGHTS IN THE HISTORIC TRIANGLE (WILLIAMSBURG) MARKET, 1999-2013



Sources: Smith Travel Research Trend Report, Jan. 7, 2014, and the Old Dominion University Economic Forecasting Project

Housing

From the standpoint of sellers, the market for existing residential homes in Hampton Roads continued to improve. As Graph 18 confirms, the average number of days that an existing home was on the market before selling declined for the second year in a row and the total number of existing homes sold increased for the third consecutive year. While the inventory of such homes increased slightly, it remains very close to our historical average level (see Graph 19). Meanwhile, as Table 5 suggests, 2014 should be the third consecutive year that the median sale price of existing residential homes has increased, albeit modestly.

An important reason why the market for existing homes has changed is that the number of distressed homes on the market has declined. Graph 20 shows that the absolute number of residential foreclosure filings in Hampton Roads is continuing to move toward pre-recession levels, while Graph 21 tells us that the number of active listings of distressed homes (REO bank-owned homes and properties up for bid in a short sale) has fallen almost continuously since peaking at 3,224 in November 2010. In 2014, such sales are expected to account for roughly one-quarter of all homes sold. This is vitally important to sellers because, as Table 6 notes, **in 2014 sales prices of REO bank-owned properties have been only 55.7 percent of non-distressed sales prices, while short sale prices have been only 72.3 percent of non-distressed sales prices. Plainly put, sales of distressed homes depress sales prices, and not just by a little bit.**

More stringent loan requirements imposed by lenders and our plodding economic recovery have made it difficult for many prospective homeowners to obtain financing and actually make a home purchase. At the same time, the Great Recession put a crimp in the construction of new apartments and condominiums. The combination of these factors has driven up rents within Hampton Roads. Relatively speaking, it now is much more attractive for individuals to purchase a home (instead of renting) than it was five years ago. Table 7 underlines this point by comparing the median monthly rent for a three-bedroom house to the average monthly principal, interest and taxes required to

purchase a home in our region. The ratio of that rent-to-house payment increased from 0.73 in 2007 to 1.45 in 2013.

At the same time, the average monthly mortgage principal, interest and tax payment just mentioned now is only 19.4 percent of median household monthly income (see Graph 22). Thus, if you are employed and can obtain mortgage financing, this is a splendid time for you to purchase a home.

TABLE 5

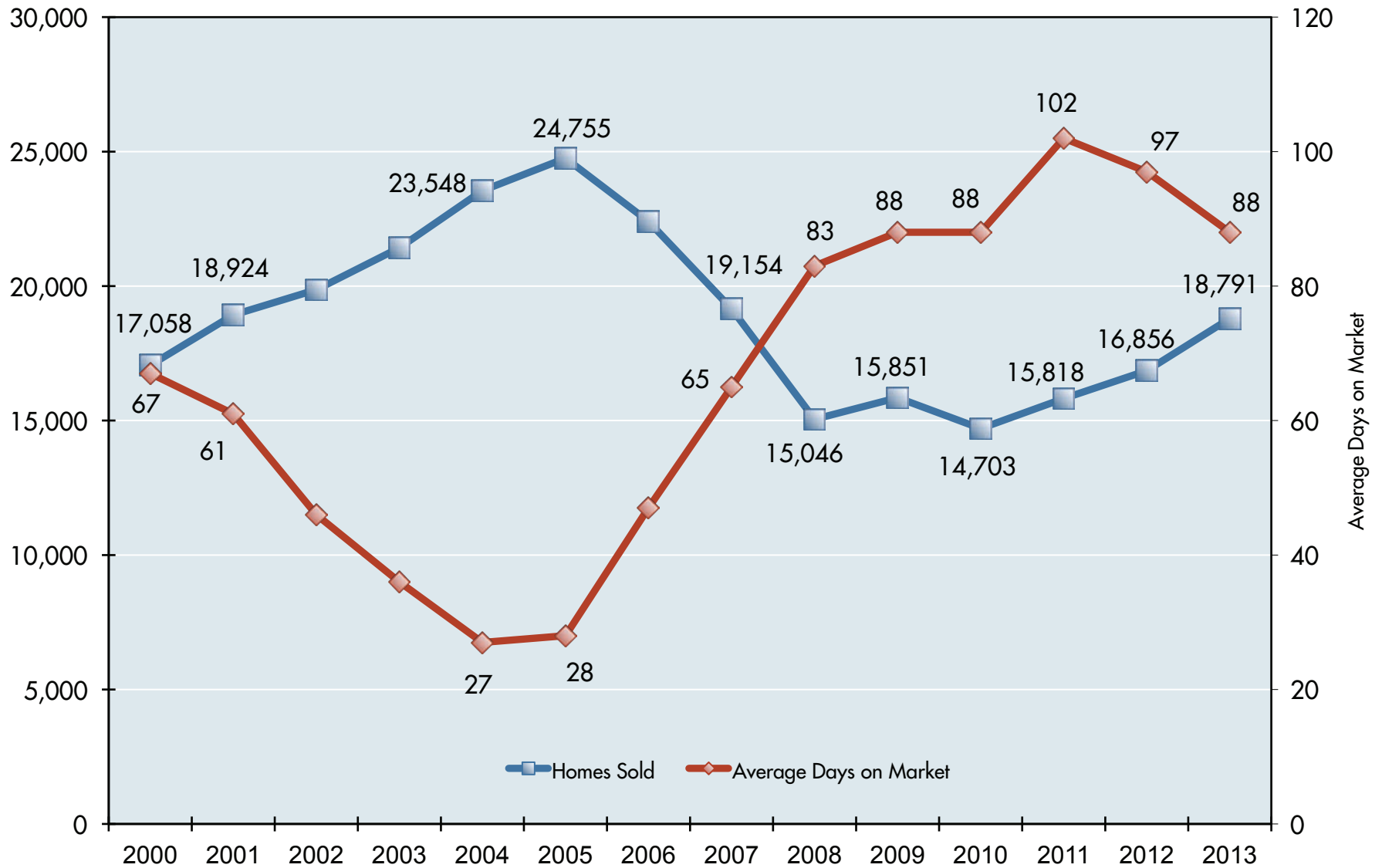
MEDIAN SALE PRICE OF EXISTING RESIDENTIAL HOMES IN HAMPTON ROADS, 2001-2014*

Year	Median Price	Annual Percent Change
2001	\$109,000	9.1%
2002	\$116,900	7.3%
2003	\$130,000	11.2%
2004	\$156,500	20.4%
2005	\$192,000	22.7%
2006	\$214,900	11.9%
2007	\$223,000	3.8%
2008	\$219,000	-1.8%
2009	\$207,000	-5.5%
2010	\$203,900	-1.5%
2011	\$180,000	-11.7%
2012	\$185,000	+2.78%
2013	\$190,000	+2.70%
2014*	\$183,000	+0.55%

Sources: Real Estate Information Network Inc. and the Old Dominion University Economic Forecasting Project.
*YTD May 2013 median price was \$182,000 and YTD May 2014 median price is \$183,000.

GRAPH 18

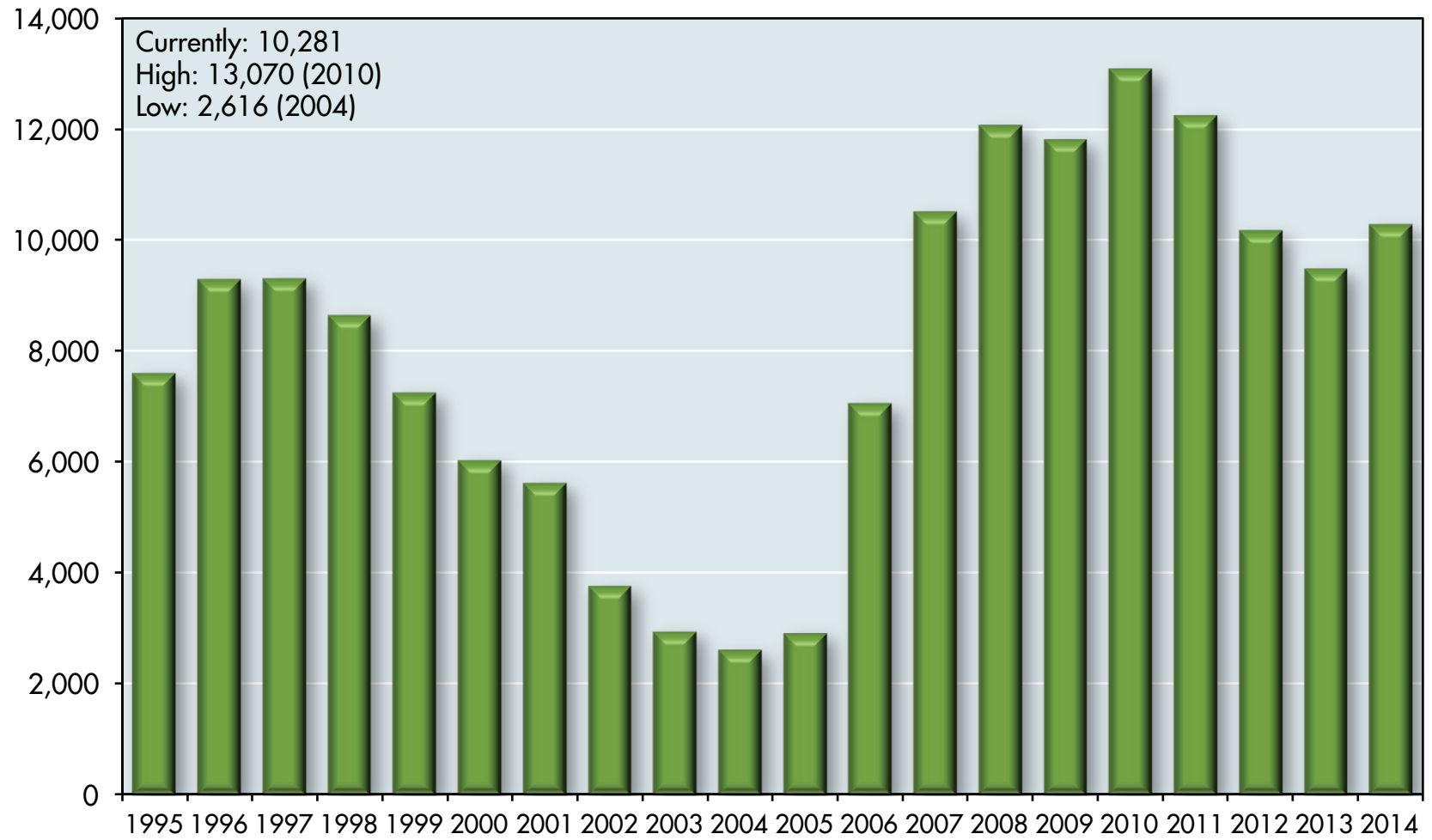
EXISTING RESIDENTIAL HOMES SOLD AND AVERAGE DAYS ON THE MARKET IN HAMPTON ROADS, 2000-2013



Sources: Real Estate Information Network Inc. and the Old Dominion University Economic Forecasting Project. Information deemed reliable but not guaranteed. Days on market is calculated from the date listed to the date under contract for existing homes sold.

GRAPH 19

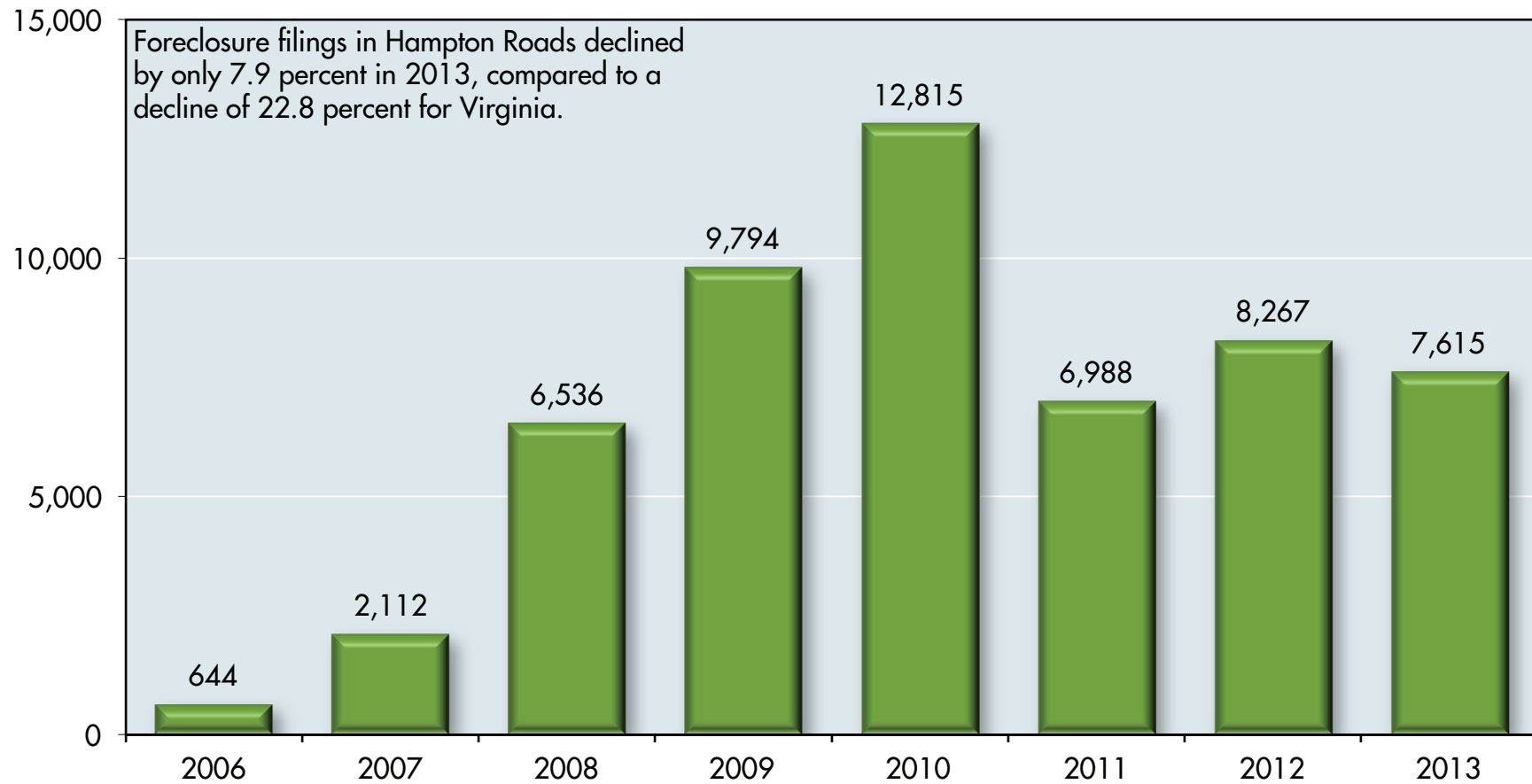
ESTIMATED INVENTORY OF EXISTING RESIDENTIAL HOMES AS MEASURED BY ACTIVE LISTINGS ON MAY 31 OF EACH YEAR



Sources: Real Estate Information Network Inc. and the Old Dominion University Economic Forecasting Project. Information deemed reliable but not guaranteed.

GRAPH 20

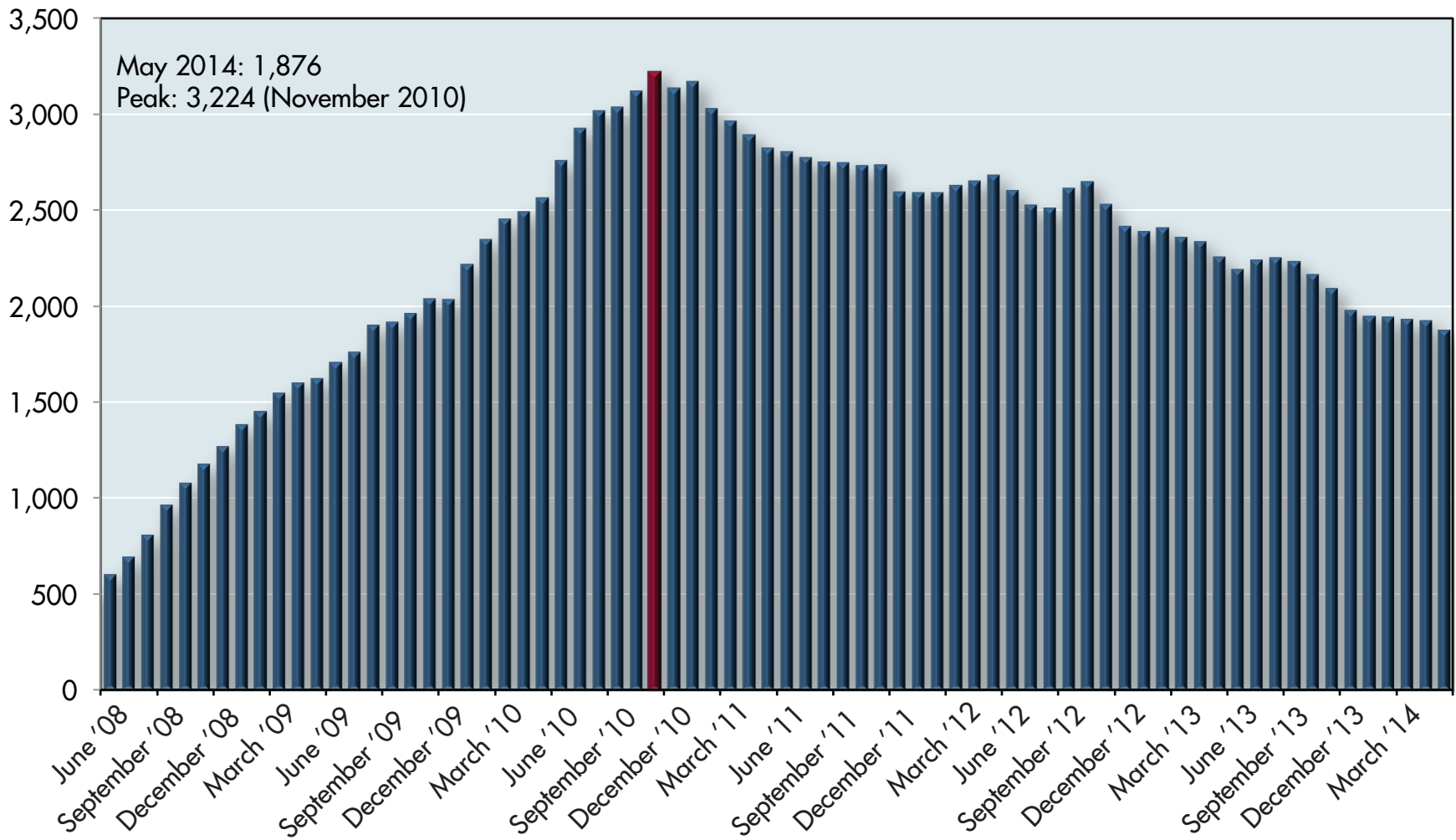
HAMPTON ROADS RESIDENTIAL FORECLOSURE FILINGS, 2006-2013



Sources: RealtyTrac and the Old Dominion University Economic Forecasting Project

GRAPH 21

NUMBER OF ACTIVE LISTINGS OF DISTRESSED HOMES (REO AND SHORT SALES) IN HAMPTON ROADS, JUNE 2008 – MAY 2014



Sources: Real Estate Information Network Inc. and the Old Dominion University Economic Forecasting Project

TABLE 6

AVERAGE PRICE OF EXISTING SHORT SALE, REOS AND NON-DISTRESSED RESIDENTIAL HOMES SOLD IN HAMPTON ROADS, JANUARY 2006 - MAY 2014

Year	Non-distressed Sales	Short Sales	Short Sales Price% Non-distressed Price	REO Sales	REO Price% Non-distressed Sales
2006	\$250,254	\$241,666	96.6	\$120,817	48.3
2007	\$261,723	\$237,897	90.9	\$163,421	62.4
2008	\$255,852	\$239,110	93.5	\$184,462	72.1
2009	\$243,902	\$239,913	98.4	\$164,229	67.3
2010	\$251,572	\$231,211	91.9	\$151,612	60.3
2011	\$236,358	\$212,967	90.1	\$135,304	57.3
2012	\$237,215	\$187,527	79.1	\$134,535	56.7
2013	\$245,344	\$180,001	73.4	\$131,644	53.7
2014*	\$235,755	\$170,504	72.3	\$131,361	55.7

Sources: Real Estate Information Network Inc. and the Old Dominion University Economic Forecasting Project. Information deemed reliable but not guaranteed. REOs represent bank-owned homes.
 *Data for 2014 are through May 2014.

TABLE 7

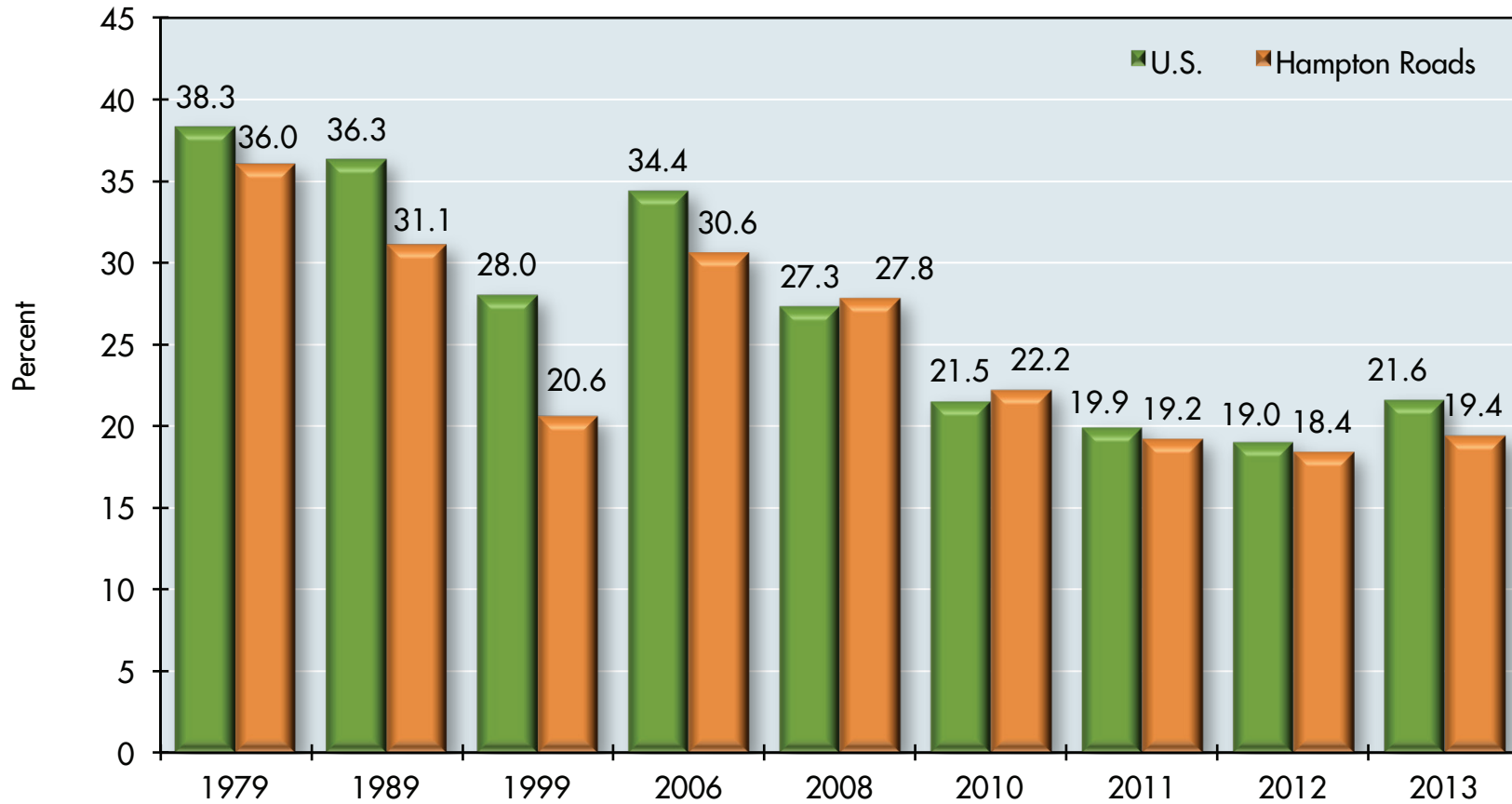
ESTIMATED HOUSE RENTAL AND PRINCIPAL, INTEREST AND TAXES FOR A HOUSE PAYMENT IN HAMPTON ROADS, 2001-2013

Year	Median Monthly Rent for a Three-bedroom House	PI&T Monthly for a Median-priced Existing House	Ratio of Monthly Rent to Principal, Interest and Taxes
2001	\$882	\$836	1.19
2002	\$911	\$861	1.20
2003	\$1,037	\$890	1.33
2004	\$1,044	\$1,073	1.11
2005	\$1,087	\$1,315	0.83
2006	\$1,118	\$1,533	0.73
2007	\$1,164	\$1,598	0.73
2008	\$1,247	\$1,507	0.83
2009	\$1,236	\$1,307	0.95
2010	\$1,277	\$1,233	1.04
2011	\$1,319	\$1,071	1.23
2012	\$1,454	\$1,015	1.43
2013	\$1,570	\$1,080	1.45

Sources: HUD and the Old Dominion University Economic Forecasting Project. Monthly payments are calculated assuming that the buyer has a 30-year mortgage. It is assumed that real estate tax rate is 1 percent and the tax reduction received by homeowners would compensate for homeowners insurance and maintenance expenditures.

GRAPH 22

HOUSING AFFORDABILITY: MONTHLY PAYMENT FOR A MEDIAN PRICE RESALE HOUSE AS A PERCENTAGE OF MEDIAN HOUSEHOLD MONTHLY INCOME IN HAMPTON ROADS AND THE U.S., 1979-2013



Source: Old Dominion University Economic Forecasting Project. Monthly payments are calculated assuming that the buyer has a 30-year mortgage. The 30-year mortgage rate was 3.98 percent for 2013, for example.

Summing It Up And A Quick Look At The Future

We have reasons to be pleased that our regional economy is growing modestly despite DOD spending within Hampton Roads remaining slightly below its 2012 peak. Overall, our tourism industry has grown at a modest pace since the end of the Great Recession. Continued growth in the national economy will help accelerate the recovery of our hotels and motels, but experience demonstrates that their prosperity is rather sensitive to federal spending levels, including DOD spending. Until federal spending recovers, our hotels and motels, as a group, are not likely to prosper as they did pre-recession.

Despite some turmoil and issues, the Port has been expanding both in size and market share and has become an increasingly important economic engine for Hampton Roads.

Our regional housing market turned the corner at least a year ago, but it is not likely to do extremely well until federal spending in general and DOD spending in particular turn upward.

All of this adds up to an outlook of modest growth that is below our recent historical norms. **Table 8 documents that Hampton Roads grew at the rate of 1.89 percent in 2013 (after removing price inflation), but we estimate only a 1.54 percent real rate of growth in 2014.** The 2015 outlook is for more of the same, but international crises that push DOD spending upward and/or inflate oil prices could easily alter this projection.

Graph 23 illustrates where we've been and where we believe we are going in terms of real, inflation-adjusted economic growth. **Our predicted 1.54 percent regional economic growth rate for 2014 will find us trailing both Virginia (predicted 1.76 percent) and the U.S. (predicted 1.94 percent).** Unfortunately, the Commonwealth now faces its own economic challenges, as slumping state tax collections reveal. Three Northern Virginia counties rank among the top 10 in the U.S. in terms of their

total loss of jobs in 2014. At the same time, the coal industry in Southwest Virginia is under environmental siege. Hence, we cannot anticipate much economic stimulus (for example, that coming from tourists) from the rest of the Commonwealth.

In the 2013 State of the Region report, we observed that "It could have been worse." While hardly satisfying, this assessment remains on target.

TABLE 8

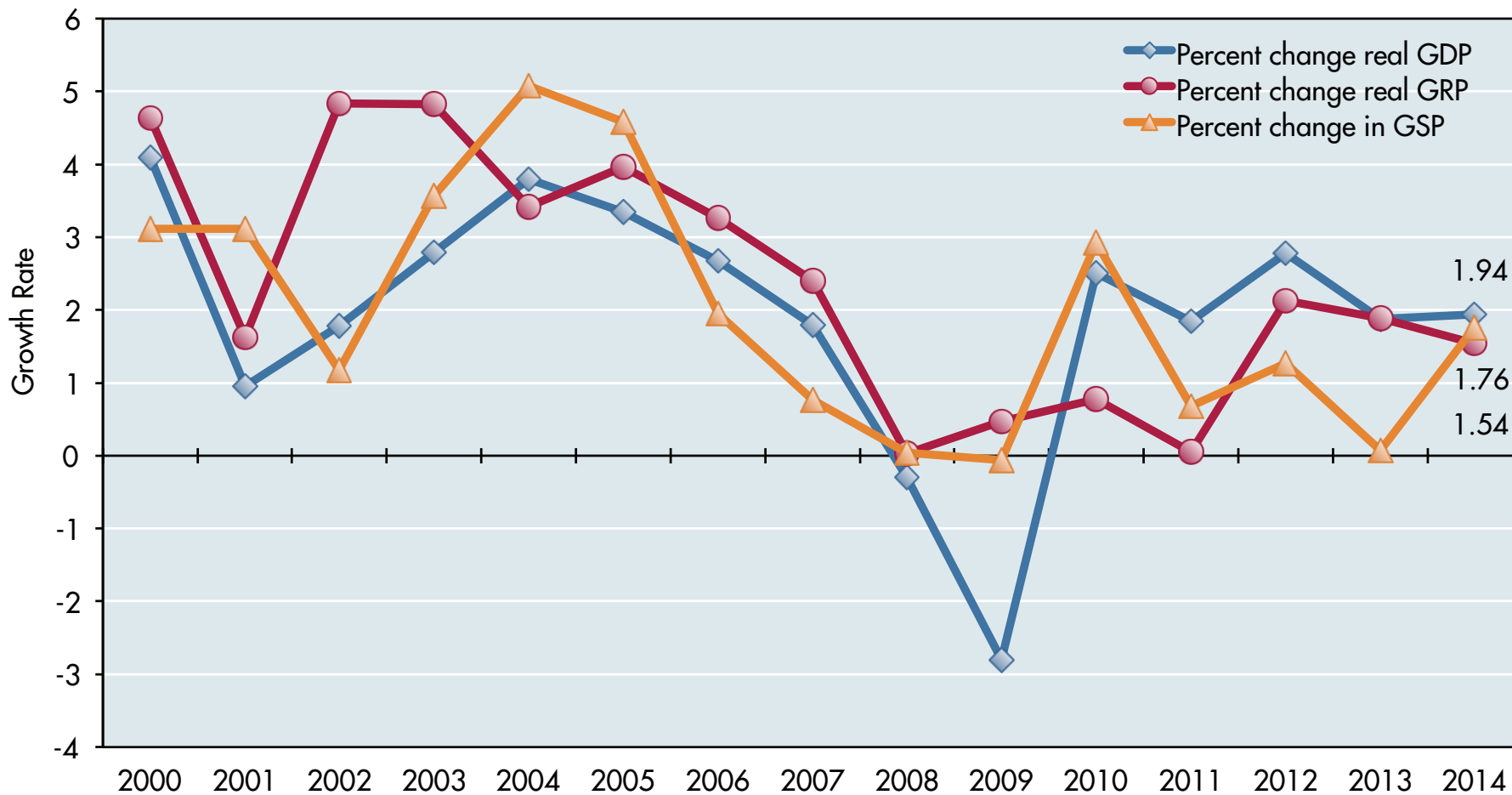
ESTIMATED HAMPTON ROADS GROSS REGIONAL PRODUCT (GRP), NOMINAL AND REAL (PRICE ADJUSTED), 2000-2014

Year	Nominal GRP Billions of \$	Real GRP (2009=100) Billions of \$	Real GRP Growth Rate Percent
2000	50.35	61.49	4.64
2001	52.34	62.49	1.62
2002	55.72	65.51	4.84
2003	59.58	68.67	4.83
2004	63.31	71.02	3.42
2005	67.93	73.84	3.97
2006	72.29	76.25	3.26
2007	75.99	78.07	2.40
2008	77.50	78.10	0.03
2009	78.46	78.46	0.47
2010	80.03	79.07	0.77
2011	81.64	79.11	0.05
2012	84.84	80.79	2.13
2013	87.71	82.31	1.89
2014	90.27	83.58	1.54

Source: Old Dominion University Economic Forecasting Project. Data incorporate U.S. Department of Commerce personal income revisions through November 2013. Base year is 2009.

GRAPH 23

RATE OF GROWTH OF GDP (U.S.), GSP (VIRGINIA) AND GRP (HAMPTON ROADS)



Sources: Bureau of Economic Analysis and the Old Dominion University Economic Forecasting Project. Data on GDP incorporate latest BEA revisions through June 11, 2014.



Mixed Signals: Migration Data And Regional Economic Vitality



MIXED SIGNALS: MIGRATION DATA AND REGIONAL ECONOMIC VITALITY

The logic is simple. If more people are leaving a region than are coming into it, this suggests the possibility of economic problems in that region – in essence, a lack of economic vitality that is causing individuals to vacate. Once one controls for births and deaths, what happens to a region’s population? Is a region a magnet that attracts others, or does it lack magnetism and watch as individuals depart for other locales?

Hampton Roads receives mixed grades on its report card when viewed in the light of migration. **Between 2010 and 2013, after taking account of births and deaths, our region experienced net out-migration. Virtually all of the other comparable mid-Atlantic regions recorded net in-migration. This is troubling information, though somewhat less disturbing if one separates domestic migration (inside the U.S.) from international migration (in and out of the U.S.). Hampton Roads has proven to be an attractive location for immigrants to settle and fares better than many of its peer regions in this regard.**

Let’s take a look at the data, which have been extracted from U.S. Census data by www.governing.com. Data for nearly all metropolitan areas can be found at www.governing.com/gov-data/census/metro-area-population-migration-estimates-2013-data.html.



Focusing On Migration

Migration occurs for many reasons, not simply because of the availability of jobs. Quality of life also looms large. Amenities matter. Our oceanfront, the Chrysler Museum of Art, the Historic Triangle, quality health care, and our colleges and universities are among the many things that make our region a great place to live. Publications such as David Savageau’s “Places Rated Almanac” and Bert Sperling’s “Cities Ranked and Rated” attempt to quantify such things.

Still other factors matter as well. The quality of our K-12 schools, the viability of our transportation system, the vitality of our churches, the presence of family and friends, the nature and quality of our entertainment, and our tax levels all help determine whether people decide to live here, or somewhere else. Another factor of obvious importance in Hampton Roads is the presence of the military and military-related businesses and services. Migration data include the comings and goings of military personnel and the absolute number of military personnel located in Hampton Roads has trended downward over the past several decades.

Clearly, noneconomic factors influence migration. Even so, economic factors such as the availability of jobs and tax rates are major influences upon migration. Witness the tens of thousands of people who have left California in recent years and headed to other states, notably Texas (see the work of the Manhattan Institute on this subject, www.manhattan-institute.org/html/cr_71.htm#.U4VohXy-l5c).

Population Growth Versus Migration

Governing.com, an Internet site that focuses on state and local government issues, recently published Census data that focus on migration in and out of cities and regions between 2010 and 2013. We rely upon governing.com’s data in this chapter.

Migration is only one source of population growth or decline. Population growth is a broader concept that takes into account not only migration, but also includes births and deaths. Consider the population of Hampton Roads, which rose by 30,549, or 1.53 percent, between 2010 and 2013. However, as we will see, positive population growth that results from the number of births exceeding the number of deaths can disguise the migration of individuals to and from a region.

Table 1 demonstrates this point. It reveals that in net terms, 18,879 people departed from Hampton Roads for other locations in the U.S. between 2010 and 2013. Yes, also during this period some people migrated into our region from other parts of the country, but the -18,879 number means that even more left our region for other U.S. locations.

On the other hand, our adverse domestic migration pattern was counteracted substantially by a net in-migration of 17,179 people from outside the U.S. This flow of immigrants into Hampton Roads is good economic news because immigrants as a group tend to comprise highly productive individuals who are more likely to start businesses and create jobs than other Americans. A significant segment of today’s immigrants bring with them human and financial capital that can be productively utilized in the U.S.

TABLE 1

**POPULATION CHANGES AND MIGRATION:
HAMPTON ROADS, 2010 TO 2013**

Total Population Change	Natural Increase	Births	Deaths	Net Migration		
				Domestic	International	Total
30,540	32,240	74,029	41,789	-18,879	+17,179	-1,700
$30,540 = 74,029 - 41,789 - 18,879 + 17,179$						
Source: www.governing.com/gov-data/census/metro-area-population-migration-estimates-2013-data.html						

Analysis By City And County

Setting aside new births and deaths, Hampton Roads lost population between 2010 and 2013 – meaning that more people migrated out of our region than migrated into our region. Graph 1 illustrates the 1,700 individual net out-migration experienced by Hampton Roads during those years.

Table 2 records the net migration flows for our 16 cities and counties and further subdivides those flows into domestic (inside the U.S.) and international (to and from the U.S.). In fact, eight of our 16 cities and counties experienced net out-migration from all sources between 2010 and 2013 – led by Newport News with a net outflow of 4,017, followed by Hampton with 2,939. Chesapeake recorded the largest net inflow, 4,444, followed by James City County with 3,069.

DOMESTIC VERSUS INTERNATIONAL MIGRATION

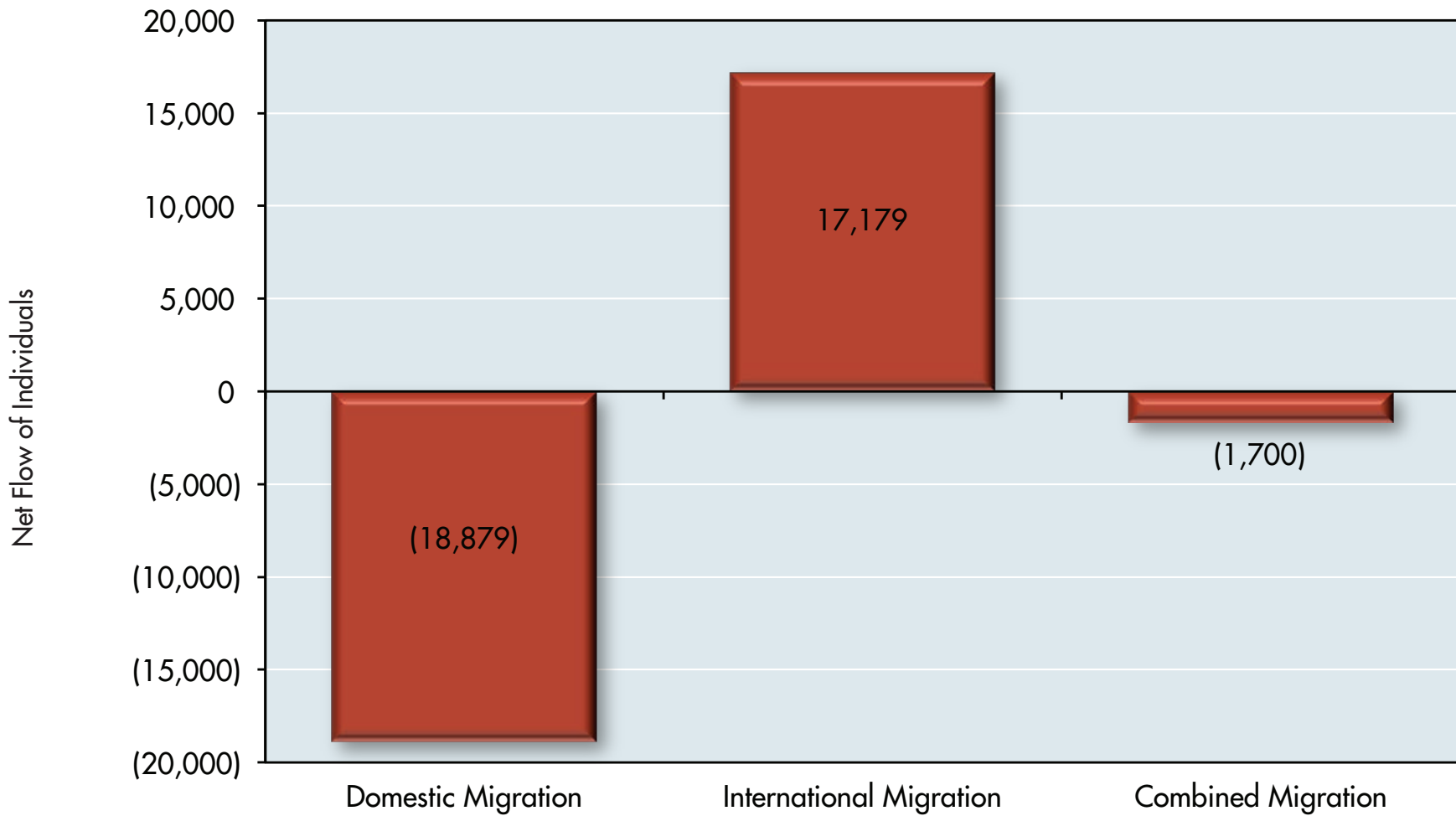
The results reported in Table 2 are nuanced, however. One can divide migration into two parts – *domestic* migration (existing U.S. residents changing their locations) and *international* migration (immigrants coming into the U.S. or emigrants leaving the U.S.). Ten of our 16 cities and counties experienced negative domestic migration, though only two (both of our North Carolina counties) experienced negative international migration. Graph 1 illustrates the overall international versus negative domestic migration for Hampton Roads between 2010 and 2013.

It is the negative *domestic* migration numbers that should be of the greatest concern to us as citizens, elected officials and regional policymakers. Negative domestic migration numbers represent people who have left our region, presumably because our peculiar combination of employment and amenities was not sufficiently attractive to retain them. The view of most people is that this is due to inferior employment prospects, though we do not have any data to confirm this. In essence, this view asserts that these people could not find a suitable job in Hampton Roads and left to pursue hopefully better prospects elsewhere.

	Domestic Migration	International Migration	Total Migration
Gates County, N.C.	-474	-9	-483
Currituck County, N.C.	740	-6	734
Gloucester County	-135	73	-62
Isle of Wight County	351	81	432
James City County	2,516	553	3,069
Mathews County	63	6	69
York County	-418	692	274
Poquoson	-56	33	-23
Chesapeake	3,067	1,377	4,444
Hampton	-3,828	889	-2,939
Newport News	-6,597	2,580	-4,017
Norfolk	-6,709	4,097	-2,612
Portsmouth	-1,603	598	-1,005
Suffolk	-338	284	-54
Virginia Beach	-6,248	5,703	-545
Williamsburg	790	228	1,018
Totals	-18,879	17,179	-1,700

Source: www.governing.com/gov-data/census/metro-area-population-migration-estimates-2013-data.html

GRAPH 1
NET INFLOWS AND OUTFLOWS OF INDIVIDUALS (NOT INCLUDING BIRTHS) TO AND FROM HAMPTON ROADS, 2010-2013



Source: www.governing.com/gov-data/census/metro-area-population-migration-estimates-2013-data.html

However, as pointed out in Graph 1, there are major differences between domestic and international migration flows. Graphs 2 and 3 separately depict the domestic and international migration numbers for each of the 16 cities and counties. It is here one can see that three of our largest cities – Newport News, Norfolk and Virginia Beach – suffered a net out-migration of people to other locations inside the United States between 2010 and 2013 (Graph 2). These are not good-news numbers for these cities, for they appear to reflect torpid job creation. True, all three cities have won a variety of awards in recent years for their livability and even for their entrepreneurial climates. Nevertheless, the bottom line is that these cities lost residents to the rest of the country.

Counteracting these problematic numbers, however, are the impressively positive international in-migration numbers for all three cities (and for that matter, for our entire region save our two North Carolina counties) that one can see in Graph 3. Virginia Beach, Norfolk and Newport News (in that order) were magnets for international immigrants and this has highly positive implications for them because of the entrepreneurial and job-creating tendencies of immigrants as a group.¹

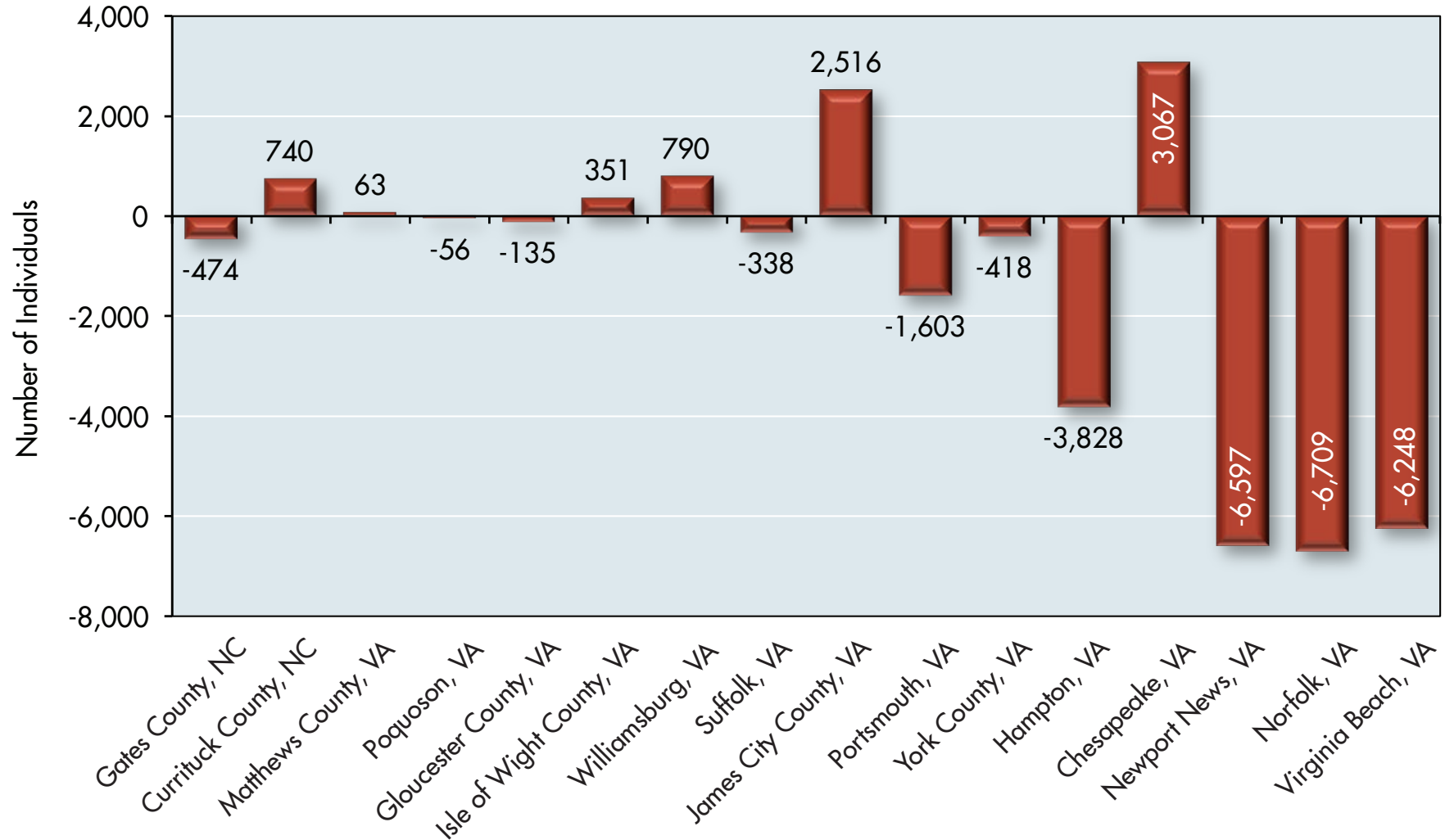
The contrasts between the domestic and international migration data for Hampton Roads illustrate the “good news/bad news” character of the phenomenon of migration for our region. It certainly appears that we are not creating sufficient new jobs to retain our most mobile workers. Graph 4 confirms this; one can see that we have yet to recover all of the jobs we lost in the Great Recession that began in 2008. On the other hand, we have become a relatively attractive landing spot for immigrants and this bodes well for future job creation and economic dynamism.



¹ See, for example, “Immigration and the Revival of American Cities: From Preserving Manufacturing Jobs to Strengthening the Housing Market,” (September 2013) www.as-coa.org/sites/default/files/ImmigrationUSRevivalReport.pdf. The primary author, Jacob L. Vigdor, is a Duke University economist.

GRAPH 2

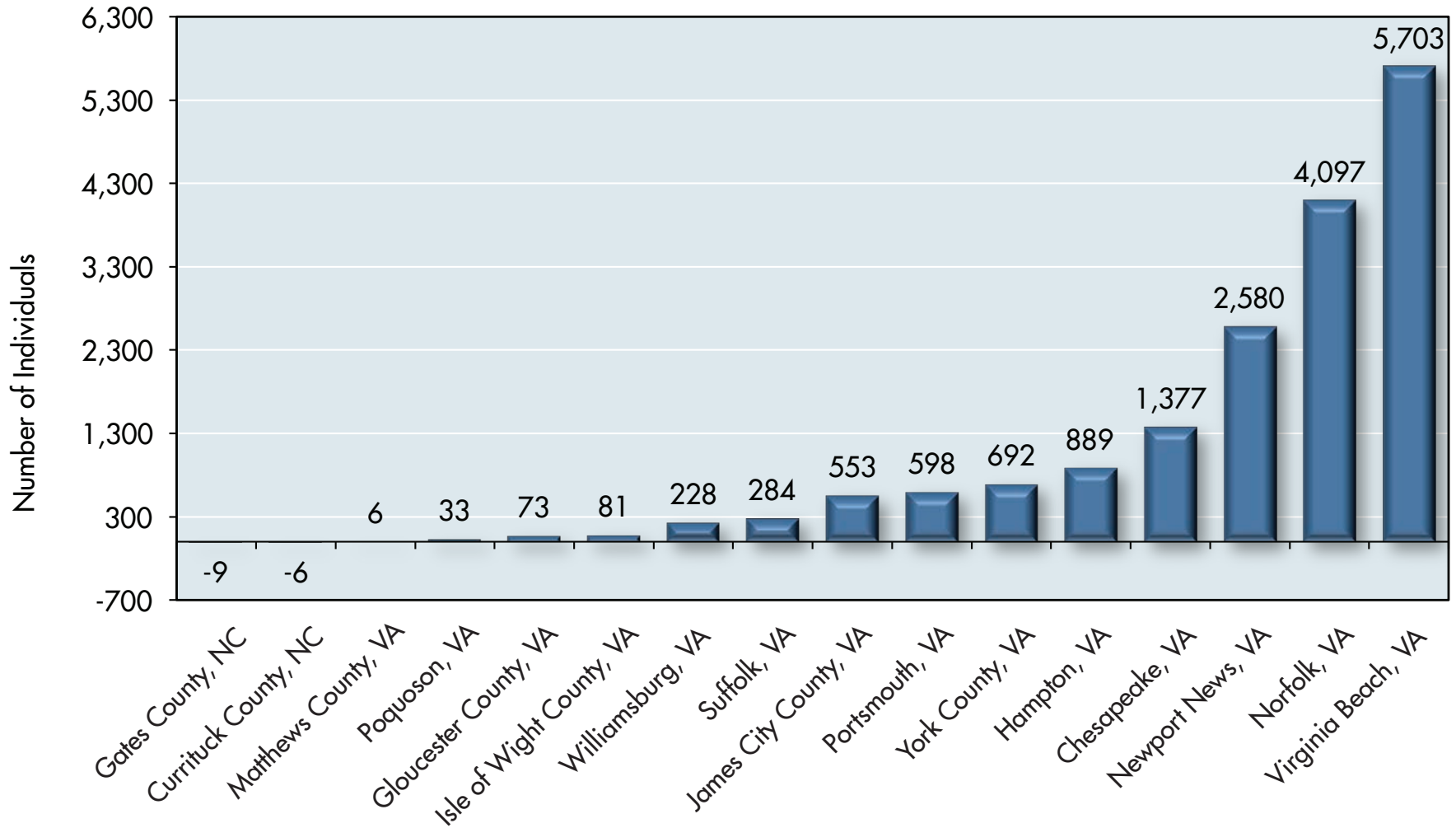
NET INFLOWS AND OUTFLOWS OF INDIVIDUALS (NOT INCLUDING BIRTHS) BECAUSE OF DOMESTIC MIGRATION, TO AND FROM HAMPTON ROADS, 2010-2013



Source: www.governing.com/gov-data/census/metro-area-population-migration-estimates-2013-data.html

GRAPH 3

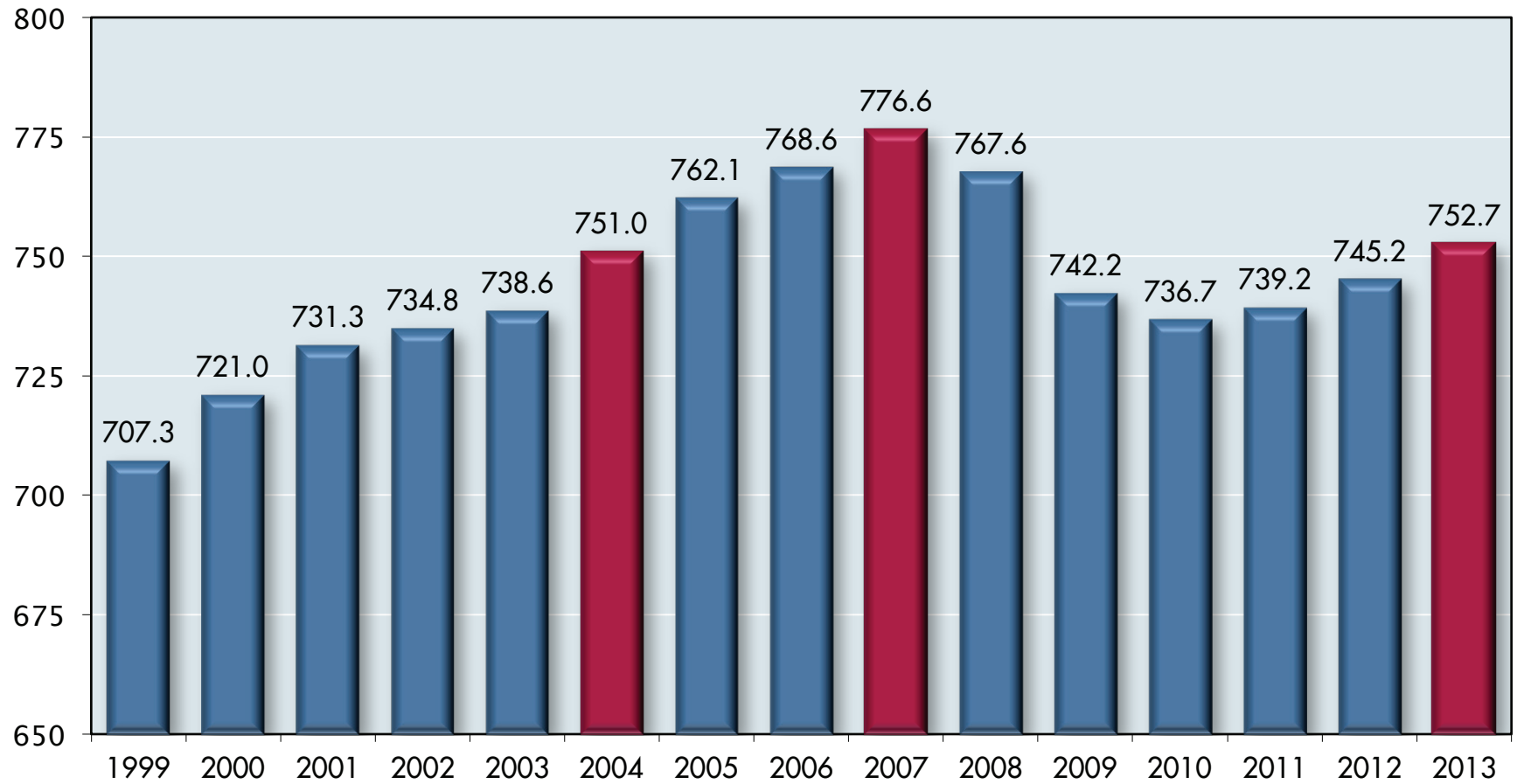
NET INFLOWS AND OUTFLOWS OF INDIVIDUALS (NOT INCLUDING BIRTHS) BECAUSE OF INTERNATIONAL MIGRATION, TO AND FROM HAMPTON ROADS, 2010-2013



Source: www.governing.com/gov-data/census/metro-area-population-migration-estimates-2013-data.html

GRAPH 4

TOTAL CIVILIAN EMPLOYMENT IN HAMPTON ROADS, 1999-2013 (THOUSANDS OF JOBS)



Sources: U.S. Department of Labor CES data and the Old Dominion University Economic Forecasting Project. Not seasonally adjusted. Revised data March 17, 2014.

Comparing Hampton Roads To Other Metropolitan Regions

The data presented thus far are interesting, but immediately lead to questions relating to how Hampton Roads compares to other metropolitan regions that we often view as peers and/or competitors. The best way to compare is to transform our migration data into migration rates per 1,000 citizens. Having done so, we can compare metropolitan areas of different population sizes in a more meaningful fashion.

Graph 5 presents *domestic* migration rates for Hampton Roads and eight other mid-Atlantic metropolitan areas. This is another “bad news” rendition of our data; all eight of our peer and/or competitor regions posted positive net *domestic* migration rates between 2010 and 2013; only Hampton Roads recorded a negative rate. Why? These other regions recovered much more vigorously from the Great Recession than we did. Put simply, they have created more new jobs than we have and hence have attracted migrants from other U.S. locations.

The “good news” portion of our data is contained in Graph 6, which provides *international* migration rates for Hampton Roads and the eight peer/competitor regions. We enjoyed the third highest international migration rate among this sample of metropolitan regions. Because immigrants as a group generate disproportionately large numbers of new entrepreneurial ventures and are especially productive sources of job creation,² our leadership position in the area of international migration bodes well for our future.

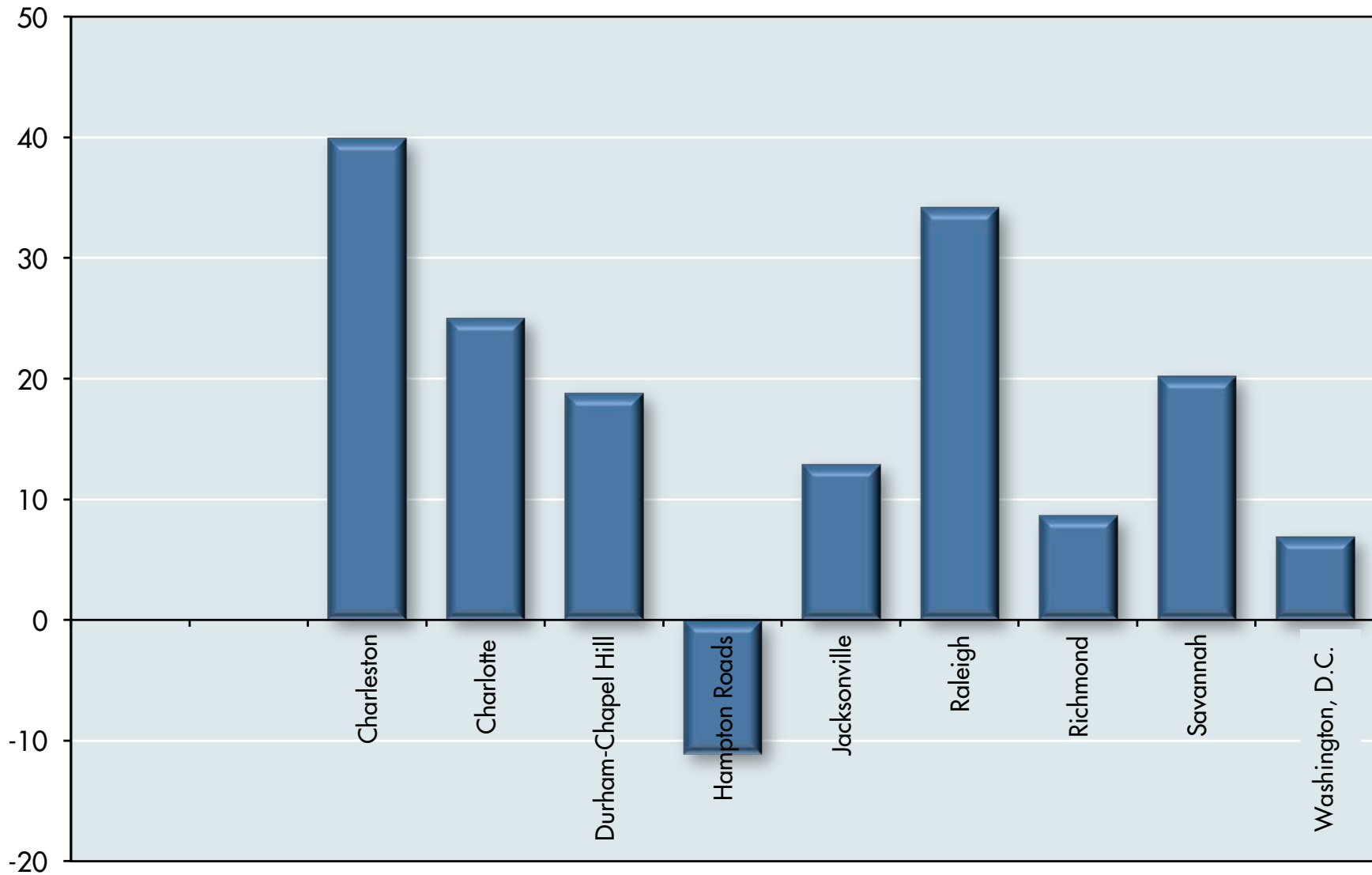
² Another reputable study supporting these conclusions is “National and State-by-State Economic Benefits of Immigration Reform,” <http://americanprogress.org/issues/immigration/report/2013/05/17/63295/national-and-state-by-state-economic-benefits-of-immigration-reform/>. The study concluded that immigrants create 2,400 new jobs each year in Virginia and pay \$670 million in annual taxes.



Manan Shah, a principal partner of Plaza Resort Management, LLC, in Virginia Beach.

GRAPH 5

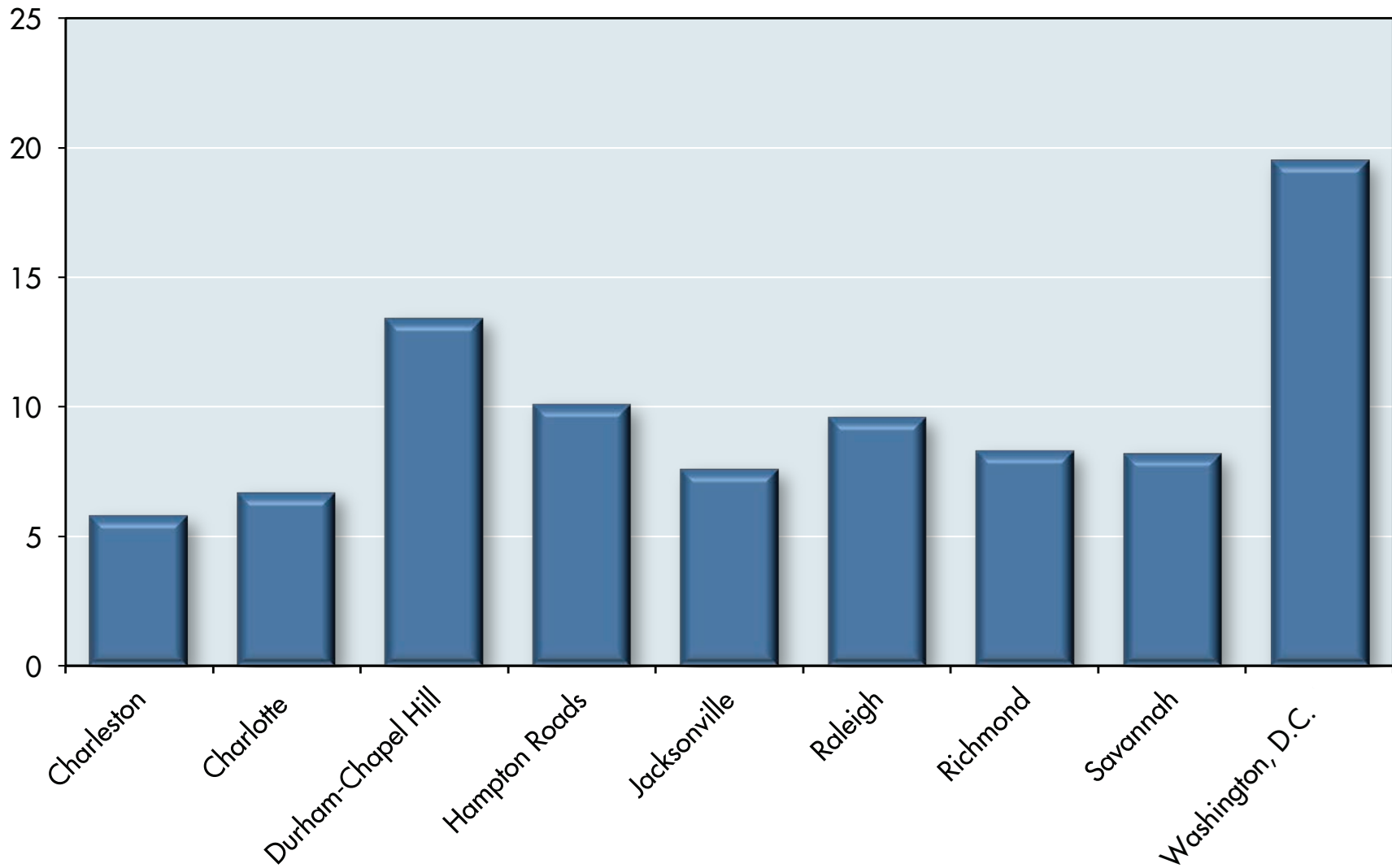
DOMESTIC MIGRATION RATES FOR HAMPTON ROADS AND EIGHT COMPARABLE MID-ATLANTIC METROPOLITAN AREAS



Source: www.governing.com/gov-data/census/metro-area-population-migration-estimates-2013-data.html

GRAPH 6

INTERNATIONAL MIGRATION RATES FOR HAMPTON ROADS AND EIGHT COMPARABLE MID-ATLANTIC METROPOLITAN AREAS



Source: www.governing.com/gov-data/census/metro-area-population-migration-estimates-2013-data.html

The Influence Of The Military

The total number of active-duty military stationed in Hampton Roads has been on a downward trend for well more than a decade. Between FY 2010 and FY 2013, that decline continued, but for U.S. Navy personnel was only 1,133, or about 1.6 percent of that service's active-duty force in Hampton Roads.³ Data for the U.S. Army, U.S. Air Force and U.S. Coast Guard were not available. Nevertheless, it seems likely that even the inclusion of data from those services would still cause the total decline in active-duty military to be less than 2,000 over this time period. Taking such a number into consideration might wipe out the 1,700 negative overall migration number for our region, but it would not cure our last-place migration finish relative to comparable mid-Atlantic metropolitan areas. Further, several of the other regions (Charleston, Jacksonville, Savannah and Washington, D.C.) also are military-intensive and their numbers would have to be adjusted for military personnel movements as well.

Policy Implications

The good news is that our region continues to be attractive to immigrants from other countries. Virginia Beach, Norfolk and Newport News (in that order) lead the region in terms of attracting new immigrants. As noted above, there is abundant evidence that immigrants as a group tend to be ambitious and entrepreneurial. Somewhat more often than natives, they start their own businesses and end up generating new jobs. Some immigrants also bring substantial capital with them to our region. Farsighted, growth-oriented regional policy should build upon this strength.

A variety of ways exist to make our region even more attractive to immigrants, including the provision of short-term social services and financial support, supportive counseling (including financial counseling and connecting immigrants with those with investment capital), the provision of mentors and second-language instruction in schools, etc. The problem is not that such programs don't work. Assisting immigrants not only is good for the economy, supported by the

³ CNRMA Hampton Roads Personnel & Homeported Operating Units, FY 10-13 (July 2, 2014)

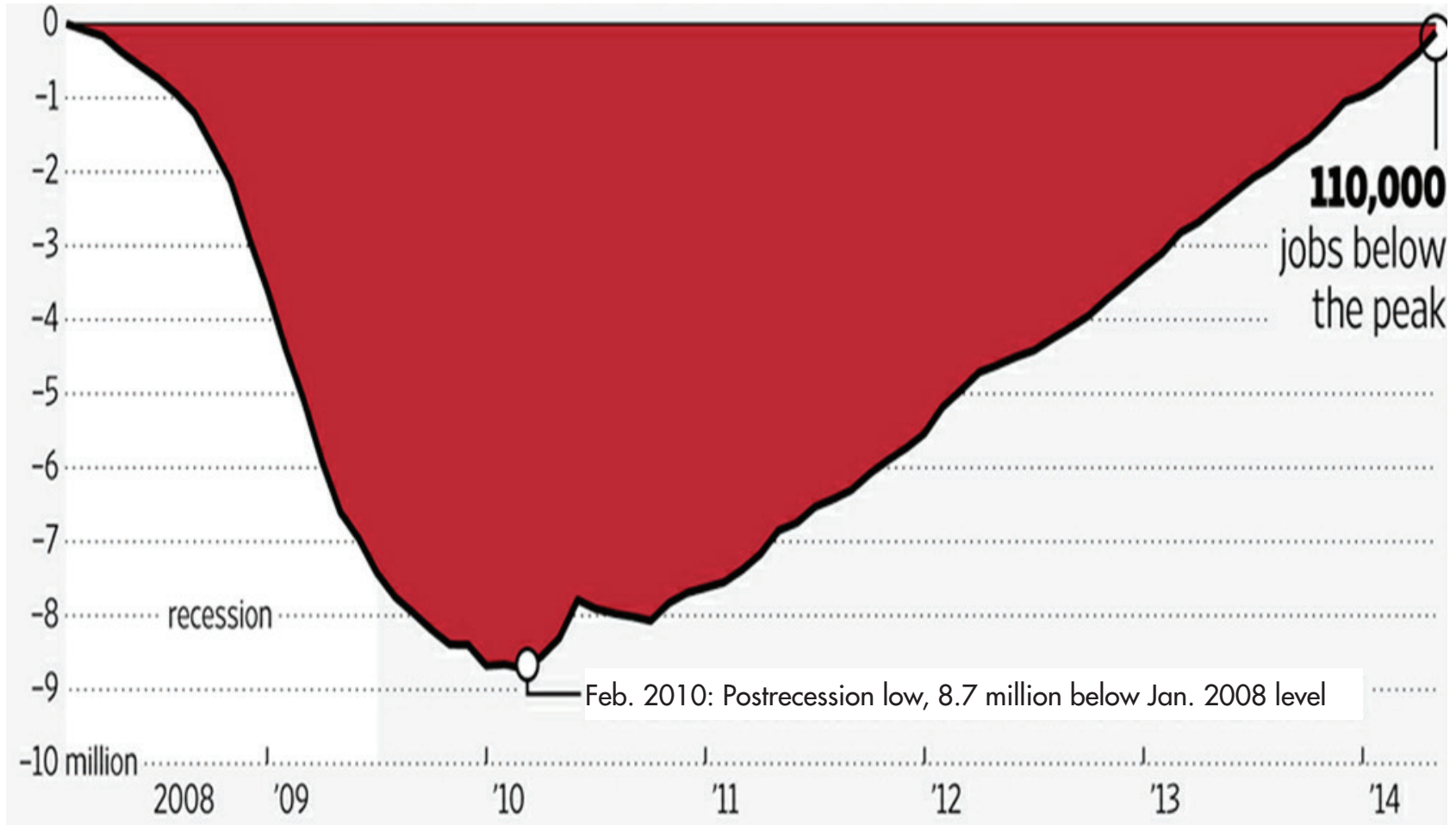
evidence, but it also is much less expensive than providing large subsidies to developers.

Instead, the hitch is that these initiatives may not immediately generate the same flash and media excitement as an announcement of a new hotel complex or arena. Such announcements usually are accompanied by promises of new jobs and augmented tax collections. Unfortunately, these job and tax extrapolations are dubious because they fail to take into account *displaced expenditures* – the new developments often reduce the sales, jobs and tax collections of existing businesses almost dollar for dollar. Further, any subsidies the developers receive must eventually be funded by taxpayers.

Immigrants, however, bring with them new human and financial capital along with drive and motivation. As a group, they represent new injections of capital and energy into our economy. The problem is that the payoffs from assisting them do not come immediately and hence a degree of patience is required, especially from voters and elected officials who may bridle at subsidizing noncitizens. Nevertheless, our highly favorable international migration numbers suggest that immigration-friendly policies would generate even larger benefits for our region. Further, compared to the large subsidies often provided to developers, it would not be expensive for us to assemble a package of incentives that would enable us to attract more immigrants.

GRAPH 7

CUMULATIVE CHANGE IN NONFARM PAYROLLS SINCE THE PEAK IN JANUARY 2008, IN MILLIONS



Source: Josh Mitchell, "Job Growth Gathers Strength," The Wall Street Journal, 263 (May 2, 2014), A1

The Bottom Line

There is an understandable tendency for our cities and our region to tout rankings that appear in the media – we’re on the list of the top 10 entrepreneurial cities, or we’re in the top 20 most desirable vacation spots or we’re a hip place for millennials to live, etc. We probably should puff out our chests a bit when we receive such rankings.

Even so, the ultimate long-term payoff is jobs and our ability to attract and retain highly mobile citizens and their valuable human capital. Our regional migration rate is one of the most important thermometers of the actual “state of our region.” It tells us more than almost any other variable about how well we are doing, press clippings aside. The reality is that we have been underachieving.



Megachurches in Hampton Roads



MEGACHURCHES IN HAMPTON ROADS

Church attendance is on the decline. The Pew Research Center's longstanding Religion & Public Life Project indicates that the ranks of the religiously unaffiliated rose "from just over 15 percent to just under 20 percent of all U.S. adults" between 2007 and 2012. Fully one-third of adults under the age of 30 do not identify with a particular religion. The decrease in religious participation has been most evident among Protestants, both evangelical and mainline, whose share of the U.S. population fell from 53 percent to 48 percent in the same five-year period. The Pew Research Center suggests that these trends may be informed by younger Americans' distaste for the perceived associations between organized religion and conservative politics, and by their tendency to postpone marriage and parenthood until later in life. Secularization and a decrease in social engagement of all kinds in the United States today also might play a role.¹

There is, however, a standout exception to Americans' move away from organized religion – a simultaneous increase in both the number and size of the largest Protestant congregations, also known as "megachurches." To be considered a megachurch, a church must have an average weekly attendance of at least 2,000 participants, although the attendance at the very largest churches actually is far greater. Lakewood Church in Houston, led by Pastor Joel Osteen, is the largest church in the country, with an average weekly attendance of around 44,000. According to the Hartford Institute for Religion Research, there are 1,546 megachurches in the U.S. today, including 14 in Hampton Roads (see Table 1). This represents a nearly five-fold increase in the number of U.S. megachurches within a generation. In 1990, there were approximately two megachurches for every 1 million U.S. inhabitants. Today, the ratio is about five per 1 million people (see Table 2).

In this chapter, we'll take a close look at some of the defining characteristics of U.S. megachurches. We'll see how the largest churches in Hampton Roads reflect these characteristics as well as how our region has provided fertile ground for very large churches to thrive. Hampton Roads' megachurches are as diverse as the region itself, and they have successfully appealed to congregants of many racial and ethnic backgrounds.



Bethel Church, 1705 Todds Lane, Hampton

¹ "Nones' on the Rise," Pew Research Center's Religion & Public Life Project (Oct. 9, 2012) at: <http://www.pewforum.org/2012/10/09/nones-on-the-rise/#who-are-the-unaffiliated>.

TABLE 1

MEGACHURCHES IN HAMPTON ROADS

	Name	Average Weekly Attendance	Denomination	Website	Established	Location(s)	Senior Pastor
1	Atlantic Shores Baptist Church	2,000	Southern Baptist	http://www.asbc.net/	1981	1861 Kempsville Road, Virginia Beach, 23464	Kyle Wall
2	Bethel Temple	2,613	Assemblies of God	http://www.betheltemple.com/		1705 Todds Lane, Hampton, 23666	Glenn Reynolds
3	Calvary Revival Church - Norfolk	8,000	None	http://www.crcglobal.org/	1990	5833 Poplar Hall Drive, Norfolk, 23502	Courtney McBath
	CRC-Chesapeake					740 Great Bridge Blvd., Chesapeake, 23320	Carlton McLeod
	CRC-Peninsula (South)					119 29th St., Newport News, 23607	Ray Johnson
	CRC-Peninsula (East)					324 Newport News Ave., Hampton, 23669	
4	Faith Deliverance Christian Center	2,000	None	https://www.faithdeliverance.org/	1986	1010 E. 26th St., Norfolk, 23504	Sharon Riley
5	First Baptist Church of Norfolk	2,462	Southern Baptist	http://www.firstnorfolk.org/	1805	312 Kempsville Road, Norfolk, 23502	Eric Thomas
6	Grove Church	2,363	Baptist	http://www.grovechurchva.com/	1840	5910 W. Norfolk Road, Portsmouth, 23703	Melvin Marriner
7	Kempsville Presbyterian Church	2,200	Evangelical Presbyterian Church	http://www.kpc.org/		805 Kempsville Road, Virginia Beach, 23464	Steve Keller (interim)
8	Liberty Baptist Church	3,023	Southern Baptist	http://www.libertylive.com/		1021 Big Bethel Road, Hampton, 23666	Grant Ethridge
	Liberty at Harbour View					7025 Harbour View Blvd., Suffolk, 23435	
9	Mount Lebanon Missionary Baptist Church	2,300	Baptist	http://themountleads.org/	1902		Kim Brown
	The Mount - Cathedral					215 Las Gaviotas Blvd., Chesapeake, 23322	
	The Mount - Elizabeth City					1021 US Highway 17 S, Elizabeth City, NC, 27909	
	The Mount - Peninsula					100 Regal Way, Newport News, 23602	
	The Mount - Chapel					884 Bells Mill Road, Chesapeake, 23322	
10	New Life Providence Church	2,500	None	http://newlifeprovidencechurch.com/	2000		Dan Backens
	Deep Creek Campus					423 Shell Road, Chesapeake, 23323	
	Ghent Campus					1420 Colonial Ave., Norfolk, 23517	
	Kempsville Campus					1244 Thompkins Lane, Virginia Beach, 23464	
11	Rock Church International	2,225	None	http://rockchurchinternational.org/	1968	640 Kempsville Road, Virginia Beach, 23464	Robin and John Blanchard

Sources: Hartford Institute for Religion Research, Database of Megachurches in the U.S., available at: <http://hrr.hartsem.edu/megachurch/database.html>, church websites and interviews

TABLE 1

MEGACHURCHES IN HAMPTON ROADS

	Name	Average Weekly Attendance	Denomination	Website	Established	Location(s)	Senior Pastor
12	Waters Edge Church	3,594	Southern Baptist	http://www.watersedgechurch.net/	2003		Stu Hodges
	Waters Edge Hampton					2011 Cunningham Drive, Hampton, 23666	
	Waters Edge Newport News					836 J. Clyde Morris Blvd., Newport News, 23601	
	Waters Edge Williamsburg					4615 Opportunity Way, Williamsburg, 23188	
	Waters Edge Yorktown					6830 George Washington Memorial Highway, Yorktown, 23692	
13	Wave Church	4,000	None	http://www.wavechurch.com/	1999		Steve Kelly
	Great Neck Location					1000 North Great Neck Road, Virginia Beach, 23454	
	Richmond Location					4036 Cox Road, Glen Allen, 23059	
	Seaboard Location					2655 Seaboard Road, Virginia Beach, 23456	
	Norfolk Location					421 Granby St., Norfolk, 23510	
	Wave Church NC - Wilson Campus					5334 Lamm Road, Wilson, NC, 27893	
	Wave Church NC - Greenville Campus					4052 Old Tar Road, Winterville, NC, 28590	
14	Williamsburg Community Chapel	2,400	None	http://www.wcchapel.org/		3899 John Tyler Highway, Williamsburg, 23185	Travis Simone (interim)

Sources: Hartford Institute for Religion Research, Database of Megachurches in the U.S., available at: <http://hrr.hartsem.edu/megachurch/database.html>, church websites and interviews

TABLE 2

MEGACHURCHES PER MILLION OF POPULATION BY YEAR

Year	U.S. Population (millions)	Approximate Number of Megachurches	Megachurches per Million Population
1900	76	10	0.13
1970	205	50	0.24
1980	227	150	0.70
1990	250	310	1.20
2000	275	600	2.19
2005	300	1,210	4.00
2012	313	1,546	4.94

Sources: Scott Thumma and Dave Travis, "Beyond Megachurch Myths" (San Francisco: Jossey-Bass, 2007), p. 7, for 1900-2005 and for 2012, the Hartford Institute for Religion Research, at: http://hrr.hartsem.edu/megachurch/megastoday_profile.html



Calvary Revival Church, 5833 Poplar Hall Drive, Norfolk

What Is A Megachurch?

In the book "Beyond Megachurch Myths: What We Can Learn from America's Largest Churches," Hartford Institute professor Scott Thumma and his co-author, Dave Travis, emphasize that "the megachurch is more than just an ordinary church grown large. The size and approach of a megachurch alters its social dynamics and organizational characteristics, making it bear little resemblance to smaller, more traditional congregations."² In "Beyond Megachurch Myths" and on the Hartford Institute website, Thumma identifies common features that tend to distinguish U.S. megachurches, beyond their large size, from "regular" churches. Many of these features characterize Hampton Roads' largest churches as well, although we echo Thumma's further observation that "there is no 'typical' megachurch model."³ Each of Hampton Roads' very large churches has a unique mission and type of organization; not all of the characteristics outlined below apply to every congregation.

DYNAMIC LEADERSHIP

It would be incorrect to state that all megachurches are personality-driven enterprises. **However, nearly all megachurch pastors are charismatic individuals who possess broad, impressive skill sets. They are dynamic preachers, creative and inspirational leaders, and savvy entrepreneurs.** Most megachurches reached their very large size under the tenure of a single pastor. First Baptist Church of Norfolk and Portsmouth's Grove Church have held worship services since the early 19th century, but their rise to "megachurch" status occurred much more recently. Their weekly attendance numbers rose from a few hundred to a few thousand per week under the leadership of Ken Hemphill (1981-1991) at First Baptist, and Melvin Marriner (1989- present) at Grove Church.

Elsewhere in Hampton Roads, pastors such as Courtney McBath (Calvary Revival Church, 1990) and Stu Hodges (Waters Edge Church, 2003) established new churches that quickly took off in size. Rock Church International possesses the largest sanctuary in Hampton Roads, with a seating capacity of 5,200.

² Scott Thumma and Dave Travis, *Beyond Megachurch Myths: What We Can Learn from America's Largest Churches* (San Francisco: Jossey-Bass, 2007), p. 2.

³ Thumma and Travis, *Beyond Megachurch Myths*, xvi.

Most, though not all, megachurch pastors are men. Norfolk’s Faith Deliverance Christian Center was founded by Barbara Amos in 1986, and is currently led by Pastor Sharon Riley. Anne and John Gimenez founded Rock Church, our region’s first megachurch, in 1968. Today the Gimenezes’ daughter and son-in-law, Robin and John Blanchard, are co-pastors of Rock Church International, and Anne Gimenez serves as bishop of the Rock Ministerial Fellowship. Megachurches are often a family affair, with pastors’ spouses and extended family members assuming prominent leadership roles within their congregations.

The pastors of some of the largest megachurches maintain a public presence that extends well beyond their church leadership. Nationally, Joel Osteen, T.D. Jakes and Rick Warren are among the best-known megachurch pastors who have become successful authors and celebrities in their own right. They are familiar sights to anyone surfing Sunday morning television.

In our region, Courtney McBath, Anne Gimenez and Steve Kelly (Wave Church) all preside over self-named ministries in addition to their Hampton Roads church affiliations. They appear regularly on television, travel widely for missions and other speaking engagements, and have authored numerous books. They are entrepreneurs and celebrities in addition to being religious leaders.

MANY HAVE AN INDEPENDENT, DENOMINATION-FREE IDENTITY

The Hartford Institute indicates that 40 percent of all U.S. megachurches are not affiliated with a particular denomination. Table 3 reveals that Southern Baptist and other Baptist congregations make up the next 23 percent of U.S. megachurches; no other denomination accounts for more than 6 percent of the megachurch population. These patterns are consistent in our region as well. Among the 14 Hampton Roads megachurches named by the Hartford Institute in Table 1, six are unaffiliated, and an additional six identify as Baptist or Southern Baptist. Broadly speaking, megachurches tend toward a conservative/evangelical interpretation of Christianity, but there is a great deal of diversity in the theologies and styles of worship that they promote.

Affiliation	Percent
Nondenominational	40
Southern Baptist	16
Baptist, unspecified	7
Assemblies of God	6
Christian	5
Calvary Chapel	2
United Methodist	2
Four Square	2
Evangelical Lutheran Church	1
Vineyard Christian Fellowship	1
Other	18
	100

Source: Hartford Institute for Religion Research, at: http://hrr.hartsem.edu/megachurch/megastoday_profile.html

Thumma and Travis point out that megachurches tend to be “quite self-sufficient; they don’t need the resources, guidance, or identity that a national body can provide.”⁴ More often, they provide these kinds of benefits to smaller churches that opt to affiliate with them. Wave Church, for example, provides leadership to a “Wave Network” of around 55 different churches; Rock Church International presides over a worldwide fellowship of more than 500 churches. Megachurches that do belong to a familiar denomination may not necessarily emphasize this identity. Thus, Mount Lebanon Missionary Baptist Church in Chesapeake is more commonly called “The Mount,” while Liberty Baptist Church in Hampton and Suffolk identifies as “Liberty.”

These and other Hampton Roads megachurches have highly developed brand identities. Many have adopted eye-catching logos and equally distinctive names. When Pastor Steve Kelly came to our region from Australia in 1999, his

⁴ Thumma and Travis, *Beyond Megachurch Myths*, p. 27.

church was initially called the Virginia Beach Christian Life Center. He and other church leaders soon sought a less “parochial,” more broadly appealing name; they ultimately decided upon Wave Church.

WORSHIP SERVICES ALSO ARE CHOREOGRAPHED PERFORMANCES

Nontraditional names often go hand in hand with nontraditional worship styles. Beginning with the need to accommodate very large audiences, the physical appearances of megachurches usually are quite different from their smaller counterparts. **Many megachurches cultivate a self-consciously contemporary style, without pews, hymnals, a cross-bedecked altar or other familiar trappings of Christian churches.** Hartford Institute surveys indicate that “the vast majority of megachurch worship is characterized by contemporary praise music, led by a worship team, accompanied by orchestra, drums, and electric guitars and augmented by state-of-the-art sound systems and huge projection screens.”⁵

Megachurch services usually are impressive, high-quality productions. “If you’re bored, then we’re doing something wrong” is a sentiment that we heard from several pastors in our region. Indeed, a tour of Hampton Roads’ largest churches reveals an array of innovative worship styles that are not bound by convention. At these churches one may encounter an eclectic range of popular music (from the Beatles to large gospel choirs to Latin swing), baton twirlers and impassioned sermons that are accompanied by sophisticated video imagery.

RELIANCE UPON NEW MEDIA

Megachurches have not hesitated to embrace new technologies. They maintain well-designed websites and mobile apps, and they connect with their members through multiple social media channels. They accept donations online, by text message and at on-site credit and debit card kiosks. Sermons or entire church services are available for prospective members (and anyone else) to watch or listen to online. Live-stream technology has encouraged the expansion of megachurches to multiple sites, or “campuses,” throughout our region. New Life Providence Church, Waters Edge Church, Wave Church and Liberty Baptist

⁵ Thumma and Travis, *Beyond Megachurch Myths*, p. 27.

Church regularly live-stream part or all of their services to worshippers gathered at different church locations.

These technologies have allowed a few churches to extend their reach well beyond Hampton Roads. Waters Edge Church Online and The Mount Global encourage visitors from all over the world to live-stream services and interact with other users in real time. Bishop Kim Brown has a tablet computer nearby when he preaches at The Mount in Chesapeake, so that he can immediately incorporate long-distance prayer requests. The Mount Global holds online classes for its virtual members and even sends them communion by mail.

MEETING EVERYONE’S NEEDS

Americans are used to shopping at malls and big-box stores like Walmart and Target. In a sense, megachurches aspire to be a similar kind of one-stop shop for their members’ spiritual needs. A typical megachurch has dedicated groups for children, teens, college students, young adults, retirees and more. Other ministries might address the specific needs of single parents, recovering addicts, adults studying for their GEDs or military service personnel and their spouses. Some megachurches host schools and day care centers; others have counseling and wellness centers. There are bookstores, coffee shops and even a bowling alley associated with the largest churches in our region. The offerings can seem overwhelming; for this reason, megachurches encourage and provide their members with many opportunities to connect with others in smaller groups.

LARGE-SCALE COMMUNITY SERVICE

Most churches in Hampton Roads engage in different kinds of community service – preparing meals for the hungry, sheltering the homeless and providing other kinds of support to at-risk children and adults. Megachurches are no different, although their initiatives take place on a significantly greater scale. Some of the largest churches in our region support independent nonprofit organizations that promote service to the community. Wave City Care and the Life Enrichment Center of Norfolk (associated with New Life Providence Church) are two prominent examples. Our region benefits from the kinds of service that very large churches can coordinate and provide.

Why Megachurches In Hampton Roads?

The proliferation of megachurches has not occurred evenly throughout the United States. The Hartford Institute’s numbers indicate that the majority of North American megachurches are located in the U.S. South. Maryland, Delaware, Virginia, North Carolina, South Carolina, Georgia and Florida together account for nearly one-quarter of all U.S. megachurches (see Table 4). Texas and California are the states with the most megachurches. Virginia is home to 42 megachurches; 18 of these are located in Northern Virginia and 14 are in Hampton Roads.

Only two Virginia churches – McLean Bible Church (Vienna) and Thomas Road Baptist Church (Lynchburg), with weekly attendance of 16,500 and 8,350, respectively – rank among the 100 largest U.S. churches, according to Outreach Magazine.⁶ Table 1 reports Hartford Institute data indicating that Hampton Roads’ best-attended churches are Calvary Revival Church, Liberty Baptist Church, Waters Edge Church and Wave Church, all with average weekly attendance of more than 3,000.⁷ **Table 5 reports that just over half (52 percent) of all U.S. megachurches welcome 2,000 to 2,999 congregants each week, compared to 10 of 14 (71 percent) of all Hampton Roads megachurches. Thus, Hampton Roads’ megachurches are somewhat smaller than the national average.**

Outreach Magazine counts Waters Edge Church, located in Yorktown and other sites on the Peninsula, among the 100 fastest-growing churches in the U.S. Waters Edge Church gained 616 new weekly attendees in 2013, a growth rate of around 21 percent. River Oak Church (Chesapeake) and World Outreach Worship Center (Newport News) also made the magazine’s list of fastest-growing churches, suggesting that the ranks of our region’s megachurches may soon be expanding.⁸

⁶ <http://www.outreachmagazine.com/2013-outreach-100-largest-churches-america.html>.

⁷ The weekly attendance figure of 8,000 for Calvary Revival Church appears to include CRC-Norfolk, CRC-Chesapeake and CRC-Peninsula, all of which operate autonomously.

⁸ <http://www.outreachmagazine.com/2013-outreach-100-fastest-growing-churches-america.html>.

The Roman Catholic Church in the Diocese of Richmond (of which Hampton Roads is a part) does not distribute attendance numbers. By common agreement, however, the three largest Roman Catholic parishes in Hampton Roads are St. Gregory the Great and St. John the Apostle (both in Virginia Beach) and St. Bede in Williamsburg. It is not clear if these parishes ever approach the large attendances recorded at services held at the region’s megachurches, such as Wave Church.

TABLE 4
REGIONAL DISTRIBUTION OF MEGACHURCHES
IN NORTH AMERICA (2012)

Regional Division	Percent	
New England	1.1	ME, VT, NH, MA, CT, RI
Mid Atlantic	6.0	NY, PA, NJ
South Atlantic	23.6	MD, DE, VA, NC, SC, GA, FL
East South Central	8.2	WV, KY, TN, MS, AL
West South Central	16.8	AR, LA, OK, TX
East North Central	12.7	WI, IL, IN, MI, OH
West North Central	5.7	ND, SD, NE, KS, MO, IA, MN
Mountain	6.7	MT, ID, WY, CO, UT, NV, AZ, NM
Pacific	17.9	WA, OR, CA, AK, HI
Canada	1.3	
	100.0	

Source: Hartford Institute for Religion Research, at: http://hrr.hartsem.edu/megachurch/megastoday_profile.html

TABLE 5

**DISTRIBUTION OF MEGACHURCHES IN NORTH AMERICA
BY SIZE (2012)**

Size Grouping	Percent
2,000 to 2,999	52.3
3,000 to 3,999	17.6
4,000 to 4,999	9.7
5,000 to 9,999	14.6
10,000 or more	5.8
	100.0

Source: Hartford Institute for Religion Research, at: http://hir.hartsem.edu/megachurch/megastoday_profile.html

In Hampton Roads and elsewhere, the growth of megachurches has mirrored the growth of the U.S. population since the 1960s and 1970s. Megachurches emerged alongside the shopping malls, big-box stores and multiplex theaters that came to characterize American suburbia in the late 20th century. Megachurches tend to thrive in fast-growing suburban and exurban locations, where new churches accommodate the needs of booming populations.

Young cities like Virginia Beach have offered large plots of land with comparatively few zoning restrictions, ideal for the construction of new churches (as well as for the auxiliary buildings and generous parking lots that typically accompany them). In some cases, megachurches have expanded by repurposing older suburban commercial buildings. Calvary Revival Church’s current location in Norfolk was once a Brand Distributors store that sold jewelry and electronics; The Mount’s Cathedral was a former Winn-Dixie supermarket. Repurposed buildings often are a constituent part of the spirit of renewal that exists within megachurches.

As a growing metropolitan area generally considered within the country’s Bible Belt, Hampton Roads has provided fertile ground for very large churches to thrive. According to Thumma and Travis, suburbanites “are exactly the type of people most attracted to megachurches: consumer-oriented, willing to commute great distances, highly mobile and often displaced, middle-class, in middle-

level management positions, well-educated and with a traditional nuclear family structure.”⁹ The average age of those attending megachurches is several years younger than that of the churchgoing population as a whole. Thus, it seems likely that our region’s large population of military families has contributed to the success of Hampton Roads megachurches. These churches’ online offerings may be particularly appealing to servicemen and women stationed abroad.

Regent University, whose website describes the university as “one of the nation’s leading academic centers for Christian thought and action,”¹⁰ has had a symbiotic relationship with the region’s megachurches. Founded by Pat Robertson in 1978, the university now enrolls nearly 6,000 students in a wide array of undergraduate and graduate programs. Regent students and alumni have played an active role in Hampton Roads’ largest churches as congregants, worship leaders, ministers and in a variety of other staff positions. The university provides a forum for pastors of some of the region’s largest churches to gather together on a regular basis. It has also invited nationally prominent megachurch pastors to speak on campus; in the past year, T.D. Jakes and Greg Surratt have participated in Regent’s weekly chapel service.

Megachurches are not entirely a suburban phenomenon. A smaller subset of very large churches has prospered within older urban centers such as Portsmouth and Norfolk. In our region, these churches (including Grove Church, Faith Deliverance Christian Center and Calvary Revival Church) most often serve chiefly African American populations. Intriguingly, two of our region’s fastest-growing suburban megachurches have recently established new locations in older Norfolk neighborhoods. Wave Church holds Sunday morning services at the downtown Granby Theater, and New Life Providence Church purchased a century-old building from a dissolved Methodist congregation on Colonial Avenue in Ghent. Calvary Revival Church started in Norfolk and has since expanded throughout Hampton Roads, aligning with sister churches in suburban Chesapeake, as well as in older neighborhoods of Hampton and Newport News.

⁹ Thumma and Davis, *Beyond Megachurch Myths*, p. 12.

¹⁰ http://www.regent.edu/about_us

FIGURE 1

LOCATION OF MEGACHURCHES IN HAMPTON ROADS

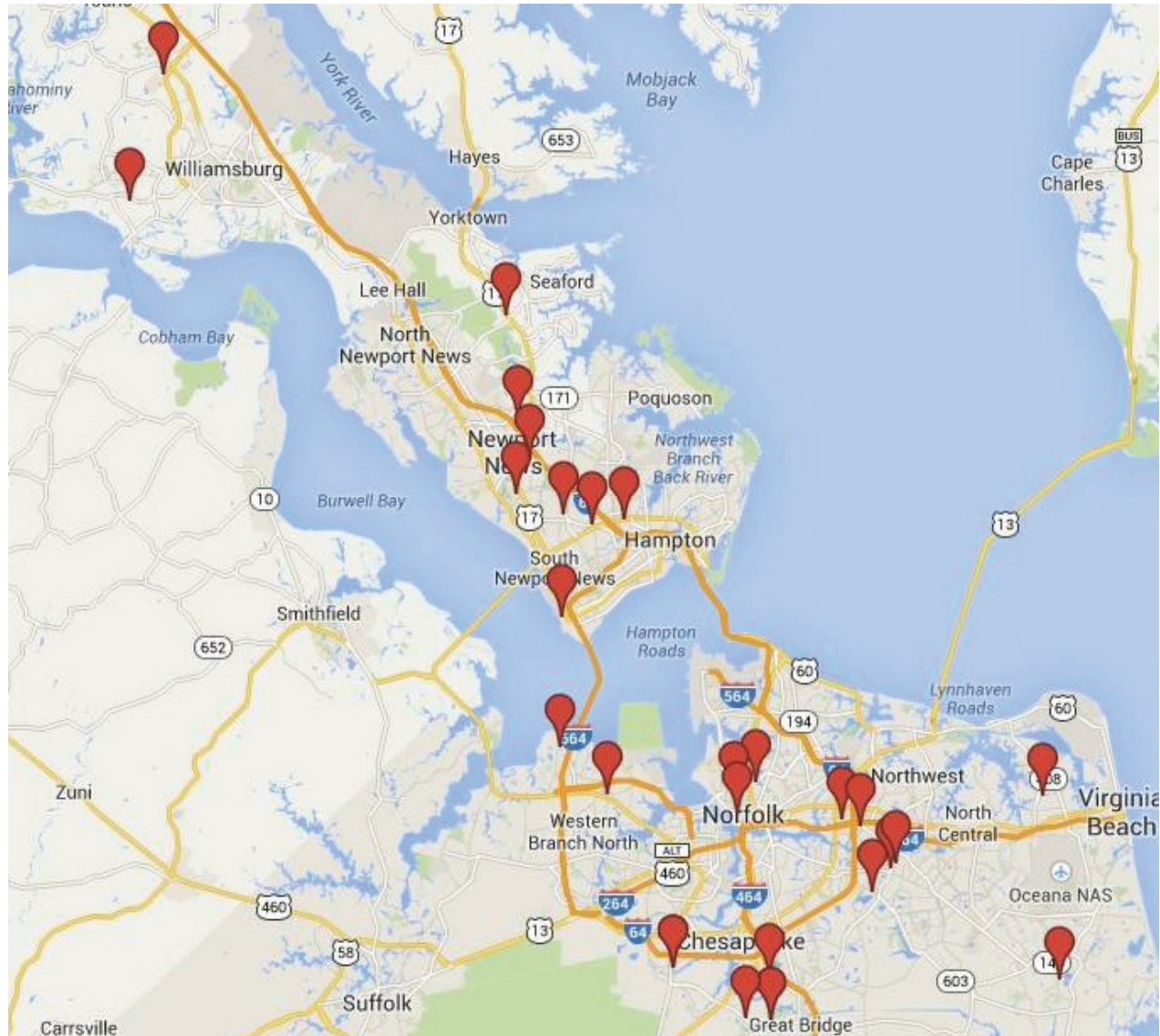


Figure 1 locates our region's megachurches within Hampton Roads. It is apparent that their presence extends throughout our region, from Williamsburg to Elizabeth City, N.C. Several of these institutions maintain campuses in multiple Hampton Roads localities, both Southside and on the Peninsula. Waters Edge Church has pursued a decentralized, "multisite" strategy of expansion; no one of its four well-attended locations accommodates more than around 1,000 congregants. New Life Providence Church seeks to grow by one new campus per year, with the goal of establishing a presence in every Hampton Roads locality. Even those megachurches that operate from a single large location draw their members from a wide geographical area, well beyond the borders of their city. Megachurches must be counted among Hampton Roads' most distinctively regional institutions.

Racial And Ethnic Diversity

In a 1953 sermon on "Communism's Challenge to Christianity," the Rev. Martin Luther King Jr. famously expressed his shame that "Eleven o'clock on Sunday morning is the most segregated hour in Christian America."¹¹ Sixty years later, communism has withered on the vine and the U.S. has elected its first African American president, but U.S. churches remain overwhelmingly segregated. Survey data indicate that 85 percent of all U.S. congregations are composed of at least 90 percent of one racial group.¹²

Megachurches, too, tend to reflect a significant degree of racial segregation, although less than in the U.S. church population as a whole. Hartford Institute research from 2005 "found that 31 percent of megachurches claimed to have a 20 percent or more minority presence in their congregations," and that "the average megachurch had 14 percent of the congregation not representing the majority race."¹³ Megachurches' enthusiasm for new styles of worship and forms of church organization may well encourage this kind of diversity. The very notion of a megachurch is grounded upon broad popular appeal.

¹¹ Martin Luther King Jr., "Communism's Challenge to Christianity," *The Papers of Martin Luther King, Jr.*, vol. 6 (Berkeley: University of California Press, 2007), p. 149.

¹² Michael O. Emerson, "A New Day for Multiracial Congregations," *Reflections*, spring 2013, available at: <http://reflections.yale.edu/article/future-race/new-day-multiracial-congregations>.

¹³ Thumma and Davis, *Beyond Megachurch Myths*, p. 140.

Although all of the Hampton Roads pastors with whom we spoke emphasized their churches' openness to worshippers of all races and backgrounds, most very large churches in our region tend to have a staff and congregation that are either mostly white or mostly African American. A brief look at these churches' self-presentation on their websites seems to confirm this observation. There are, however, some noteworthy exceptions. Rock Church International's distinctive, charismatic style of worship has long attracted a highly diverse group of followers; Bishop John Gimenez was of Puerto Rican descent and his son-in-law, Pastor John Blanchard, is Korean American. **Pastors Dan Backens and Kevin Turpin founded New Life Providence Church in 1999 with the explicit intent of fostering a multi-ethnic congregation. According to Backens, New Life Providence's membership is now almost evenly represented by whites and blacks (in addition to a smaller contingent of congregants of other ethnicities and national backgrounds), a status that has been carefully cultivated through the integration of diverse worship styles and traditions. Bethel Temple in Hampton likewise represents itself as multi-ethnic. Both Bethel Temple and First Baptist Church of Norfolk sponsor Spanish-language ministries to serve Hampton Roads' growing Hispanic population.**

Final Observations

The term "megachurch" first entered into widespread usage in the 1980s, just as both the number and size of very large U.S. churches had begun to take off. However, not all pastors of large congregations embrace the term, for a variety of reasons. Some of the pastors with whom we spoke cited a media-driven image of the "megachurch" that has become associated with corruption or scandal, as well as the implication that megachurches are superior, or pose a threat, to smaller churches in their communities. Other pastors saw the label more benignly, as a neutral shorthand for referencing churches with especially large congregations.

It does seem clear that the term – like the phenomenon that it describes – has great staying power, in Hampton Roads and elsewhere around the U.S. The ongoing consolidation of Christian religious communities into fewer, but larger, houses of worship has important implications for all residents of our region, regardless of religious affiliation.

We can make the following generalizations and observations:

- 1) Scott Thumma estimates that the average U.S. megachurch has an income of around \$6.5 million per year.¹⁴ Megachurches in Hampton Roads are thriving, million-dollar businesses, each with dozens of employees. They have a substantial and growing economic impact in our region – in most cases, much larger than conventional, denominational churches.
- 2) Megachurches in Hampton Roads are expanding their regional presence. A generation ago, fast-growing churches typically constructed ever-greater sanctuaries. Today, live-streaming and other Internet technologies allow these churches to adopt a more flexible, multisite approach. “Instead of, ‘How do we get people to come to the mountain?’ it’s, ‘Let’s bring the mountain to the people,’” multisite church consultant Jim Tomberlin recently told *Outreach Magazine*, further predicting that soon “megachurches will become gigachurches.”¹⁵ Multisite expansion seems particularly suited to Hampton Roads, given the region’s decentralized population and geographic sprawl. A few successful megachurches may eventually become well-known regional “brands,” not unlike commercial businesses such as YNot Pizza or Taste Unlimited.
- 3) Hampton Roads megachurches draw a large proportion of their members from new arrivals to the area, as well as from the “unchurched.” Nonetheless, the growth of megachurches has consequences for smaller congregations that cannot offer an expansive menu of ministries or other high-profile attractions. Smaller churches may struggle to survive and may need to clarify or redefine their missions in order to maintain their appeal. In this, they are not unlike many small, local businesses that have been confronted by competition from Amazon or Walmart.

¹⁴ “Mega churches mean big business,” CNN.com, Jan. 21, 2010, available at: <http://www.cnn.com/2010/WORLD/americas/01/21/religion.mega.church.christian>

¹⁵ Jennifer Kabbany, “Reshaping the American Megachurch,” *Outreach Magazine*, Nov. 25, 2012, available at: <http://www.outreachmagazine.com/features/5065-reshaping-the-american-megachurch.html>

- 4) Hampton Roads charities and other nonprofit organizations should recognize the potential value of partnering with area megachurches. Megachurches’ considerable human and financial resources, when paired with a passion for innovation and community engagement, will permit the undertaking of service projects on an ambitious scale and increase impact.
- 5) Megachurches fulfill spiritual needs that attendees feel are not being met by conventional, denominational churches. Megachurches buck the more general societal trend toward lower church attendance.
- 6) While megachurches are explicitly religious organizations, they also are businesses whose leaders simultaneously are businessmen and women who instinctively appear to have mastered the principles of marketing, advertising, brand management and vertical integration. Some megachurch leaders receive criticism for their businesslike approaches to religious life and a few for their lifestyles. Those who deliver such barbs often point out that Jesus overturned the tables of the moneychangers in the ancient temple in Jerusalem (Matthew 21:12-13) and imply that much the same thing should occur today. Most observers acknowledge that tensions could exist between the spreading of the Gospel and the focus of megachurches on effective, businesslike operations. However, megachurch leaders note that they must be good stewards of the resources with which they have been entrusted and at least one cited the Parable of the Talents (Matthew 25:14-30) as support for his ministry. Hence, it would be unbiblical for church leaders not to utilize the resources entrusted to them in the most effective ways possible. Following this logic, it also would be foolish for megachurches not to rely upon modern technologies and presentation techniques to spread the Word. It is well beyond the scope of *The State of the Region* report to weigh in on such matters. It is sufficient to note that on occasion such questions do arise concerning one of the most fascinating and important religious trends of our time.



Rock Church International, 640 Kempsville Road, Virginia Beach

Homeless Children In South Hampton Roads: Estimating The Costs To Society



HOMELESS CHILDREN IN SOUTH HAMPTON ROADS: ESTIMATING THE COSTS TO SOCIETY¹

The proportion of homeless Americans may have declined in recent years, but homelessness remains an acute problem in Hampton Roads. We know this from data published by the U.S. Department of Housing and Urban Development (HUD), which is required by law to conduct an annual census of homeless people in the United States. HUD's census is done at a particular point in time (PIT), that is, on a particular day, and the PIT day typically is in the month of January.

Relying primarily on this data, HUD publishes its Annual Homeless Assessment Report,² which goes to the Congress. The 2013 report revealed that 610,042 people in the United States in January 2013 were homeless on a given night in that month. Most (65 percent) "were living in emergency shelters or transitional housing," while 35 percent were unsheltered.³

Of these homeless individuals, 138,149 (or 23 percent) were children under age 18. Another 10 percent were age 18 to 24. Nearly 41,000 (40,727) of the homeless children were "unaccompanied" – on their own – and 23,461 were unsheltered at all.⁴ These data are depicted in Graph 1, which reveals that more than 22 percent of homeless people in the United States are children under age 18.⁵

Problems of homelessness are especially challenging when they involve children. Not only are the needs of children different from those of adults, but also a failure to deal with those problems comes back to haunt society for decades to come. Ill-housed, ill-fed children typically lag in school academic achievement, and they are more likely to miss school days. Ultimately, this often leads to higher dropout levels, lower rates of graduation and sharply diminished job prospects. In turn, these conditions are highly correlated with increased use of

social services, higher rates of criminal activity and incarceration, increased rates of teenage pregnancy, deteriorating health conditions and a variety of other antisocial behaviors.⁶

Of course, none of these phenomena is inevitable; they simply represent increased likelihoods. Nevertheless, left untended, such possibilities often mature into very expensive outcomes.

¹ This chapter is based upon work performed by James V. Koch for the ForKids Inc. organization in Hampton Roads, which is dedicated to breaking the cycle of homelessness and poverty for families and children. <http://forkidsva.org/Main/nivo-slider2.5.1/nivo-slider/index/index.html>

² The 2013 Annual Homeless Assessment Report to Congress, Part 1. www.onecpd.info/resources/documents/AHAR-2013-Part1.pdf

³ 2013 Annual Homeless Assessment Report, p. 1.

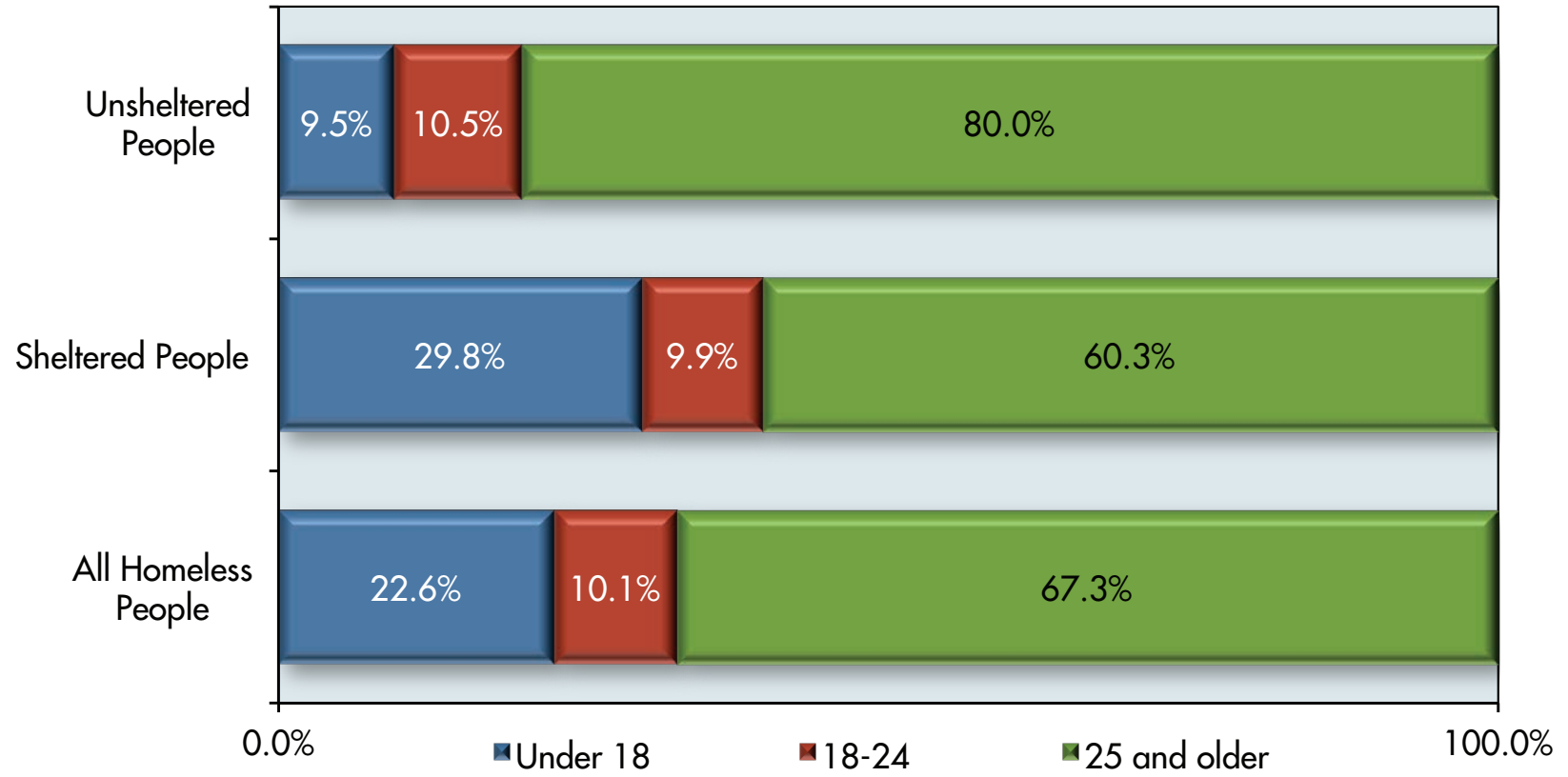
⁴ 2013 Annual Homeless Assessment Report, p. 1.

⁵ One CPD Resource Exchange, 2013 AHAR: Part 1 - PIT Estimates of Homelessness (January 2014), www.onecpd.info/resource/3300/2013-ahar-part-1-pit-estimates-of-homelessness

⁶ Numerous studies exist that have documented some or all of these effects. Especially useful studies within the past five years include Dennis P. Culhane, "The Cost of Homelessness: A Perspective from the United States," 2008, http://works.bepress.com/dennis_culhane/82; Gerard Barber et al., "Cost of Homeless in Metropolitan Louisville," Kent School of Social Work, University of Louisville, 2008, <http://www.louhomeless.org/coal%20files/cost-study.pdf>; D. Flaming et al., "Where We Sleep: The Costs of Housing and Homelessness in Los Angeles," Los Angeles Homeless Services Authority, www.economicrt.org; Abt Associates, "Costs Associated with First-Time Homelessness for Families and Individuals," Washington, D.C.: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, 2010; J. Spangler and A.L. Niblett, "Cost of Homelessness in Oklahoma City, April 1, 2009 to March 31, 2010," Report to the Oklahoma City Planning Department, 2010, www.okc.gov/planning/homelessness/homelesscosts.pdf; Stephen Gaetz, "The Real Cost of Homelessness: Can We Save Money by Doing the Right Thing?" The Homeless Hub, 2010, www.homelessshub.ca; "Estimated Annual Cost of Child Homelessness in Pennsylvania," Institute for Children, Poverty and Homelessness, American Almanac, Pennsylvania, 2012, www.icphusa.org/Publications/AmericanAlmanac/Almanac_state_PA.pdf; D.R. Poulin et al., "Service Use and Costs for Persons Experiencing Chronic Homelessness in Philadelphia: A Population-Based Study," Psychiatric Services, November 2010, 61(11): 1093-8; http://works.bepress.com/dennis_culhane_culhane/99; D. Flaming et al., "Getting Home: Outcomes from Housing High Cost Homeless Hospital Patients," 2013, www.economicrt.org; and The Economic Roundtable, "Getting Home: Outcomes from Housing High Cost Homeless Hospital Patients," 2013, <http://bit.ly/19YEWPR>

GRAPH 1

PERCENTAGE OF ALL HOMELESS PEOPLE IN EACH AGE CATEGORY BY SHELTERED STATUS, 2013



Source: 2013 Annual Homeless Assessment Report, p 1

Homelessness In South Hampton Roads

The PIT data provide us with a window on homelessness in South Hampton Roads, but appear to undercount the actual number of homeless children. More useful are the homeless data collected by the U.S. Department of Education (DOE). DOE collects its homeless data from individual school districts and these figures are both more reliable and more useful because school districts are on the front line and know firsthand the number of homeless children.

Table 1 contrasts the PIT data from HUD with the DOE data provided by the school districts in South Hampton Roads. It is evident that the school districts report serving far more homeless children than the PIT data identify for the same cities. For example, while the 2013 PIT number of homeless children for Virginia Beach was 122, the Virginia Beach school district reported serving 771 homeless children in the 2012-13 school year – a 532 percent difference.

How can we explain these disparities?

- The PIT data represent a count of homeless children on a single day – a point in time – while the school district data reflect an entire school year. Because students come and go, the school districts serve a much larger number of students than might be present on a single day. Thus, the two measures apply different standards and essentially are non-comparable views of the same general phenomenon.⁷
- Cities in South Hampton Roads are not uniform in the ways they count homeless children in their schools.
- The PIT homeless counts miss some homeless adults and homeless children – though this is an argument that the National Alliance to End Homelessness (NAEH) and HUD believe has limited validity. However, the NAEH does agree that “the PIT counts do miss people, as do most censuses.”⁸ In fact, if one is interested in annualized numbers of homeless children, then PIT data

are much less useful because they represent only a single-snapshot look at the number of homeless.

There is strong reason to conclude that the school district homeless children counts are closer to the mark than the PIT homeless children numbers, which may miss highly mobile homeless families whose location may change multiple times during a single year.

Chesapeake Homeless PIT All Ages		64
Homeless Children PIT	27	
School District Reported Homeless Children	89	
Norfolk Homeless PIT All Ages		580
Homeless Children PIT	105	
School District Reported Homeless Children	499	
Portsmouth Homeless PIT All Ages		154
Homeless Children PIT	NA	
School District Reported Homeless Children	211	
W. Tidewater, incl. Suffolk Homeless PIT All Ages		93
Homeless Children PIT	31	
School District Reported Homeless Children	35	
Virginia Beach Homeless PIT All Ages		389
Homeless Children PIT	122	
School District Reported Homeless Children	771	
South Hampton Roads Totals		1,280
PIT Totals	285	
School District Totals	1,605	

Note: Western Tidewater includes Franklin, Suffolk, Isle of Wight County and Southampton County, but data typically are available only for Suffolk.

⁷ National Alliance to End Homelessness, Media Resource: 5 Myths about PIT Counts (February 2014) www.endhomelessness.org/library/entry/5-myths-about-pit-counts

⁸ National Alliance to End Homelessness, Media Resource: 5 Myths about PIT Counts (February 2014) www.endhomelessness.org/library/entry/5-myths-about-pit-counts

Who is homeless? Section 725 of the McKinney-Vento

Act says:

The term “homeless children and youth” refers to individuals that lack a fixed, regular, and adequate nighttime residence, and this includes:

- (1) Children sharing the housing of other persons due to loss of housing, economic hardship, or a similar reason; are living in motels, hotels, trailer parks, or camping grounds due to the lack of alternative accommodations; are living in emergency or transitional shelters; are abandoned in hospitals; or, are awaiting foster care placement.
- (2) Children with a primary nighttime residence in a public or private place not designed for or ordinarily used as regular sleeping accommodations for human beings.
- (3) Children living in cars, parks, public spaces, abandoned buildings, substandard housing, bus or train stations, or similar settings.
- (4) Migratory children qualifying as homeless for the purposes of this subtitle because the children are living in the circumstances described above.

Note: The number of homeless children identified by McKinney-Vento nearly always will be larger than those identified by the PIT audit because McKinney-Vento takes a yearlong view as opposed to the PIT snapshot view. Many homeless families live in multiple locations over a year – McKinney-Vento counts them, but PIT may not.

Direct School District Costs Associated With Homeless Children

South Hampton Roads school districts incur two primary costs serving homeless children: (1) administrative costs, including the expense of a coordinator responsible for meeting the requirements of the McKinney-Vento Act, and (2) transportation costs.

With respect to administrative costs, McKinney-Vento requires that every school district designate a liaison for homeless children. The Act requires the liaisons to ensure that homeless children actually are identified so that they can be offered appropriate services and it further charges the liaisons with ensuring that this occurs. Liaisons refer homeless children to other community support services, such as medical and dental care and mental health support. School districts are required to train school personnel on requirements of the McKinney-Vento Act, and this must be done on a yearly basis. Typically, school district liaisons meet with the families and some even make visits in order to make accurate determinations about McKinney-Vento eligibility.

With respect to transportation costs, McKinney-Vento requires that school districts provide transportation for homeless students to their school of origin, if a parent or guardian requests them to do so, or in the case of an unaccompanied child, upon the request of the liaison. That school of origin may be in the same school district, but it might also be located in another school district in another city or state. This holds true regardless of any other transportation the school district provides for any other class of student. Transportation provided homeless students must be comparable to that provided to housed students. There cannot be any barriers to the enrollment of homeless students, including those that might be undocumented immigrants.

McKinney-Vento does not specify any mileage limitation with respect to how far away a student must be transported to his/her school of origin. Only if the length or duration of the trip would be harmful to the student’s educational progress may a school district opt not to supply the requested transportation and the school

district's judgment can be appealed. Thus, McKinney-Vento students in Maryland are transported into Virginia, and vice versa, and at least 669 students were transported from their Hampton Roads neighborhood school to another school inside the same city in Hampton Roads, while 172 students were transported from their neighborhood school to another school outside of their neighborhood school city. For example, Virginia Beach indicated that in 2012-13, it transported 165 McKinney-Vento students to schools inside Virginia Beach and another 60 to schools outside Virginia Beach (see Table 3). The average cost of transporting a student in South Hampton Roads was \$1,434 in 2012-13.

When students leave one school district and are transported to another, McKinney-Vento specifies that the two districts should share the transportation costs. In the absence of any agreement, they share those costs equally. It's not clear how these matters are settled within South Hampton Roads. Grumbling from some cities suggests that not all agree with the current division of costs.

Table 3 summarizes the transportation of McKinney-Vento students within Hampton Roads in terms of numbers and costs.

TABLE 2 ADMINISTRATIVE COSTS ASSOCIATED WITH MCKINNEY-VENTO STUDENTS, 2012-2013		
City	Coordinators	Other Administrative/ Operational
Chesapeake	\$ 7,900	\$2,000
Norfolk	\$19,929	\$108,792
Portsmouth	\$61,206	\$8,147
Suffolk	\$ 0	\$2,000
Virginia Beach	NA	\$274,606 ⁹

⁹ This includes \$50,000 of in-kind gifts and donations from the public. It also includes funds expended for coordination.

TABLE 3 NUMBER AND COST OF TRANSPORTING MCKINNEY-VENTO STUDENTS FOR SOUTH HAMPTON ROADS CITIES, 2012-2013		
City	Transportation of Students Inside City/Outside City	Annual Cost
Chesapeake	39/50	\$252,113
Norfolk	416/26	\$280,000
Portsmouth	49/18	\$247,035
Suffolk	22/18	\$135,000
Virginia Beach	165/60	\$458,138
Totals	691/172	\$1,237,286
Average Cost Per Transported Student = \$1,434		

Homeless Children And Academic Performance

The ultimate societal costs of homelessness go far beyond the direct, easily quantifiable costs that school districts expend when they serve homeless students. Let's delve into these spinoff costs that individual cities and counties must bear, or that require expenditures and action by the states and the federal government. Several South Hampton Roads cities generously provided extensive data concerning the academic performance of a variety of their students, including those that are homeless.

CHESAPEAKE

Chesapeake provided useful anonymous attendance and achievement data for 90 homeless students and 9,272 other students. Table 4 summarizes several important student performance variables within these two samples.

TABLE 4**ATTENDANCE, SOL PERFORMANCE AND GRADE POINT AVERAGES FOR 90 HOMELESS AND 9,272 OTHER STUDENTS IN CHESAPEAKE**

	(N = 90) Homeless Students	(N = 9,272) Other Students
Average Days in Attendance	150.8 (N = 90)	166.2 (N = 9,272)
SOL Performance		
Passed All	36.7% (N = 24)	41.1% (N = 3,599)
Failed Some	48.5% (N = 32)	42.6% (N = 3,722)
Failed All	15.2% (N = 10)	16.2% (N = 1,418)
Grade Point Average	2.18 (N = 24)	2.40 (N = 3,340)
Source: City of Chesapeake Public Schools		

The data in Table 4 are simultaneously discouraging and encouraging. The typical homeless student attended school about 10 percent fewer days than the typical other student. He/she also earned a lower grade point average, and a smaller percentage of homeless students passed all parts of the Standards of Learning (SOL) tests. However, a slightly smaller percentage of homeless students than other students failed all of the SOL tests. Further, the grade point average of homeless students in Chesapeake (2.18), if maintained, was sufficient for them to graduate from high school. The small sample of 24 homeless students for whom grade point averages were available contained one student with a 3.8 GPA and another with a 3.5 GPA.

NORFOLK

Norfolk provided a detailed anonymous sample of 502 students consisting of 161 homeless students, 173 “low socioeconomic status” students and 168 “high socioeconomic status” students. A student was considered to come from a lower-income family if he/she was eligible for a free or reduced-price meal at school. Children from households receiving Supplemental Nutrition Assistance (food stamps) or from families receiving Temporary Assistance for Needy

Families (TANF) are automatically eligible and hence were considered to come from housed, but lower-income families in Norfolk.

The Norfolk sample enables us to infer some of the impact of homelessness on student performance because it roughly takes account of household income. Both students in the homeless student group and in the low socioeconomic status group come from lower-income households, but the first group of students is homeless, while the second is not. To be sure, nothing else is held constant between the two groups and hence there are many other unobserved influences present. Nevertheless, because these subsamples address the vitally important income factor, these data do provide us with a window on some of the impact of homelessness on Norfolk students.

Table 5 summarizes the impact of homelessness and economic status on several measures of academic performance for the Norfolk sample. As was true in Chesapeake, homeless students do not attend school as many days as other students, but the difference is not as large as we observed in Chesapeake. Proportionately, however, Chesapeake has fewer homeless students and perhaps this has something to do with the willingness and desire of those students to go to school.

The median grade point average (3.04) of high socioeconomic status students in Norfolk was more than one full grade point higher than that of homeless students (2.02). Housed, though low socioeconomic status students in Norfolk recorded a median grade point average of 2.34. The difference between the median grade point averages of the latter two groups (homeless and low socioeconomic status) was 0.32, and this might be interpreted as a rough measure of the impact of homelessness on student academic performance. “Might” is the operational word here since other factors also could be in play, such as parental presence, the number of children in the household, the number of times the household moved, etc. Still, it is reasonable to assume that homelessness is an important factor in the observed differences in grade point averages.

The typical high socioeconomic status student passed 73.7 percent of his/her SOL examinations during 2012-13, while the comparable averages were only 54.8 percent for low socioeconomic status students and 41.7 percent for homeless students. It should be borne in mind that students cannot earn a

regular high school diploma unless they pass the SOL examinations. Thus, the comparatively low passage rate for homeless students does not bode well for their future. Note that the median passage rate (the 50th percentile achievement rate) was 100 percent for high socioeconomic status students, 66.7 percent for low socioeconomic status students and 33.3 percent for homeless students. Hence, the typical (50th percentile) student from the “high” group passes all of his/her SOL exams, while the typical student from the “low” group passes two-thirds of his/her SOL exams and the typical student from the “homeless” group passes one-third of his/her SOL exams.

TABLE 5			
HOMELESSNESS, ECONOMIC STATUS AND SEVERAL MEASURES OF ACADEMIC PERFORMANCE IN NORFOLK, 2012-2013			
	(N = 161) Homeless	(N = 173) Low Socioeconomic Status	(N = 168) High Socioeconomic Status
Attendance (Percentage of Days Eligible)			
Mean	87.9%	92.8%	95.1%
Median	92.2%	95.5%	97.2%
Grade Point Average			
Mean	1.98	2.27	2.86
Median	2.02	2.34	3.04
SOL Percentage of Exams Passed			
Mean	41.7%	54.8%	73.7%
Median	33.3%	66.7%	100.0%
Number of Suspensions from School During Academic Year			
Mean	1.18	0.79	0.13
Median	0.00	0.00	0.00
Source: City of Norfolk Public Schools			

The typical homeless student in Norfolk was suspended from school (either via an in-school or an out-of-school suspension) 1.18 times during the 2012-13

academic year. The comparable averages were 0.79 for low socioeconomic status students and 0.13 for high socioeconomic status students. Suspensions usually are symptomatic of a variety of problems afflicting a student and they have practical consequences – they reduce grade point averages and graduation rates.

VIRGINIA BEACH

Table 6 describes a very large anonymous sample provided by the city of Virginia Beach. It compares 772 homeless students to 25,464 anonymous housed students that the city has identified as coming from low-income households.¹⁰ This provides several very interesting comparisons that enable us to infer some of the impact of homelessness on student performance. Both groups of students come from low-income households, but one group of students is homeless, while the other is not. To be sure, nothing else is held constant between the two groups and hence there are many other unobserved influences present. Nevertheless, because they address the vitally important income factor, these data do provide us with a window on some of the impact of homelessness on Virginia Beach students.

Performance patterns in Virginia Beach are familiar. Homeless students in Virginia Beach attend school about 10 percent fewer days than the housed, low-income students; as a group, they earn a lower grade point average. Both groups pass all of the SOL tests at virtually the same rate, but the homeless students are more likely to fail all of the tests. Holding other things constant, there do appear to be distinct academic costs associated with homelessness, and this is despite the substantial resources that Virginia Beach uses to address the challenge of homelessness in that city.

Table 7 discloses what happened to homeless and housed low-income students in Virginia Beach at the end of the 2012-13 academic year. As noted here, 91.6 percent of homeless children were promoted or graduated; the comparable number for housed, but low-income, children was 93.6 percent. A somewhat larger percentage of homeless children was not enrolled in Virginia

¹⁰ A student is considered to come from a low-income family if he/she is eligible for a free or reduced-price meal at school. Children coming from households receiving Supplemental Nutrition Assistance (food stamps) or from families receiving Temporary Assistance for Needy Families (TANF) are automatically eligible and hence are considered to come from housed, but low-income families in Virginia Beach.

Beach schools at the end of the 2012-13 academic year compared to children coming from a low-income but housed household.

Table 8 compares the five South Hampton Roads school districts in terms of on-time high school graduation rates, GED completion rates and high school dropout rates. However, Table 8 also supplies interesting information concerning the impact that economic disadvantage and homelessness have upon on-time high school graduation rates. These data follow cohorts of students from ninth grade (2009) through 12th grade (2013); their on-time graduation date was spring 2013. Regionwide in South Hampton Roads, a noticeable decline in on-time graduation rates is apparent for students classified as coming from an economically disadvantaged household. A further decline can be seen for students that were homeless sometime during their high school career.

Graph 2 illustrates the average impact of economically disadvantaged status and homeless status upon on-time high school graduation rates in South Hampton Roads. Unfortunate though these relationships are, they cannot be described as surprising. We saw in Table 6 that economically disadvantaged and homeless students don't attend school as often and don't pass as many SOL exams. Ultimately, this translates into high dropout rates and lower graduation rates.

TABLE 6		
ATTENDANCE, SOL PERFORMANCE AND GRADE POINT AVERAGES FOR 772 HOMELESS AND 25,464 LOW-INCOME, BUT HOUSED STUDENTS IN VIRGINIA BEACH		
	(N = 772) Homeless Students	(N = 25,464) Low-Income, but Housed Students
Average Days in Attendance	136.3 (N = 772)	151.1 (N = 25,464)
SOL Performance		
Passed All	43.8% (N = 269)	43.9% (N = 7,324)
Failed Some	34.0% (N = 209)	38.4% (N = 6,411)
Failed All	22.1% (N = 136)	17.8% (N = 2,975)
Grade Point Average	2.38 (N = 24)	2.52 (N = 1,061)
Source: City of Virginia Beach Public Schools		

TABLE 7		
ACADEMIC DISPOSITION OF HOMELESS AND HOUSED, LOW-INCOME STUDENTS IN VIRGINIA BEACH AT THE END OF THE 2012-13 ACADEMIC YEAR		
	(N = 728) Homeless	(N = 24,454) Housed, But From a Low-Income Household
Promoted	552 (75.8%)	21,990 (89.6%)
Graduated	115 (15.8%)	988 (4.0%)
Not Enrolled at the End of the Year	61 (8.4%)	1,568 (6.4%)
Source: City of Virginia Beach Public Schools		

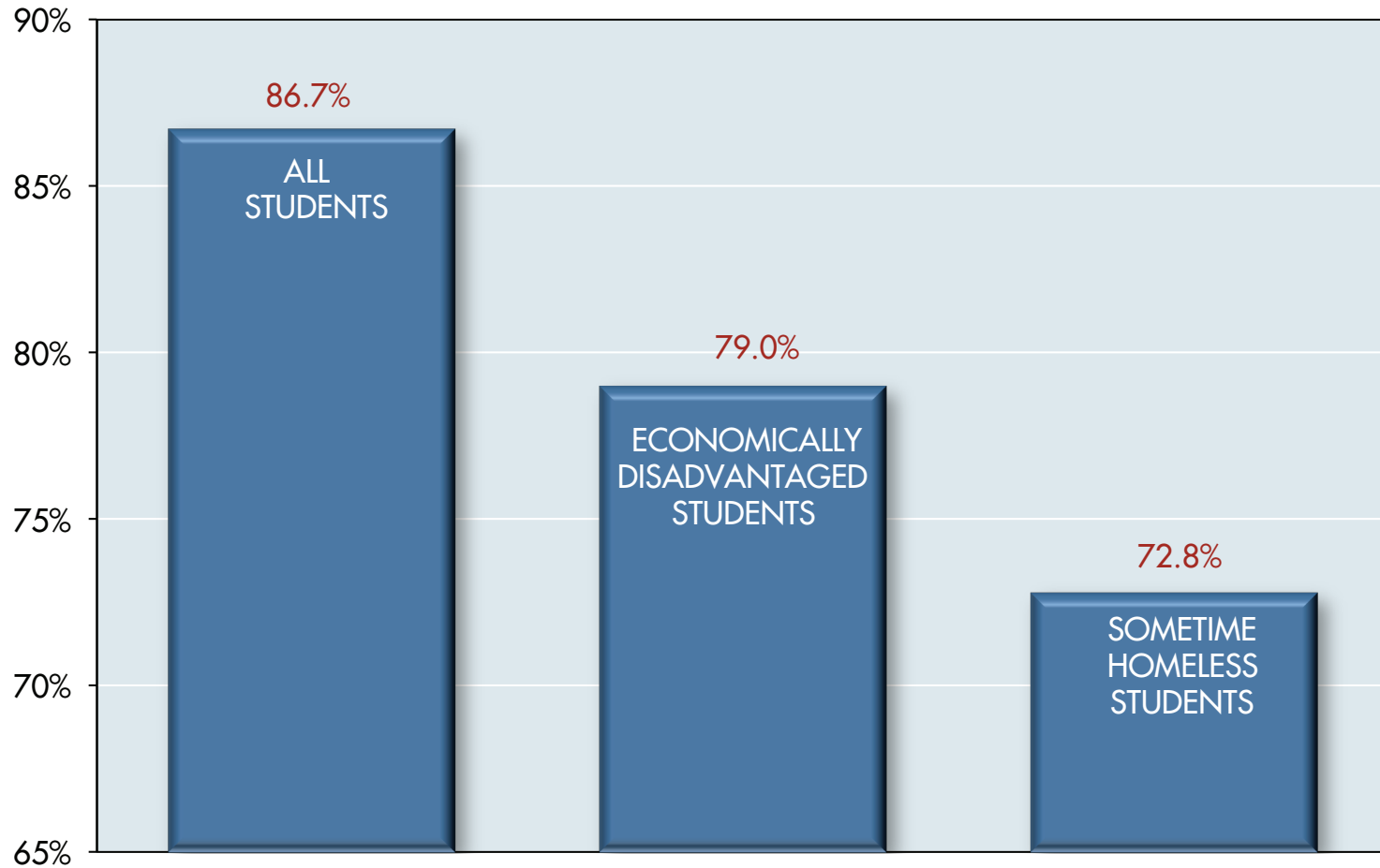
TABLE 8

PROGRESS AND GRADUATION STATISTICS, SOUTH HAMPTON ROADS SCHOOL DISTRICTS, 2012-2013

	Chesapeake	Norfolk	Portsmouth	Suffolk	Virginia Beach	Averages for South Hampton Roads
Cohort Size, 2012-2013	3,283	2,062	1,113	1,097	5,355	
District Student Percentages						
On-Time Graduation Rate						
All Students	92.0%	77.9%	80.9%	87.2%	88.0%	86.7%
Males	89.3%	72.4%	74.9%	84.5%	84.4%	82.9%
Females	95.0%	82.9%	87.0%	90.3%	91.6%	90.6%
Economically Disadvantaged Anytime	83.9%	73.4%	77.7%	79.1%	78.5%	79.0%
Homeless Anytime, 9th to 12th Grade	79.5%	67.1%	76.2%	79.1%	68.9%	72.8%
GED Completion	2.3%	7.6%	5.0%	2.0%	4.0%	4.1%
Males	3.1%	10.2%	3.5%	1.4%	5.0%	4.9%
Females	1.6%	5.2%	1.5%	.6%	3.1%	2.7%
Dropout Rate	3.8%	10.1%	10.4%	8.1%	4.9%	5.7%
Males	5.3%	11.7%	14.3%	8.5%	6.4%	7.8%
Females	2.3%	8.7%	6.4%	6.6%	3.4%	4.5%
Source: Virginia Department of Education, "School, School Division and State Report Cards," www.doe.virginia.gov/statistics_reports/school_report_card . The student cohorts entered four years previously.						

GRAPH 2

**PERCENTAGE OF STUDENTS OF VARIOUS BACKGROUNDS THAT GRADUATED ON TIME IN 2013,
FIVE LARGEST SOUTH HAMPTON ROADS CITIES**



Tables 3 through 8 are revealing, but one should resist the urge to reach overly strong conclusions based upon them. Consider that:

- There is a lack of consistency among the cities both in terms of their propensities to count homeless students and their attribution of resource expenditures (especially transportation) focused on those students. **Hampton Roads needs a single entity that is the initial focal point for all homeless inquiries and which also collects and audits homeless children data and information for all of the region's cities and counties.** It is a challenge to assess either the costs of homelessness, or the impact of programs designed to combat the effects of homelessness, when data variously are not available, not standardized or not reliable. No study, including this one, can be better than the underlying data upon which it relies. Similarly, public policy makers always will be handicapped if they do not have an accurate vision of the actual state of homelessness.
- The “housed, but low-income” samples provided by several of the cities appear to contain proportionately smaller numbers of students actually eligible for graduation.
- We don't know what happened to most of the students that no longer were in the various school districts at the end of the academic year. GED high school equivalency certificates represent one avenue students may take when they drop out. We know, for example, that 4 percent of the large 5,355 Virginia Beach high school cohort earned a GED certificate. Beyond this, we do not know much more. **Tracking dropouts across district and even state lines, and over time, is important if we really want to know the impact of homelessness on students.**
- The most important reason why we should be prudent in our conclusions, however, is that there are many unobserved characteristics of homeless students (and those that are housed) that we would like to know, but don't. For example, we would like to know if a homeless student came from a single-parent home, how many different places he/she lived, the education and employment characteristics of his/her parents or guardians, his/her encounters with the justice system, etc.

Even with these caveats, however, the apparent effects of homelessness upon student academic performance can be seen in Tables 4 through 8. We know that homeless students attend class between 5 and 10 percent less often than other students. In Norfolk, for example, the correlation between student grade point averages and student daily attendance is $+.54$. Put in different terms, this means that we can explain almost 30 percent of the variance in student grade point averages (the other 70 percent being due to other factors) if we know how often these students attend school.

This is not a trivial relationship. The percentage of homeless students in a city is negatively correlated with on-time graduation as one would expect ($r = -.86$) and positively correlated as one would expect with each city's high school dropout rate ($r = +.54$).

Homelessness is negatively and strongly related to performance on individual SOL tests. In Norfolk, for example, the passage rate of students coming from homeless households is 13.1 percent less than those students coming from low socioeconomic status households and fully 32 percent less than students coming from high socioeconomic status households.

These results are entirely consistent with the reputable national and regional studies noted previously. The bottom line is that homelessness has destructive effects on student academic performance.

The Impact Of Homelessness Follows Students Throughout Their Lives

What difference do these lower levels of academic performance make to homeless students later in their lives? The most measurable impact of homelessness is on homeless students' ability to find jobs and earn income. Put simply, if homeless children do not graduate from high school, then they will enter job markets at a tremendous disadvantage. Graph 3, which relies upon

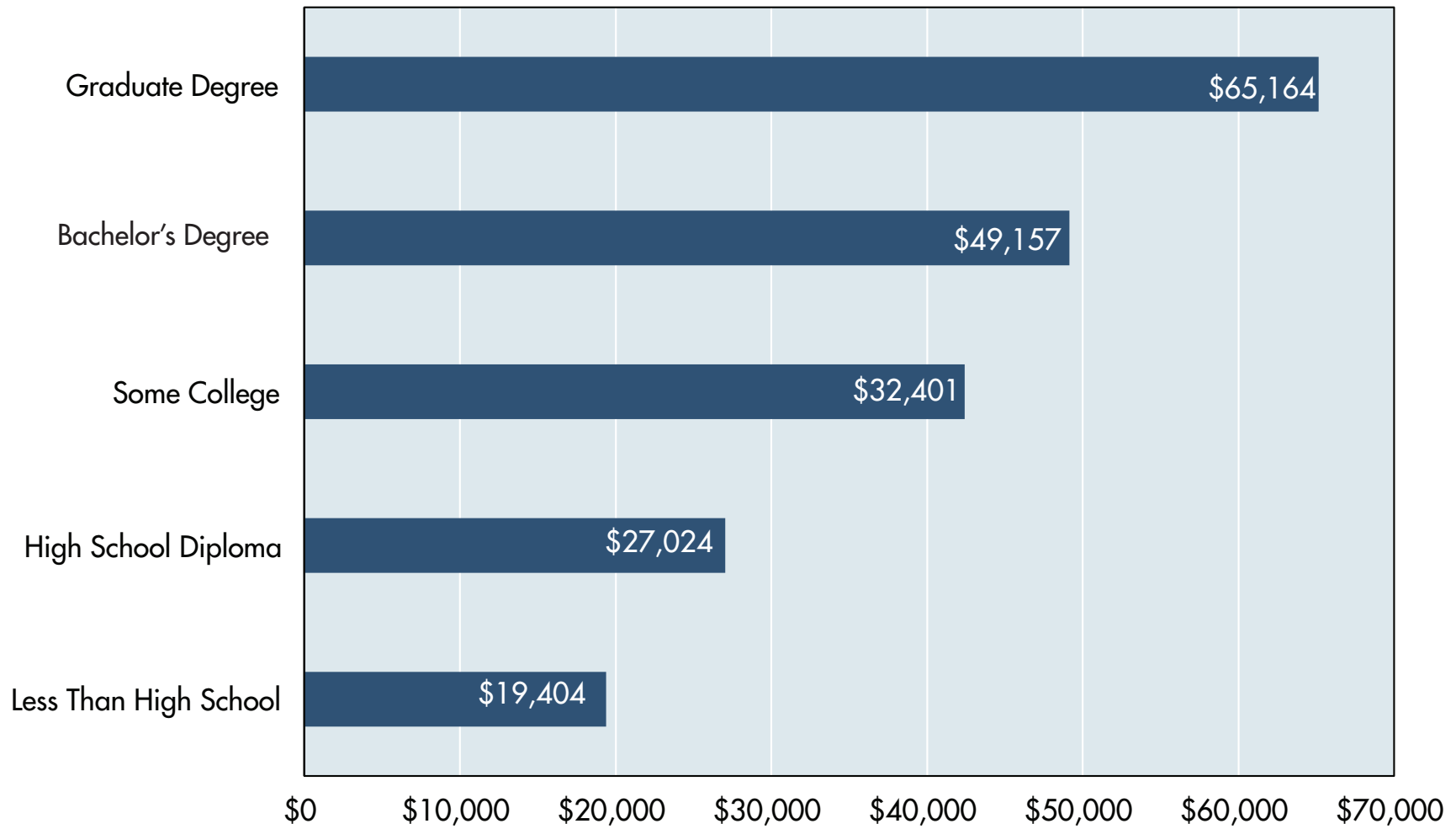
data from the U.S. Census, reveals that the median (50th percentile) income of individuals with less than a high school education was only \$19,404 in 2012. This was almost 40 percent less than the median income of high school graduates (\$27,024). To be sure, some individuals do well even though they have not acquired a high school diploma, but as the data in Graph 3 record, they are exceptions to the general rule.

Graph 4 illustrates the unfortunate reality that those individuals that do not graduate from high school also are burdened by much higher rates of unemployment. Because homeless students are less likely to graduate from high school, they are more likely to become unemployed throughout their lives.



GRAPH 3

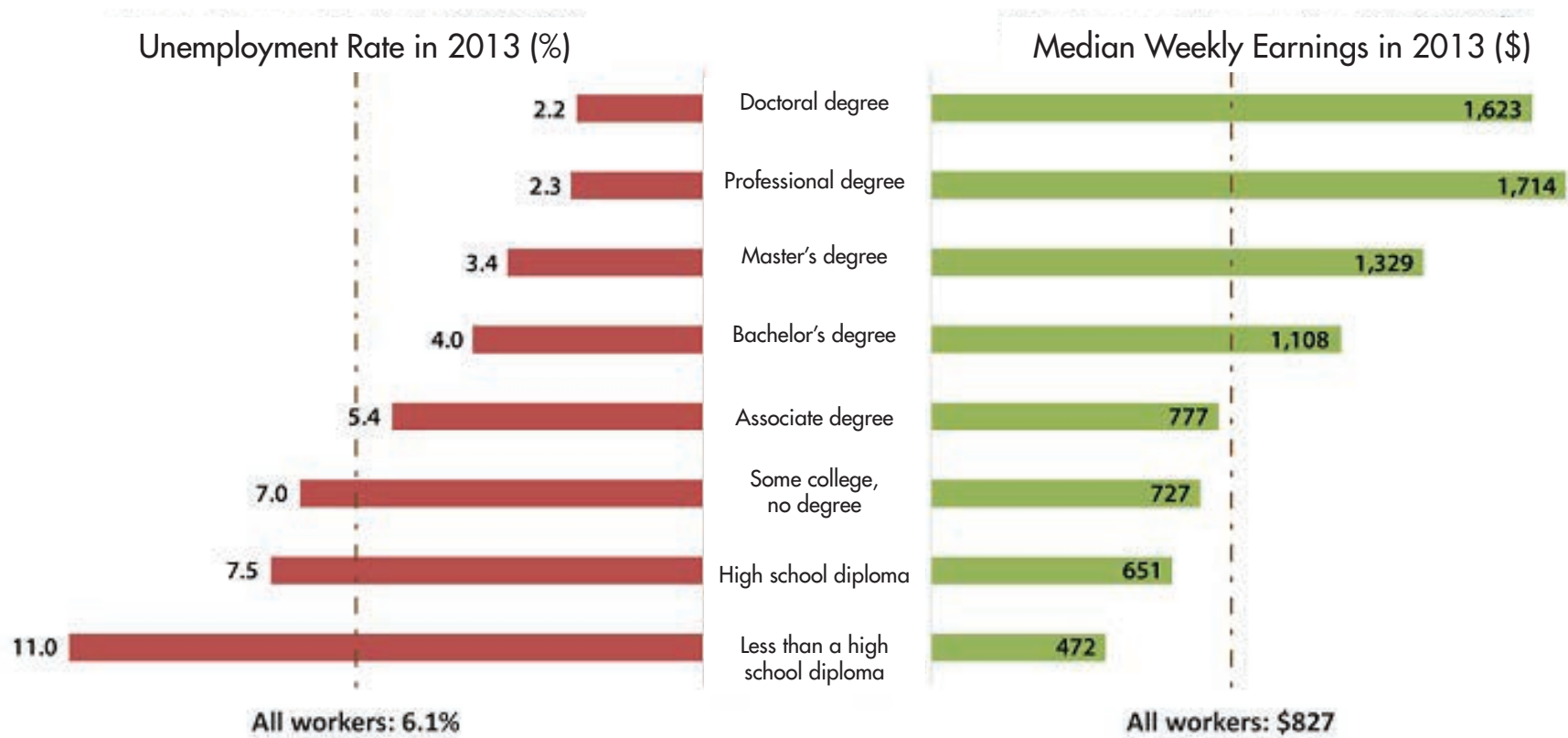
MEDIAN INCOME OF INDIVIDUALS WITH VARIOUS LEVELS OF EDUCATION, 2012



Source: "American Fact Finder," U.S. Census Bureau, <http://factfinder2.census.gov>

GRAPH 4

UNEMPLOYMENT RATES AND WEEKLY EARNINGS BY EDUCATIONAL LEVEL, 2013



Note: Data are for persons age 25 and over. Earnings are for fulltime wage and salary workers.

Source: Bureau of Labor Statistics, Current Population Survey, www.bls.gov/emp/ep_chart_001.htm

Summing It Up For The Major Cities Of South Hampton Roads

Table 9 provides estimates of many of the societal costs associated with homeless children in the context of the five major cities of South Hampton Roads. Some of these costs already have been identified and include administrative costs connected to the McKinney-Vento obligations of school districts (for example, the salary of the district's coordinator) and the costs of transporting homeless students to their "school of origin."

Administrative and transportation costs, however, constitute only a small slice (perhaps 5 percent) of the total additional costs associated with homeless children. Far more important are additional medical and social services costs that homeless children impose on the cities in which they live. It is undeniable that such costs exist. Homeless children appear in hospital emergency rooms more often and are more likely to suffer from chronic health problems, such as obesity and diabetes, even while some are undernourished.

There is abundant evidence that homeless families and their children require emergency and transitional housing at a higher rate than the housed population and that on a per capita basis, homeless people utilize larger than usual amounts of social services, including Temporary Assistance to Needy Families (TANF) and food stamps (the Supplemental Nutrition Assistance Program). These general types of costs are included in the social services variable in Table 9.

What is not clear, however, is the best way to allocate those costs to specific homeless children because many of the costs are incurred jointly with other members of a family. Consider social safety net services such as food stamps. Suppose a single mother of a homeless family of four applies for and receives food stamps. Should three-quarters of that expense be attributed to the homeless children, or a different proportion? What proportion of a family's emergency or transitional housing costs should be apportioned to a homeless child? The national and regional studies cited in footnote 5 do not always answer such

questions identically. In such cases, this report has adopted their average conclusions or assessments.

Some social costs associated with homeless children are more easily measured on an individual child basis, for example, hospital emergency room use and prison/incarceration expenses. However, these costs are not identical across the United States and so we have relied on their average values. Emergency medical and hospital room use provides a useful example. We have used a \$772 per homeless student per year estimate of the total cost to society of emergency room use by homeless students. This estimate may be too high, or too low, for South Hampton Roads. Therefore, no one should impute precision to the estimates contained in Table 9. These estimates are, however, reasonable approximations of the total additional costs that society incurs when certain events occur.

School districts also must devote extra resources to homeless children. We have attempted to capture these at the K-8 level and also to estimate special education costs (which apply to homeless children more often than other students). We have not computed "in-school" high school costs attributable to homeless children. Clearly, such costs exist, but we could not find a reputable, rigorous source to backstop any estimates, and so we have not included them in Table 9.

With these caveats in mind, note that the largest cost incurred by society from homeless students is the cost of emergency and transitional housing, which accounts for more than 29 percent of the total cost. When other housing-related costs are added to emergency and transitional housing, together they account for slightly more than 48 percent of all of the costs incurred by society because of homeless children. This underlines once again the conclusion of informed observers concerning homelessness, namely, that finding housing for homeless individuals quickly is vitally important. However, paying to house homeless individuals actually is cost-efficient relative to more expensive alternatives. This is a counterintuitive conclusion for citizens not familiar with the data found in Table 9, but an induction that is quickly grasped by those who have taken the time to dive into the numbers.

TABLE 9

**ESTIMATED ANNUAL ADDITIONAL TOTAL COSTS ASSOCIATED WITH 1,548 REPORTED HOMELESS SCHOOLCHILDREN,
SOUTH HAMPTON ROADS, 2012-2013, BASED ON NATIONAL STUDIES**

	(N = 89) Chesapeake	(N = 442) Norfolk	(N = 211) Portsmouth	(N = 35) Suffolk	(N = 771) Virginia Beach	Totals
Medical and Health						
Emergency Room Use	\$68,708	\$341,224	\$162,892	\$27,020	\$595,212	\$1,195,056
Recurring Health Problems	\$283,020	\$1,157,146	\$670,980	\$111,300	\$2,451,780	\$4,674,226
Mental Health Care	\$122,909	\$610,402	\$291,391	\$48,335	\$1,064,751	\$2,137,788
Social Services and Housing						
Foster Care	\$233,568	\$1,159,967	\$530,032	\$87,920	\$1,936,752	\$3,948,239
Emergency and Transitional Housing	\$518,425	\$2,547,650	\$1,229,075	\$203,875	\$4,491,075	\$8,990,100
Other Social Service Use	\$109,025	\$541,450	\$258,475	\$42,875	\$944,475	\$1,896,300
Education						
Preschool and Elementary	\$163,493	\$881,954	\$387,607	\$64,295	\$1,416,327	\$2,843,676
Special Education Programs	\$154,682	\$768,196	\$366,718	\$60,830	\$1,338,998	\$2,689,424
Administrative and Transportation						
Administrative	\$9,900	\$128,721	\$69,353	\$2,000	\$274,606	\$ 652,696
Transportation	\$252,113	\$280,000	\$247,035	\$ 0	\$458,138	\$1,237,286
Penal System and Incarceration						
	\$12,638	\$62,764	\$29,962	\$4,970	\$109,482	\$ 219,816
Failure to Graduate from High School						
Average Present Value of Annual Lost Income						
(2013 Incomes and Prices)	\$38,337	\$190,392	\$90,899	\$15,076	\$332,112	\$ 666,816
Totals	\$1,966,818	\$8,599,866	\$4,334,419	\$668,496	\$15,413,708	\$30,983,307
Average Cost Per Homeless Student	\$22,099	\$19,457	\$20,542	\$19,100	\$19,992	\$20,015
Notes: The estimates rely upon: (1) the number of homeless children in each school district; (2) each school district's graduation rate; (3) the assumption that the costs of homelessness per student found in national studies apply to South Hampton Roads; (4) U.S. Census income data that were used to project future incomes and these incomes were discounted to present value so that future income dollars are equivalent to those in 2013; (5) a 3.724 percent rate of discount, the 30-year U.S. government bond rate on March 9, 2014. The present value (PV) estimate is for a single year, not for all the years of a student's work life. The present value estimates also assume that many homeless students will leave their original school district and live elsewhere. While all of the estimates above must be understood to be approximations, they do provide useful information about the relative magnitude of these costs if South Hampton Roads mirrors national trends. The individual city averages are bunched together because identical costs per student are assumed for a majority of the services identified above. Hence, the most meaningful per-student statistic is the regional average, \$20,015 per student.						

Housing-related costs are followed in importance by recurring health problems, at 15 percent. Recurring health problems include conditions ranging from the common flu to obesity and diabetes. Together, medical- and health-related challenges account for slightly more than \$8 million in annual costs.

Among the cities of South Hampton Roads, Virginia Beach bears the most annual additional costs (\$15.4 million), primarily because it reports the largest total population of homeless students (N = 771). Portsmouth, however, identifies the most homeless students on a per capita basis. Chesapeake and Suffolk identify the smallest per capita proportions of their populations as homeless students. Norfolk and Virginia Beach are roughly similar on a per capita basis.

A portion of the city-to-city per capita homeless children disparities in Table 9 reflects well-known demographic and economic differences among the cities. After all, they are not clones of each other. **Nevertheless, while the same laws (especially McKinney-Vento) apply to all of the cities, the**

cities do not always appear to interpret and apply the laws and accompanying regulations in the same fashion. Perhaps the observed disparities in application represent unofficial city policies pursued by administrators, or instead, simply tradition.

Finally, while we have computed per-child costs for homeless children, most homeless children are part of some kind of larger family unit. How does the approximate \$20,000 per homeless child computation relate to the cost for an entire family unit? Other studies suggest a 2.5X to 3X multiplier for those costs, that is, something in the range of \$50,000 to \$60,000 as the cost to society of an entire “typical” homeless family. Reality is, however, that homeless families differ substantially in size and character and therefore family cost estimates are less precise than those for individuals. One of the most important variables, for example, relates to whether or not both parents are present. We would need to know such things if we were going to make a reliable estimate of the family costs connected to homelessness.



The Impact of Vehicle Tolls on Hampton Roads



THE IMPACT OF VEHICLE TOLLS ON HAMPTON ROADS: JOB MOBILITY, RESIDENTIAL LIVING CHOICES AND REGIONAL COHESION

Vehicle tolls are nothing new in Hampton Roads. Both the Downtown Tunnel (DTT), which opened in 1952, and the Midtown Tunnel (MTT), which opened in 1962, extracted 25-cent tolls from drivers of vehicles passing through them until 1986. The Virginia Beach Expressway (now I-264) opened in 1967 and was funded with tolls as high as 25 cents for passenger cars and a bit higher on a per axle basis for trucks. These tolls were removed in 1996.

The Hampton Roads Bridge-Tunnel (HRBT) extracted a \$1.25 toll from automobiles between 1957 and 1976.

The Chesapeake Bay Bridge-Tunnel (CBBT) has been tolled since it opened in 1964. Currently, that toll is \$13 for passenger cars for a single trip, \$26 for a three-axle truck and \$47 for a six-axle truck. Repeat travelers qualify for much lower tolls.

Now, we have a new set of tolls – this time on the DTT, MTT and the Martin Luther King Freeway (MLK). The tolls are designed to help pay for a \$2.16 billion transportation improvement project negotiated by the Commonwealth of Virginia under the aegis of the Public/Private Partnership Act of 1995. The centerpiece of the project is a new tunnel tube for the MTT that will improve traffic flow between Norfolk and Portsmouth, as well as to points west and south. The new tube will increase the MTT to four lanes and presumably expedite traffic going to and from the Sentara/Eastern Virginia Medical School health complex, Old Dominion University, the port and Naval Base Norfolk.

More than a little controversy has accompanied this project because at least one study has suggested that the adverse impact of new vehicle tolls would be especially large for the city of Portsmouth.¹ The new tolling arrangement also has pushed to the forefront questions about the viability of any regional strategy that would pay for a new (third) crossing over the James River estuary, and perhaps

even the widening of I-64 to Richmond, by means of tolls. Finally, this project has caused both members of the public and legislators to take a closer look at the Public-Private Partnership Act of 1995, which enabled the current project and its surrounding financial arrangements.

What are the new DTT, MTT and MLK tolls? While lower initially, beginning in 2016, drivers of passenger cars going through either the DTT or MTT tunnel will pay \$1.84 during peak hours, while drivers of trucks will pay \$7.36. During off-peak hours, they will pay \$1.59 and \$4.77, respectively. MLK tolls will be 50 cents for tunnel users and \$1 for non-tunnel users. However, these are E-ZPass (electronic) rates and drivers of vehicles without an E-ZPass transponder will pay triple these amounts.

¹ James V. Koch, "The Differential Impact of Tolls on the City of Portsmouth," Jan. 6, 2014. The report may be accessed at www.jamesvkoch.com under the "Consulting Reports" icon.

The Public-Private Partnership Act Of 1995

The tolls on the DTT, MTT and MLK are one product of a 58-year “Comprehensive Agreement” between the Commonwealth of Virginia and Elizabeth River Crossing OpCo (ERCO),² made possible under provisions of the 1995 Public-Private Transportation Act (PPTA).³ This particular agreement took effect in 2012 and has been amended since then.

The Comprehensive Agreement with ERCO included the construction of a second MTT tunnel tube (increasing it to four lanes), extending the MLK Freeway from High Street to I-264, and rehabilitating the existing DTT and MTT tunnels. The advertised total cost of these projects was \$2.16 billion.

The primary impetus for the PPTA was the apparent inability of the Commonwealth to finance most of the large transportation infrastructure projects that legislators and citizens wished to pursue. Hence, in the PPTA, the Commonwealth turned to the private sector for help. It is not clear that, at the time, all concerned understood that private-sector investors/operators would demand a rate of return on their invested capital that would be competitive in the milieu of large, private-sector corporations. This would not be a world of 3 percent interest rates on 10-year U.S. government bonds.

The PPTA delegates responsibility for developing and approving public-private transportation partnerships to the governor, who in turn may delegate that responsibility to another individual, such as the secretary of transportation. As of this writing, approval of the Virginia General Assembly is not required, regardless of the size of the project.

ERCO is responsible for collecting tolls and for achieving the traffic volumes outlined in its forecasts, which may be a bit optimistic. While there is no guaranteed rate of return for ERCO on its investment, ERCO is authorized

to earn 13.5 percent on its invested capital. If that rate of return does not materialize because competing facilities have been constructed by the Commonwealth, then the Commonwealth must compensate ERCO for the shortfall. However, if ERCO’s revenues exceed forecasts (implicitly, the 13.5 percent rate of return), then ERCO will share a portion of the excess with the Virginia Department of Transportation (VDOT). The percentage share of excess gross revenues increases as the amount of gross revenues earned by ERCO increases.⁴ VDOT is required by law to use the shared revenue on transportation improvements in the corridor.

The Comprehensive Agreement gives ERCO the authority to raise tolls 3.5 percent annually if it wishes to do so, beginning in 2016. However, if the annual growth rate of the consumer price index (CPI) in the preceding 12 months was higher than 3.5 percent, then ERCO may choose to increase its tolls by that percentage. Assuming that ERCO takes advantage of these provisions, **this means, at a minimum, that the peak hours and non-peak hours tolls for passenger vehicles would rise to at least \$11.79 and \$8.71, respectively, by 2070. (Peak hours are defined as 5:30 a.m. to 9 a.m. and 2:30 p.m. to 7 p.m.) Comparable truck tolls would rise to at least \$47.17 and \$30.57, respectively, by 2070. As we will soon see, because of the CPI provision, tolls actually are likely to rise much more than these amounts.**

² ERCO’s lead firms are Skanska Infrastructure Development and Macquarie Group, both of which are public-private partnership (PPP) developers and infrastructure investors as well as operators throughout the world. For more information about ERCO, see www.erc-info.com.

³ Among completed Virginia PPP projects are: the Pocahontas Parkway (Route 895) across the James River, south of Richmond; a 17.5-mile stretch of Route 288 west of Richmond; and the Route 199 partial loops around Williamsburg.

⁴ If gross revenues exceed baseline forecasts from 5% to 10%, 10% to 20%, 20% to 30% and in excess of 30%, then VDOT will share 5%, 15%, 30% and 60%, respectively. ERCO may earn gross revenues up to 5% in excess of baseline forecasts before VDOT shares in profits.

The Positive Overall Economic Impact Of The Newly Tolled Project

There is a tendency for the supporters of toll-financed projects to neglect the costs associated with those projects and for the opponents of toll-financed projects to neglect the benefits of the same projects. Reality is that both benefits and costs are generated by toll-financed projects such as the DTT/MTT/MLK undertaking in Hampton Roads.

Let's focus for a moment on the primary benefits typically associated with a new toll project:

- Reduced travel times
- Increased trip and travel reliability
- Reduced traffic congestion
- Increased fuel economy
- Reduced vehicle operating costs
- Reduced carbon emissions and diminished environmental harm
- As many as 1,500 additional jobs and associated increased incomes connected to construction.

At least five reputable studies have documented that some or all of these benefits will be associated with the DTT/MTT/MLK tolling project. For example, The Hartgen Group estimates that after completion, the project will increase the gross regional product of Hampton Roads by an incremental \$365 million to \$390 million annually and in the process create 4,401 additional jobs.⁵ "West Side" benefits that will accrue are estimated by Hartgen to range between \$144 million and \$148 million, along with 1,736 jobs. The Hartgen Group

⁵ "Impacts of Mid-Town Tunnel Improvements on Regional Productivity and Job Mobility," The Hartgen Group (2009), p. 3, www.hartgengroup.net

also estimated that the increased reliability of travel time across the Elizabeth River will have a median value of \$63 million to the region.⁶

Reputable analysts attribute significant financial benefits to the completion of the DTT/MTT/MLK project. It also is fair to say that the analytic consensus is that the project will yield significant benefits to the region and the Commonwealth. This, however, is not the same as saying that the benefits and costs of the project will be spread evenly (or equitably) across the region, or even that the benefits and costs will be spread evenly (or equitably) among the residents and businesses inside a specific city.

We Live In An Economically Interdependent Region

Both the benefits and the costs of the DTT/MTT/MLK accruing to any city depend substantially on how many people in those cities will use these venues and end up paying tolls, either because they leave a city (perhaps Suffolk) to work in another, or because people in other cities leave those cities to come work in this city (Suffolk). Table 1 reports U.S. Census data describing where people live and where they work in Hampton Roads.

Reading down the columns, one can see to whom each city or county is supplying workers. Taking Newport News as an example, one can see that this city supplies 13,744 people who work in Hampton; 40,661 workers in Newport News remain there for their jobs; 5,236 go to work in Norfolk; 3,724 travel to work in Virginia Beach; and 15,062 workers are employed outside of Hampton Roads.

Reading across the rows, one can discover where a city or county's workers come from. Virginia Beach, for example, receives 23,138 workers from Norfolk; 6,925 from Portsmouth; 10,727 from Hampton Roads locations north of the James River;⁷ and 29,576 workers from outside Hampton Roads.

⁶ "Value of Improvements in the Reliability of Travel Time Resulting from MTT Improvements," The Hartgen Group (2009), p. 2, www.hartgengroup.net

⁷ These workers travel to Virginia Beach from Gloucester County, James City County, Mathews County, York County, Hampton, Newport News, Poquoson and Williamsburg.

**TABLE 1
WHERE PEOPLE LIVE AND WORK IN HAMPTON ROADS, 2011**

Workers Live Here

Job Located In	Number of Jobs	Currituck County, N.C.	Franklin	Gloucester County	Isle of Wight County	James City County	Mathews County	Southampton County	Surry County	York County	Chesapeake	Hampton	Newport News	Norfolk	Poquoson	Portsmouth	Suffolk	Virginia Beach	Williamsburg	Outside Hampton Roads
Currituck County, N.C.	7,482	2,693	12	-	12	1	1	1	-	7	385	11	11	54	1	47	52	335	3	3,856
Franklin	13,545	20	2,847	30	860	57	20	3,329	90	47	345	60	204	194	13	355	1,372	281	-	3,422
Gloucester County	13,206	3	5	5,550	61	428	665	28	2	489	116	317	972	127	75	116	99	280	54	3,819
Isle of Wight County	14,025	36	184	20	4,265	183	38	441	320	164	547	807	1,381	285	36	731	1,836	293	20	2,435
James City County	37,618	16	38	1,363	310	12,055	286	82	329	2,869	418	1,269	4,827	347	234	356	401	757	1,130	10,532
Mathews County	2,045	4	4	267	4	28	711	-	2	37	22	37	66	13	9	7	9	17	2	808
Southampton County	3,543	4	327	4	153	4	-	1,554	40	8	46	12	20	32	1	58	120	43	1	1,116
Surry County	3,113	3	5	48	258	115	11	41	726	89	117	79	171	35	16	50	83	138	11	1,115
York County	28,992	8	28	1,695	417	3,388	208	63	74	6,067	446	2,380	5,347	428	613	428	391	828	526	5,656
Chesapeake	132,806	1,777	97	478	1,441	701	104	178	70	15	41,070	3,162	3,288	13,226	137	9,498	6,504	30,394	129	20,535
Hampton	76,504	43	40	1,130	1,717	1,833	189	70	30	5,047	3,469	23,816	13,744	3,910	1,634	1,956	2,103	5,088	213	10,471
Newport News	134,154	116	127	4,822	4,837	4,463	662	246	102	10,072	4,819	21,508	40,661	3,973	2,193	3,518	4,659	6,376	463	20,537
Norfolk	192,051	1,086	63	106	1,742	1,334	183	163	65	1,432	27,297	6,484	5,236	50,825	285	10,249	6,909	52,164	228	26,201
Poquoson	2,410	1	-	50	35	40	5	4	-	291	50	297	344	37	875	32	33	80	3	232
Portsmouth	61,237	392	50	131	1,312	255	34	92	38	304	11,722	1,721	1,881	6,044	44	16,620	5,065	8,466	38	7,027
Suffolk	37,179	155	447	222	2,074	333	40	825	101	368	4,341	885	1,355	1,710	76	3,015	12,107	2,905	29	6,193
Virginia Beach	229,365	1,621	-	612	1,329	1,130	137	179	-	1,082	25,843	3,631	3,724	23,138	196	6,925	4,790	125,237	215	29,576
Williamsburg	19,123	5	13	921	145	5,679	105	41	174	2,078	205	686	3,162	212	125	196	184	348	1,407	3,437
Outside Hampton Roads	-	5,045	2,163	2,151	320	1,935	1948.4	5,314	1,794	11,600	15,274	11,424	15,062	16,090	2,201	477	16,026	32,761	2,591	-
1,008,398		13,027	6,451	19,600	21,293	33,962	5,347	12,652	3,958	42,067	136,532	78,584	101,456	120,681	8,765	54,634	62,745	266,790	7,062	156,968

Sources: U.S. Census Bureau, 2013: OnTheMap Application. Longitudinal Employer Household Dynamics Program. <http://onthemap.ces.census.gov>
http://lehd.ces.census.gov/applications/help/onthemap.html#lwhat_is_onthemap
 Jobs are "primary jobs," and include military personnel and self-employed.
 Primary jobs: Public- and private-sector jobs, one job per worker. A primary job is the highest-paying job for an individual worker.
 Source of jobs data: "Civilian Labor Force and Unemployment by Census Region and Division, Seasonally Adjusted," www.bea.gov

The import of the numbers in Table 1 is inescapable:

- Economically speaking, we are a highly interdependent region – most of our workers live in one city or county, but work in another. Fully 64.9 percent of our workers leave their home city or county when they go to their jobs.
- Even Norfolk, bolstered by its traditional role as a headquarters site and job magnet, finds that 57.9 percent of its employed residents work in a different city or county.
- Many of our workers “cross the water” in north-south directions. An estimated 71,000 people holding jobs in Hampton Roads cross the James River estuary every day to and from Hampton and Newport News to go to work.⁸ They account for approximately 120,000 daily trips.
- Business and delivery trucks crossing the James River to and from Hampton and Newport News add approximately 70,000 daily trips to this number on a typical day.
- Many of our workers also “cross the water” in east-west directions. Roughly 85,000 people (8.5 percent) move between eastern Hampton Roads and western Hampton Roads as they travel to work. About two-thirds of them utilize the DTT and/or MTT when they do so. This activity accounts for approximately 140,000 daily trips.
- Business and delivery trucks (for example, those emanating from the port) add an approximate additional 75,000 trips to this east-west number.⁹

Some important deductions spring from these data. **Approximately 25 percent of all workers in the region are tied to jobs that require them to commute over bridges and tunnels to their jobs, or whose jobs require them to make business and delivery trips that utilize the same crossings. To the extent that drivers must pay high tolls when they utilize these venues, we risk dividing our region into three parts: Eastern Hampton Roads (Norfolk and Virginia Beach), Western Hampton Roads**

⁸ Approximately 20 percent of individuals utilize car pools or public transportation, or telecommute, thus reducing the actual number of trips undertaken.

⁹ The business and delivery trip estimates are based upon the Koch study cited in footnote 1 and are based upon, inter alia, an actual physical count of the types of vehicles entering the DTT and MTT.

(Portsmouth, Suffolk and points west) and the Peninsula. Only Chesapeake would appear to be situated in such a way that its drivers would not have to access the DTT and MTT with any frequency. However, Chesapeake drivers, like all others Southside, would have to pay to get to the Peninsula if those crossings were to become tolled.

Nearly two and a half centuries ago, in 1776, Adam Smith, in his “An Inquiry into the Nature and Causes of the Wealth of Nations,” noted how the division and specialization of labor and general economic prosperity were tied to the size of available markets. This is among the reasons Smith was a free trader. He objected to tariffs and taxes that prevented consumers and businesses from making mutually profitable connections. A toll may be viewed as a tariff (tax) on movement. Were he alive today, Smith likely would eschew tolls in favor of other means of funding road, bridge and tunnel improvements.

If we impose high tolls on bridges and tunnels in Hampton Roads and separate our regional market into three distinct and perhaps competing parts, then there will be consequences. **The size of our labor pool will shrink as workers decline to pay the tolls necessary to commute over bridges and tunnels. This will mean some employees will have to settle for lower wages and some employers won’t be able to hire the best possible employees. Businesses will find that the number of customers to whom they have easy access will decline. Customers will have an incentive to find alternate, less expensive suppliers, perhaps using the Internet to fuel their searches. This is a recipe for economic decline.**

How high is “high” when we are talking about tolls? In 2016, drivers of passenger cars will pay \$1.84 during peak hours to drive through either the DTT or MTT. Workers/drivers that do so twice a day, 250 days per year (and perhaps throw in a couple of more passages per month for other purposes) will spend about \$1,000 per year on these tolls. This is approximately 2.2 percent of the median household income in the cities of Portsmouth and Norfolk and, based upon studies in other metropolitan areas, it is sufficient to change behavior. Toll rates that extract 1 percent or less of median household income annually appear to be regarded by most drivers as a nuisance, but do not often change decisions about where they choose to work, live or spend leisure time.

The Relative Burden Of The Tolls

Only a brief glance at the Table 1 commuting matrix is needed to see that the imposition of tolls on the DTT, MTT and MLK will not have much impact on the Peninsula. It's true that 1,721 Hampton residents commute to Portsmouth for their jobs and 1,956 Portsmouth residents commute to Hampton for their work. Some of these 3,677 people may have to pay the tolls, though many of them may choose the “back side” commuting path of some combination of I-664, I-264, State Route 164 and U.S. Route 17 to travel to their jobs. Virtually all who reside in Newport News or to the north will be able to exercise the same, toll-free option.

Not surprisingly, the primary burden of the tolls will fall upon four Southside cities: Norfolk, Portsmouth, Suffolk and Virginia Beach. Of these cities, easily the largest burden will fall upon those who live or work in Portsmouth and must travel back and forth through the DTT or MTT to get to their jobs and return home.

Table 1 illustrates Portsmouth's exposed situation. Fully 10,249 people live in Portsmouth and work in Norfolk; 6,044 do the reverse. Another 6,925 people live in Portsmouth and work in Virginia Beach, while 8,466 reverse that flow. When one adds the very few individuals that live or work in Chesapeake or Currituck County, but nevertheless use the DTT and MTT, a total of 32,279 people likely will use the DTT and MTT to go to work in and out of Portsmouth.

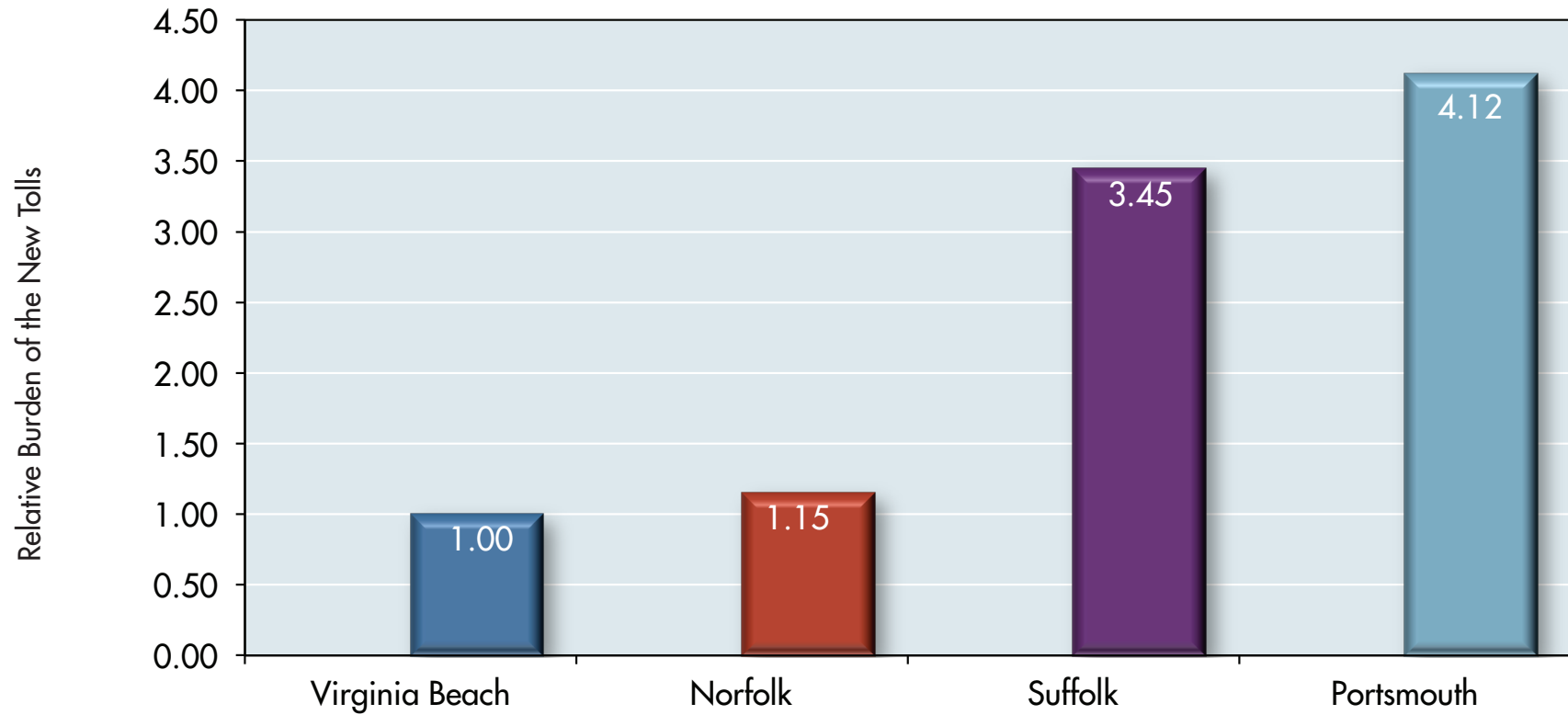
Portsmouth's job base of 61,237 is an approximate measure of the size of its economy. A rough-and-ready measure of the impact of the new tolls on Portsmouth is the percentage (52.7 percent) of the city's “in and out” commuters among its job base.

How does this compare to the other Southside cities that primarily will be affected by the tolls? Graph 1 indexes the impact the tolls will have on Norfolk, Portsmouth, Suffolk and Virginia Beach as the percentage of each city's job base consisting of “in and out” commuters that must use the DTT and MTT to go back and forth to work. The impact is least on Virginia Beach. While Table 1 discloses that an estimated $6,925 + 8,466 = 15,391$ people will be “in and out” commuters to and from Virginia Beach and Portsmouth, Suffolk and points west (and hence probably must use the DTT and MTT), this is only 6.7 percent of Virginia Beach's substantial job base of 229,365.

Graph 1 indexes Virginia Beach's percentage at 1.00. Norfolk slides in above Virginia Beach with an index of 1.15, followed by Suffolk at 3.45 and Portsmouth at 4.12. In relative terms, the impact of the tolls will be more than four times greater upon Portsmouth than on Virginia Beach. The relative impact of the DTT and MTT tolls upon Chesapeake and the cities and counties on the Peninsula is minuscule by comparison.

GRAPH 1

RELATIVE BURDEN OF THE NEW TOLLS UPON SOUTHSIDE HAMPTON ROADS CITIES



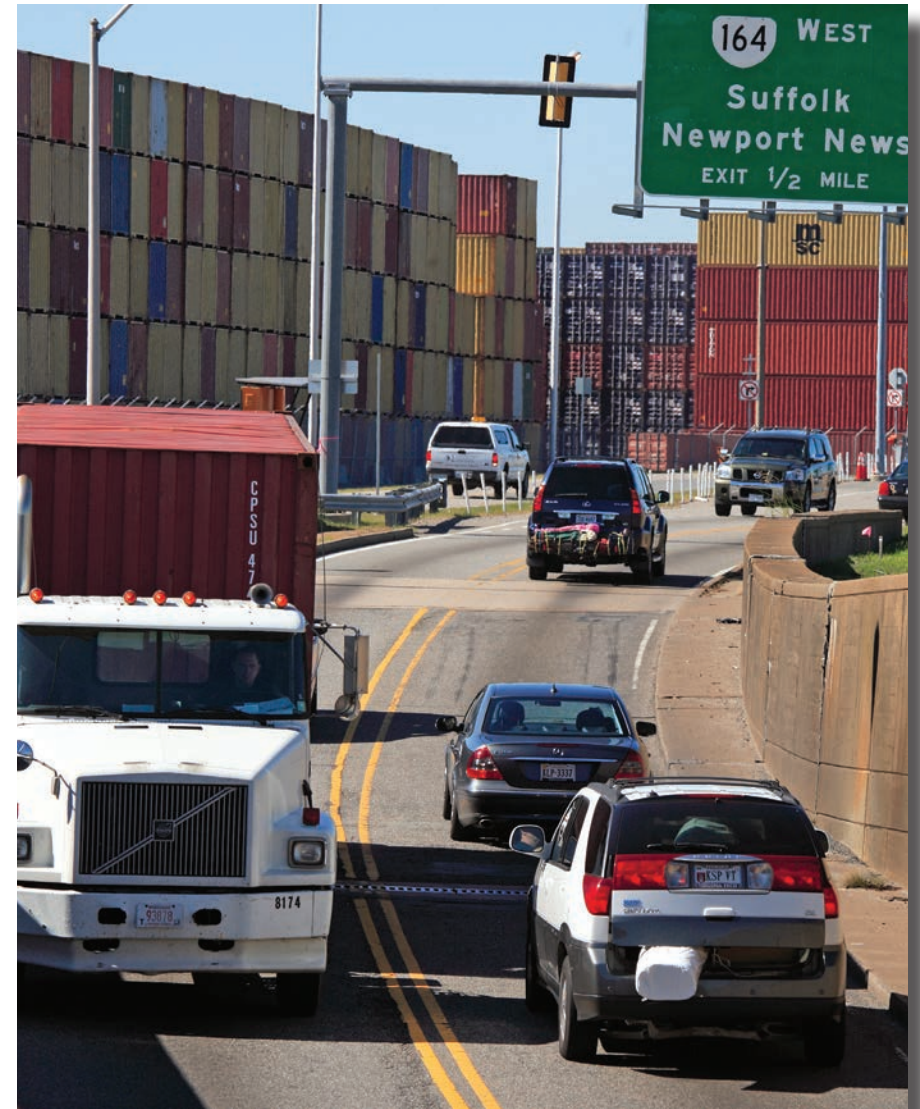
Source: James V. Koch, "The Differential Impact of Tolls on the City of Portsmouth," Jan. 6, 2014

Future Increases In Tolls For The DTT And MTT

The Commonwealth's agreement with Elizabeth River Crossings permits ERCO to increase tolls by 3.5 percent annually, or the growth in the consumer price index over the trailing 12 months, if that is higher. As Graph 2 illustrates, this means that the \$1.84 peak-time toll for passenger cars would increase to \$11.79 in 2070 if tolls increased at only 3.5 percent annually, but would jump to \$21.56 if the growth in the CPI between now and 2070 matched what was true between 1956 and 2014. During that 58-year time period, the annual growth in the CPI was higher than 3.5 percent on 24 occasions.

Specifically, past CPI growth suggests that tolls will increase at an average of 4.66 percent per year, not 3.5 percent. Thanks to the miracle of compound growth, this would increase ERCO's total revenue by slightly more than 82 percent over the 3.5 percent scenario.¹⁰

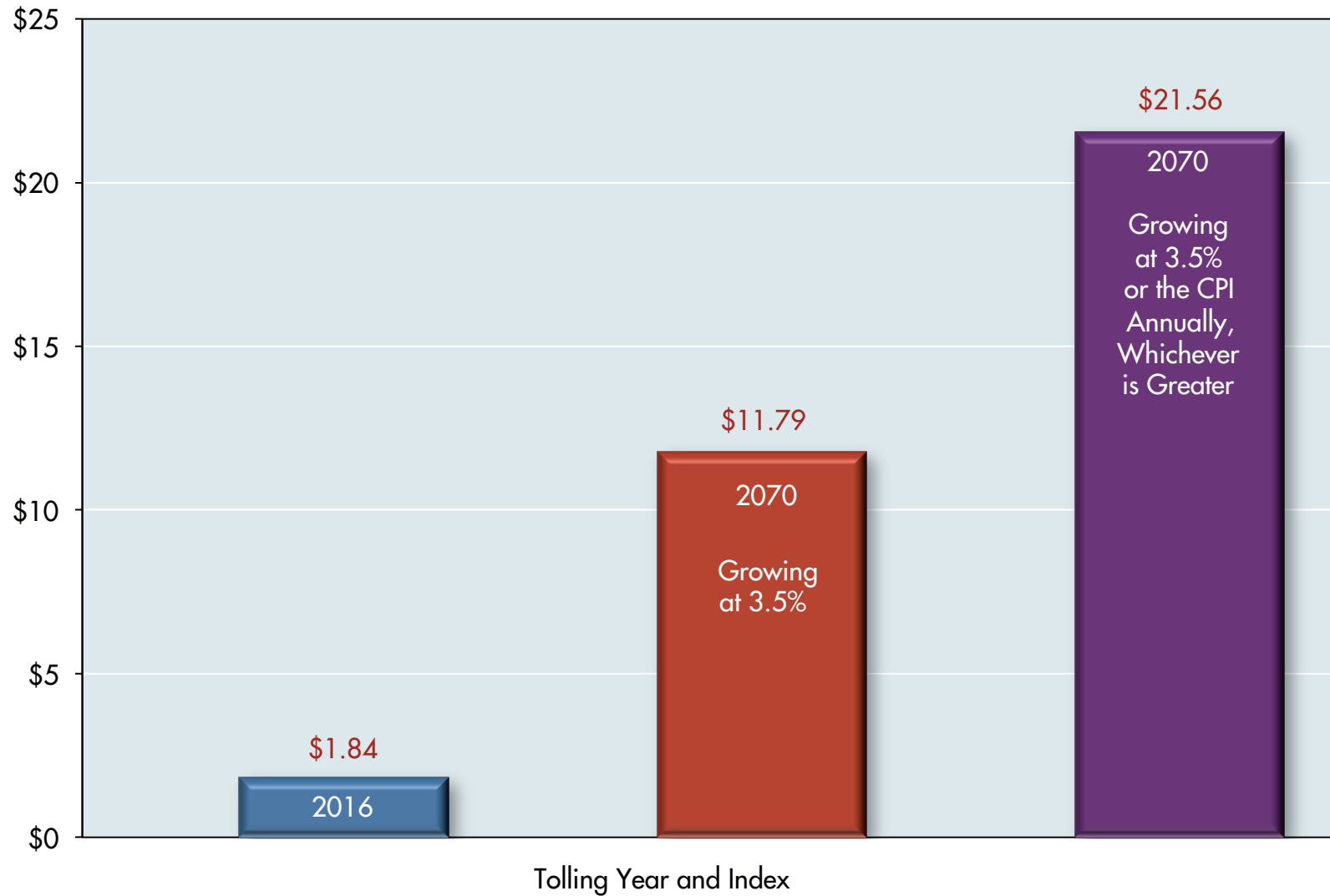
Graph 3 reveals that the \$7.36 peak-hour toll that trucks will pay in 2016 will grow to \$47.17 if tolls increase at only 3.5 percent annually, but to a stupendous \$86.24 if they grow at the aforementioned 4.66 percent annually. It is not difficult to envision a scenario in which such tolls inhibit economic activity in Hampton Roads.



¹⁰James V. Koch, "The Differential Impact of Tolls on the City of Portsmouth," Jan. 6, 2014.

GRAPH 2

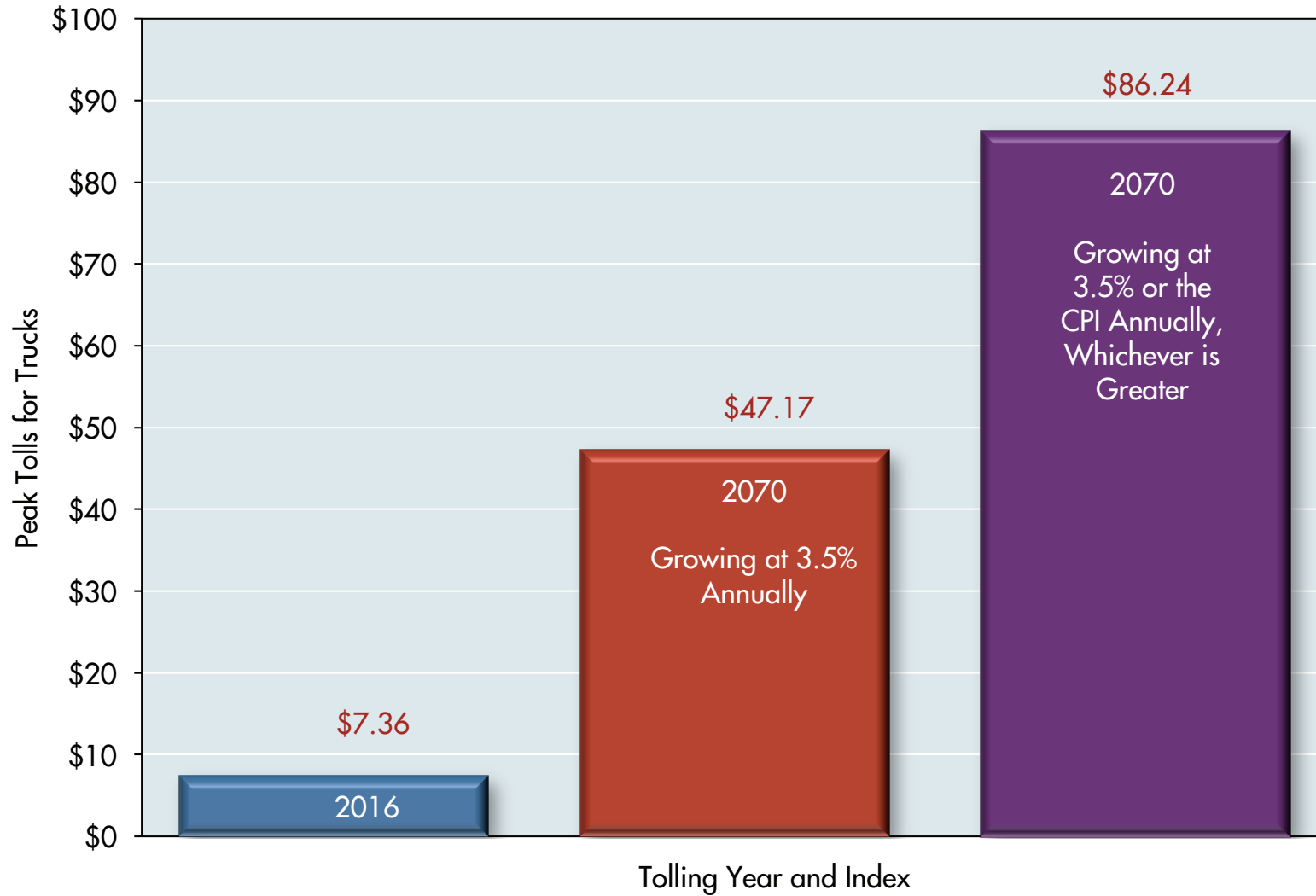
GROWTH OF PASSENGER VEHICLE TOLLS, 2016 THROUGH 2070 (ASSUMING ANNUAL INCREASES OF 3.5 PERCENT OR THE CPI, WHICHEVER IS GREATER)



Source: James V. Koch, "The Differential Impact of Tolls on the City of Portsmouth," Jan. 6, 2014

GRAPH 3

**GROWTH OF TRUCK TOLLS, 2016 THROUGH 2070
(ASSUMING ANNUAL INCREASES OF 3.5 PERCENT OR THE CPI, WHICHEVER IS GREATER)**



Source: James V. Koch, "The Differential Impact of Tolls on the City of Portsmouth," Jan. 6, 2014

The Key Role Of Discretionary Drivers

Table 2 reveals that 32,279 people potentially will go “in and out” of Portsmouth daily because of their jobs. If they make round trips, this means there are 64,558 potential trips made daily through the tunnels by workers. Some, however, will carpool; others will use mass public transportation. Still others may telecommute. Based upon the experience of other metropolitan areas, 20 percent is an approximate estimate of the number of people that will utilize these alternatives.

An estimated 25,000 vehicle trips through the tunnels reflect trucks and business vehicles plying their trades on a daily basis. Since the average number of total trips through the two tunnels is approximately 125,000 (about 70 percent through the DTT), this leaves approximately 50,000 “discretionary” trips daily that do not relate to job commuting or the activities of businesses.¹¹ It is these individuals who are most likely to be negatively influenced by the new tolls. They are people who drive through the tunnels for sundry purposes – shopping, recreation, excursions to restaurants and churches, visits to friends and transit to other locales.

Discretionary drivers are more likely to utilize the tunnels during non-peak hours because they have no need to drive during the most congested and more expensive peak hours (5:30 a.m. to 9 a.m. and 2:30 p.m. to 7 p.m.). Preliminary evidence on tunnel traffic immediately after the imposition of tolls on Feb. 1, 2014, revealed that the decline in traffic was much larger during non-peak hours than peak hours (Dave Forster, “Traffic Surges to Gilmerton, High-Rise After Tunnel Tolls,” *The Virginian-Pilot*, Feb. 14, 2014). This is precisely the reaction one would expect. Those that don’t really need to pay the tolls are the ones most likely to decide to stay home, or to relocate their activities closer to their home bases.

¹¹ James V. Koch, “The Differential Impact of Tolls on the City of Portsmouth,” Jan. 6, 2014.

TABLE 2
SUMMARY COMMUTING MATRIX FOR PORTSMOUTH, 2011

Downtown and Midtown Only

	From Portsmouth	Into Portsmouth
Chesapeake	95	117
Norfolk	10,249	6,044
Virginia Beach	6,925	8,466
Currituck County, N.C.	24	196
Outside Hampton Roads	24	351
Totals	17,317	15,174

“In and Out” total is 32,491, which is 53.1 percent of Portsmouth’s job base of 61,237.

All Tolled: DTT, MTT, HRBT, MMMBT, RT17

	From Portsmouth	Into Portsmouth
Chesapeake	95	117
Norfolk	10,249	6,044
Virginia Beach	6,925	8,466
Currituck County	24	196
Gloucester County	116	131
Mathews County	7	34
York County	428	304
Hampton	1,956	1,721
Newport News	3,518	1,881
Poquoson	32	44
Williamsburg	196	38
Outside Hampton Roads	95	1,405
Totals	23,641	20,381

“In and Out” total is 44,022, which is 71.9 percent of Portsmouth’s job base of 61,237.

Note: Downtown Tunnel (DTT), Midtown Tunnel (MTT), Hampton Roads Bridge-Tunnel (HRBT), Monitor-Merrimac Memorial Bridge-Tunnel (MMMMBT) and James River Bridge (RT17)
Source: James V. Koch, “The Differential Impact of Tolls on the City of Portsmouth,” Jan. 6, 2014

To the extent that discretionary drivers avoid the tolled tunnels, this will inflict financial injury upon Southside businesses that have regional rather than local clienteles. Consider a restaurant in Olde Towne Portsmouth, an area that attracts a significant portion of its guests from outside of the city. Suppose the average tab paid by a diner is \$35 (counting both lunch and dinner). Then, in 2016, the $\$1.84 \times 2 = \3.68 tolls paid by the diner would be equivalent to a 10.5 percent tax on that dining experience. This is not a recipe for success. Contemporary estimates of “price elasticity of demand” (the sensitivity of consumers to price changes) suggest that such a 10.5 percent increase in price because of the tolls would result in an 8 percent to 12 percent decline in sales revenue (holding everything else, such as Department of Defense expenditures and general prosperity, constant).

The financial injury does not end there. Let’s once again focus on Portsmouth. Each 1 percent decline in sales tax collections will cost the city of Portsmouth \$6 million annually. Further, declining sales and profits eventually will reduce the value of the city’s businesses and the properties where they are located. Each 1 percent decline in the assessed valuation of properties in the city of Portsmouth will reduce its tax collections by about \$900,000. Of course, Portsmouth’s loss could become another city’s gain.

While Portsmouth is the Southside city most vulnerable to the tolls, other cities such as Norfolk also attract many of the discretionary drivers that utilize the tunnels to travel to businesses and restaurants in Norfolk, patronize regional attractions such as the Chrysler Museum of Art, the Norfolk Tides and the Norfolk Admirals, or drive to educational institutions such as Tidewater Community College, Norfolk State University and Old Dominion University. Indeed, because of its long-standing status as a cultural, legal, financial and educational center for Hampton Roads, Norfolk appears to attract a higher proportion of discretionary travelers than any other city in the region. Hence, it will not escape the burden of the tolls.

Future Traffic Volumes Through The DTT And MTT

Estimation of traffic volumes when new tolls are imposed upon a travel venue is somewhat speculative simply because the tolls represent something entirely new as opposed to an increase in price of something that already exists. The Commonwealth commissioned several consultants and agencies to provide traffic estimates through the DTT and MTT. Among them was Steer, Davies and Gleave, whose 2010 report and final report in March 2012 estimated traffic flows through 2070: “Downtown Tunnel/Midtown Tunnel/Martin Luther King Freeway (MLK) Extension: Traffic and Revenue Forecasts.”

Steer, Davies and Gleave opined that a 24 percent to 48 percent immediate decline in tunnel traffic might occur because of a “shock effect.” The actual declines in tunnel traffic that occurred in February 2014, while substantial, were not this large. The consulting firm predicts slow, gradual growth in traffic once drivers adjust to tolls.

“Drop in Traffic Takes Toll on Investors in Private Roads,” reported The Wall Street Journal on Nov. 20, 2013. The WSJ’s Ryan Dezember and Emily Glazer noted that traffic volume projections often have been overly optimistic on privately owned or operated toll projects.

Straightforward economic analysis suggests that the typical passenger car driver eventually will decide to pay the tolls. Suppose the value of a driver’s time is \$10 per hour and that avoiding the tunnels adds 30 minutes to the length of a trip across the Elizabeth River. The value of those extra 30 minutes to this typical driver is $.5(\$10) = \5 , which is substantially higher than either the \$1 toll in 2014, or the \$1.84 toll in 2016. Hence, an armchair prediction is that the typical driver will grumble and perhaps attempt to minimize his/her trips, but ultimately will decide that driving through the tunnels

(and paying the tolls) is cost efficient after all. Still, this will be less true for discretionary drivers than for job commuters and businesses.

Nightmare On Elm Street: Tolling The James River Crossings

“My recommendation would be to toll all 4 crossings with electronic toll collection, with dynamic pricing (congestion pricing, with all the revenues utilized only on the 4 crossings) based on time-of-day and day-of-week, designed to optimize the usage of all 4 crossings, with a price structure that would pay for the entire total cost (debt service on toll revenue bonds) of the Third Hampton Roads Crossing project, justifying the re-tolling of the JRB and HRBT on the basis that the Third Crossing would provide them traffic relief as well as revenues for maintenance, and for providing an adjustable optimal traffic balance over all 4 crossings.” Scott M. Kozel, “Roads to the Future,” April 10, 2005, http://www.roadstothefuture.com/HR_Crossing_Study.html#PPP-2001

If placing tolls on the DTT, MTT and MLK has generated problematic results, then consider what would happen if all vehicles using the three major un-tolled James River crossings (the Route 17 Bridge, the Monitor-Merrimac Memorial Bridge-Tunnel and the Hampton Roads Bridge-Tunnel) were subjected to tolls. These three James River crossings (which we abbreviate as RT17, MMMBT and HRBT, respectively) likely would be tolled if a third crossing over the James River were constructed. A third crossing would have cost \$2.7 billion a decade ago and

quite simply neither the Commonwealth nor the region possessed such a revenue source.

Refer back to the commuting matrix data found in Table 1. Let’s use Hampton as an instructive example. As Table 3 reveals, a total of 15,883 people live in Hampton, but are employed in the five major Southside cities: Chesapeake, Norfolk, Portsmouth, Suffolk and Virginia Beach. It would be nearly impossible for these commuters to avoid paying tolls unless they carpool, use mass transportation or telecommute. There also is a reverse flow: 16,526 people live in one of the five Southside cities, but are employed in Hampton. Hence, a total of 32,409 people with connections to Hampton would be affected by tolls on RT17, MMMBT and HRBT. The comparable number for Newport News is 38,829. The total for the two Peninsula cities is 71,238.

Thus, 71,238 is the average daily number of people who live in either Hampton or Newport News, but are employed Southside plus those people that live Southside, but are employed in either Hampton or Newport News.¹² Most of these people would pay a toll – twice a day – if RT17, the MMMBT and the HRBT were tolled in order to pay for a third crossing.

If approximately 20 percent of these commuters carpool, use mass transportation or telecommute, then we still are left with about 57,000 vehicles that cross the James River each day because of their employment. Add to this perhaps 25,000 daily business trips and about the same number of discretionary trips, and the total average estimated trips nears 110,000.

¹² Note that there are other people who live or work in locations such as Poquoson, James City County and Williamsburg that also commute across the James River.

TABLE 3

**WORKERS CROSSING THE JAMES RIVER ON A DAILY BASIS:
THE FLOW OF MAJOR CITY WORKERS OVER THE RT17
BRIDGE, MMMBT AND HRBT**

Hampton to Chesapeake	3,162	Chesapeake to Hampton	3,469
Hampton to Norfolk	6,484	Norfolk to Hampton	3,910
Hampton to Portsmouth	1,721	Portsmouth to Hampton	1,956
Hampton to Suffolk	885	Suffolk to Hampton	2,103
Hampton to Virginia Beach	3,631	Virginia Beach to Hampton	5,088
Totals	15,883		16,526
Hampton Total: 32,409			
Newport News to Chesapeake	3,288	Chesapeake to Newport News	4,819
Newport News to Norfolk	5,236	Norfolk to Newport News	3,973
Newport News to Portsmouth	1,881	Portsmouth to Newport News	3,518
Newport News to Suffolk	1,355	Suffolk to Newport News	4,659
Newport News to Virginia Beach	3,724	Virginia Beach to Newport News	6,376
Totals	15,484		23,345
Newport News Total: 38,829			
To the Southside Total	31,367	To the Peninsula Total	39,871
Grand Total, "to and from": 71,238			
Source: James V. Koch, "The Different Impact of Tolls on the City of Portsmouth," Jan. 6, 2014			

One can quibble with the precise nature of these estimates; they are approximations. Even so, the broad lessons of these numbers can be grasped easily. The cities and counties of our region are highly interdependent. **Anything that reduces or frustrates this economic interdependence will make us worse off. Significant tolls on the three currently non-tolled James River crossings would fall into that category because they would increase costs, diminish the size of our market, reduce labor mobility and cause our incomes to stagnate or decline. Viewed from a national perch, significant James River tolls would do much to make our region noncompetitive.**

Summing It Up

A variety of independent studies have predicted that the overall economic impact of the DTT/MTT/MLK project on Hampton Roads will be positive. These studies rely upon "present value" estimates that collapse future revenues and costs into current dollars so that, for example, costs and revenues in 2040 can be compared to costs and revenues in 2016. This is conventional practice in economics and finance, and the studies cannot be faulted for their methodology. The conclusion, however, is that this project, when completed, will be good for our region.

However, a finding that discounted benefits of the project exceed its discounted costs for Hampton Roads as a region does not guarantee that all cities and counties in our region will experience the same proportionate benefits and costs. Indeed, perhaps the most important lesson here is that the benefits and costs of the project are unequally distributed across Hampton Roads. Much depends upon the locations where people actually live and work, which businesses and institutions attract out-of-town customers and guests, and the behavior of discretionary drivers.

Norfolk, Portsmouth and Suffolk are the cities most affected by the tolls. Portsmouth in particular appealed to the Commonwealth for relief, and Gov.

Terry McAuliffe delayed the full onset of the tolls until 2016 by providing the project with what has been advertised as \$82 million in toll revenue subsidies. Prospects for significant long-term financial assistance to the cities are not good, however.

Accordingly, the cities should consider:

- **Subsidizing or rebating portions of tolls paid by citizens or employees.** Moffatt and Nichols' useful 2012 report to Portsmouth focused on ways that this city itself might subsidize or rebate toll payments.¹³ The cities should consider jointly advocating a state income tax credit for cumulative tolls paid by an individual above a certain level, say, \$250 annually. This tax credit easily could be tied to the size of someone's taxable income in order to focus it upon lower-income individuals and households. This would constitute a drain on the Commonwealth's treasury, but the drain would be much smaller and more distributed over time than, say, a request for an additional \$100 million in cash or debt contribution by the Commonwealth to the project. This might appeal to toll payers elsewhere in the Commonwealth. The cities also could rebate their own property taxes and the like on much the same basis.
- **Additional tolling time periods.** Daily vehicle traffic through the DTT and MTT varies up to 30 percent during a typical week and much more than this during a single day. ERCO has responded to these data by developing a two-time period model – peak hours and non-peak hours – in terms of the tolls it will charge. Experience at other toll sites nationally suggests that as many as four distinct tolling time periods may be optimal.

Additional tolling time periods would not cost ERCO revenue if the demand for tolled travel were "unit elastic" or better. Practically, this means that a 10 percent reduction in tolls must result in a more than 10 percent increase in toll customers, or a 20 percent reduction in tolls must cause a more than 20 percent increase in toll customers.

The cities should request that ERCO experiment with additional tolling time periods to determine the reaction of drivers. The aim would be to attract

more discretionary drivers (for example, those who might patronize a store or restaurant, attend church or visit friends).

- **Enhanced public transportation.** The cities should do their utmost to publicize Hampton Roads Transit's Traffix website, www.gohrt.com/services/traffix, where prospective car poolers can make contact with each other. A three-person car pool slices two-thirds of the cost from the tolls paid by a single passenger vehicle. Further, the cities should explore additional Elizabeth River bus and ferry service with HRT.



¹³ "City of Portsmouth Policy and Legislative Recommendations: Midtown and Downtown Tunnel Toll Implementation," Moffatt and Nichols, Aug. 27, 2012.



Economic Development Incentives: Competing Against Ourselves?



ECONOMIC DEVELOPMENT INCENTIVES: COMPETING AGAINST OURSELVES?

As Companies Seek Tax Deals, Governments Pay High Price
– Louise Story, The New York Times (Dec. 1, 2012)

Aided and abetted by the media, nearly all of us have done it. We count the number of new firms attracted to our area in a given year and then use that number as a thermometer of the economic health and vitality of the region. To be sure, we know that other things such as national economic conditions and, in the case of Hampton Roads, defense spending, are so important that they can overwhelm the efforts of even the most energetic and successful economic developers to attract new firms. Nevertheless, the number of new firms attracted to an area remains one of the most popular measures of economic health.

Counting new businesses is easy, but often is deceptive for some of the reasons just noted. Fundamentally, however, the single-minded focus of economic developers on attracting new firms may be misguided. Spending an equivalent number of dollars on helping existing firms expand, or incubating startup firms or commercializing basic research usually is a more productive strategy in terms of generating jobs and expanding the tax base. Further, as we will see, attempts to attract new firms not only can be expensive, but also can result in counterproductive bidding of one governmental unit against another. Finally, the rationale for government choosing favorites and providing financial assistance to one firm, but not another, in a roughly equivalent situation is shaky.

In this chapter, we look at our regional economic development programs at the policy level. We attempt to assess the overall productivity of our local and regional efforts (which often cooperate with those of the Commonwealth of Virginia) and then ask the obvious questions: Do these programs represent a sound investment of scarce public and private funds? Are they worth it? And, what are the alternatives?

The longstanding premise that has motivated most local, regional and state economic development programs – “Let’s

go out and attract new firms in order to bolster the economy” – now is being challenged by those who argue that it is more productive to: (1) “garden” and expand existing firms; (2) incubate startup firms; and (3) commercialize and bring to market the basic research emanating from the Jefferson Laboratory, NASA Langley, Eastern Virginia Medical School and Old Dominion University. In this new, emerging view, the efforts of organizations such as the Hampton Roads Economic Development Alliance (HREDA) either should be refocused, or a new hybrid organization capable of these broader mandates should be created.

Nationally, the most economically dynamic regions tend to do all of these things well. They cultivate existing firms and incubate new firms even while attempting to attract new firms. They simultaneously stimulate and encourage the commercialization of basic research being undertaken at their academic institutions. They may also utilize economic development incentives as a part of their growth strategy, but this is not the centerpiece of their overall approach to economic development.

What is meant when one talks about the “gardening” of existing firms? The notion originated in Littleton, Colo., in the 1980s and was popularized by MIT’s David Birch (“The Job Generation Process,” 1979), who argued that most new jobs in any community are generated by a small cadre of local businesses, which he later termed “gazelles.” Littleton and other “gardening communities” made life easier for their small businesses by giving them access to information and high-speed Internet connections, arranging sessions for them with financial institutions and venture capital firms, connecting them to academic, engineering, computer, Internet and accounting expertise, and providing them with very short-term tax incentives. A frequent example involves raising the visibility of a small firm on the Internet by optimizing its presence in Internet search engine activities. The focus is on second-stage firms that have demonstrated solid possibilities for growth, but now could benefit from assistance. Today, the Edward Lowe Foundation is a particularly energetic supporter of economic gardening and states that it is “an entrepreneur-oriented approach to economic prosperity.” www.edwardlowe.org

A current hot concept in economic development is the “innovation district,” which Fortune magazine describes as the clustering of “cutting-edge research institutions and R&D-intensive companies with start-ups and business incubators. They are physically compact, transit-accessible, and offer mixed-use housing, office, and retail.” (Katz and Wagner in Fortune, June 13, 2014). The only area of Hampton Roads that even approaches this description currently is the Old Dominion University/Eastern Virginia Medical School/Granby Street corridor, though some of these building blocks exist on the Peninsula because of the existence of NASA Langley Research Center, the Thomas Jefferson National Accelerator Facility and the incipient Virginia Tech development; and in Virginia

Beach along Princess Anne Road because of the burgeoning medical complex and the Virginia Beach Higher Education Center. Cultivation and promotion of these developments, rather than attempting to attract a large corporation, would require a reorientation of our regional economic development efforts.

A Quick Scan Of Our Economic Development Efforts

Virginia, along with its cities, counties and regions, works aggressively to lure new businesses and in 2012 spent an estimated \$1.89 billion on such efforts. Even so, the Commonwealth has eschewed very large economic incentives such as those that assisted South Carolina in attracting a BMW production facility and Alabama in attracting a Mercedes production plant.

Media campaigns, recruiting trips, worldwide offices, conventions and a variety of incentives all are utilized by the Commonwealth and Hampton Roads to attract new business activity. **Nevertheless, even though the 50 states are spending an estimated \$50 billion per year on economic development incentives, and regional and local governments an estimated \$30 billion more, there is surprisingly little agreement as to what works best, or even what works at all, in attracting new businesses from other locations.**¹ Indeed, the academic consensus on the subject is that economic development incentives seldom determine company locational decisions.

Virginia typically has not chosen to play in the “let’s pay out large incentives to attract a new firm” arena. The actual financial grants awarded for economic development purposes by the Commonwealth usually have not been sizable.

¹ Institute on Taxation and Economic Policy, “Tax Incentives: Costly for States, Drag on the Nation,” http://itep.org/itep_reports/2013/08/tax-incentives-costly-for-states-drag-on-the-nation.php#.U4XKpXy15cl, for the \$50 million figure, and Louise Story, *The New York Times*, Dec. 1, 2012, for the remaining regional and local \$30 billion. For additional evidence on the questionable productivity of economic development financial incentives, see Yoonsoo Lee, “Geographical Redistribution of U.S. Manufacturing and the Role of State Development Policy,” *Journal of Urban Economics*, 64 (2008); Terry F. Buss, “The Effect of State Tax Incentives on Economic Growth and Firm Location Decisions: An Overview of the Literature,” *Economic Development Quarterly*, 15 (2001); and Carlos F. Liard-Muriente, “U.S. and E.U. Experiences of Tax Incentives,” *Area* 186 (2007).

A November 2012 study by the Virginia Joint Legislative Audit and Review Commission (JLARC) found that most of the 3,372 financial grants for economic development awarded in the Commonwealth by state government between fiscal years 2002 to 2011 averaged only a bit more than \$200,000.² While seven recipients received more than \$20 million each, most received less than \$100,000. Table 1 lists the 50 businesses in Hampton Roads that received incentive grants from the beginning of 2009 to the end of 2013.

The Commonwealth and local governmental units operate 21 primary economic development programs (see Table 2). A host of state agencies exist to administer these programs. Any city, county or region worthy of the name has an economic development agency and one or more programs designed to attract and retain businesses to that jurisdiction. Table 3 summarizes the state, regional and local agencies and groups that profess economic development to be one of their significant aims.

This veritable blizzard of programs and agencies naturally provokes the question: Are we getting our money's worth? Do these programs work? Do they invest money wisely? Can they demonstrate results?

To be sure, we are not the first to ask these questions, nor are these questions unique either to Hampton Roads or to the Commonwealth of Virginia. However, given the only "so-so" performance of our regional economy, it is appropriate once again to raise these questions and to summarize the evidence.

² Review of State Economic Development Grants (Richmond, Virginia: JLARC, November 2012, <http://jlarc.virginia.gov/reports/Rpt431.pdf>).

TABLE 1

**VIRGINIA ANNOUNCEMENTS OF EMPLOYMENT CREATION AND CAPITAL INVESTMENT FOR PROJECTS RECEIVING INCENTIVES
IN HAMPTON ROADS, CALENDAR YEARS 2009-2013**

	Location	Mfg	Type	Employment	Investment (millions)	Date Announced	Jobs Saved	Amount of Incentive (millions)	Source
AMAC Leasing LLC	Southampton County	M	N	26	\$5.60	02/2013	0	\$0.300	Rail
Atomized Products Group Inc.	Chesapeake	M	N	26	\$4.30	07/2013	0	\$0.100	GOF
Bauer Compressors Inc. *	Norfolk	M	E	130	\$15.00	03/2013	0	\$0.100	EZ
Canon Virginia Inc. *	Newport News	M	E	0	\$27.00	06/2013	12	\$3.000	VIP
DESMI*	Chesapeake	M	E	34	\$1.90	10/2013	0	\$0.031	VJIP
Eska Graphic Board*	Chesapeake	M	E	18	\$0.55	03/2013	0	\$0.015	VJIP
Franklin Lumber LLC	Isle of Wight County	M	N	72	\$14.80	06/2013	0	\$0.000	
Greystone Inc.	James City County	M	E	34	\$1.50	06/2013	0	\$0.025	VJIP
Hamilton Consulting Corp.	Chesapeake	N	E	58	\$0.50	06/2013	0	\$0.058	VJIP
Hampton Farms/Severn Peanut Co.	Southampton County	M	N	60	\$5.50	08/2013	0	\$0.200	GOF
High Liner Foods Inc. *	Newport News	M	E	57	\$6.60	05/2013	0	\$0.501	GOF/VJIP/EZ
Liebherr Mining Equipment Newport News Co.*	Newport News	M	E	174	\$45.43	02/2013	0	\$1.300	GOF/VIP
Lipton*	Suffolk	M	E	0	\$96.20	03/2013	0	\$1.000	VIP
Mills Marine & Ship Repair, LLC	Suffolk	M	E	142	\$3.00	04/2013	0	\$0.156	VJIP
Oceaneering International Inc.	Chesapeake	M	E	67	\$32.90	11/2013	463	\$3.090	GOF/VIP/Road
PRUFREX Innovative Power Products GmbH*	Virginia Beach	M	N	60	\$7.33	07/2013	0	\$0.200	GOF/VJIP
Sutherland Global Services	Chesapeake	N	E	275	\$6.87	01/2013	0	\$0.193	VJIP
17				1,233	\$274.98	2013 Totals		\$10.269	

Notes:

*Indicates foreign affiliation

Type: New or Expansion

Mfg: Manufacturing or Nonmanufacturing

2013 announcements are preliminary.

All announcements are subject to revision.

Source: Virginia Economic Development Partnership

GOF - Governor Opportunity Fund

VIP - Virginia Investment Partnership Grant

VEDIG - Virginia Economic Development Incentive Grant

VJIP - Virginia Jobs Investment Program

Rail - Rail Industrial Access Program

MBFJTC - Major Business Facility Job Tax Credit

EZ - Enterprise Zone Job Creation Grant

Road - Economic Development Access Program

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IN HAMPTON ROADS, CALENDAR YEARS 2009-2013**

	Location	Mfg	Type	Employment	Investment (millions)	Date Announced	Jobs Saved	Amount of Incentive (millions)	Source
Faneuil Inc.	Portsmouth	N	N	50	\$1.00	08/2012	0	\$0.000	
Hobbs & Associates	Norfolk	N	E	20	\$3.35	12/2012	0	\$0.016	VJIP
La Tienda	James City County	N	E	32	\$0.17	12/2012	0	\$0.023	VJIP
Manufacturing & Design Technology Inc.	Chesapeake	M	E	21	\$1.80	12/2012	0	\$0.018	VJIP
Mosquito Joe	Virginia Beach	N	E	16	\$0.21	12/2012	0	\$0.014	VJIP
Sumitomo Machinery Corp. of America*	Chesapeake	M	E	96	\$13.25	01/2012	0	\$0.152	VJIP
Tak Investments Inc. (ST Tissue)	Isle of Wight County	M	N	85	\$60.00	07/2012	0	\$0.889	GOF/VJIP/EZ
Virginia Packing LLC	James City County	M	E	18	\$0.12	12/2012	0	\$0.013	VJIP
Virginia Toy and Novelty Co.	Virginia Beach	N	E	52	\$0.13	12/2012	0	\$0.037	VJIP
9				390	\$80.03	2012 Totals		\$1.161	
Ace Hardware Corp.	Suffolk	N	E	75	\$14.00	09/2011	0	\$0.224	GOF/VJIP
Applied Process Technology International, LLC*	James City County	N	E	30	\$0.35	05/2011	0	\$0.030	VJIP
Bay Diesel & Generator	Chesapeake	N	E	18	\$1.00	04/2011	0	\$0.018	VJIP
California Cartage Co., LLC	Suffolk	N	N	75	\$12.50	08/2011	0	\$0.056	VJIP
CDYNE Corp.	Chesapeake	N	E	88	\$0.10	04/2011	0	\$0.071	VJIP
Eagle Aviation Technologies Inc.	Hampton	M	E	30	\$0.10	09/2011	0	\$0.030	VJIP
Enviva LP	Southampton County	M	N	72	\$91.00	11/2011	0	\$0.989	GOF/MBFJTC/Road
IMS:GEAR Virginia Inc. *	Virginia Beach	M	E	80	\$35.50	12/2011	0	\$0.500	GOF/VIP

Notes:

*Indicates foreign affiliation
 Type: New or Expansion
 Mfg: Manufacturing or Nonmanufacturing
 2013 announcements are preliminary.
 All announcements are subject to revision.
 Source: Virginia Economic Development Partnership

GOF - Governor Opportunity Fund
 VIP - Virginia Investment Partnership Grant
 VEDIG - Virginia Economic Development Incentive Grant
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 EZ - Enterprise Zone Job Creation Grant
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IN HAMPTON ROADS, CALENDAR YEARS 2009-2013**

	Location	Mfg	Type	Employment	Investment (millions)	Date Announced	Jobs Saved	Amount of Incentive (millions)	Source
International Paper	Isle of Wight County	M	N	213	\$83.00	05/2011	0	\$0.563	GOF/VJIP
Katoen Natie*	Norfolk	N	N	225	\$12.00	03/2011	0	\$0.466	VJIP/EZ
Keurig Green Mountain Inc.	Isle of Wight County	M	N	800	\$180.00	10/2011	0	\$6.640	GOF/VJIP/EZ
KITCO Fiber Optics	Virginia Beach	M	E	128	\$0.10	04/2011	0	\$0.103	VJIP
Scientific Research Corp.	Chesapeake	N	E	89	\$2.20	03/2011	0	\$0.082	VJIP
13				1,923	\$431.85	2011 Totals		\$9.772	
InMotion Hosting Inc.	Virginia Beach	N	E	275	\$0.25	09/2010	0	\$0.399	VJIP/MBFJTC
KmX USA*	Accomack County	M	E	9	\$5.25	09/2010	0	\$0.102	Rail
MYMIC LLC	Portsmouth	N	E	90	\$0.30	06/2010	0	\$0.090	VJIP
Orion Air Group	Newport News	N	E	51	\$4.00	05/2010	57	\$0.051	VJIP
Solutionz Conferencing Inc.	Williamsburg	N	E	19	\$2.00	12/2010	0	\$0.030	VJIP
5				444	\$11.80	2010 Totals		\$0.671	
Alcoa Howmet	Hampton	M	E	25	\$25.00	06/2009	0	\$0.519	VIP/VJIP
Avis Budget Group Inc.	Virginia Beach	N	E	70	\$0.60	03/2009	0	\$0.036	VJIP
Cobham Composite Products*	Suffolk	M	N	198	\$13.20	03/2009	0	\$0.839	GOF/VJIP/EZ
Greenwood RRST, LLC	Southampton County	N	N	10	\$2.20	12/2009	0	\$0.047	Rail
Owens-Illinois Inc.	James City County	M	E	0	\$20.00	04/2009	180	\$0.054	VJIP
Southampton Terminal, LLC	Southampton County	N	E	35	\$3.20	05/2009	0	\$0.000	
6				338	\$64.20	2009 Totals		\$1.494	
50				4,328	\$862.86	Grand Totals		\$23.367	

Notes:

*Indicates foreign affiliation

Type: New or Expansion

Mfg: Manufacturing or Nonmanufacturing

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All announcements are subject to revision.

Source: Virginia Economic Development Partnership

GOF - Governor Opportunity Fund

VIP - Virginia Investment Partnership Grant

VEDIG - Virginia Economic Development Incentive Grant

VJIP - Virginia Jobs Investment Program

Rail - Rail Industrial Access Program

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Road - Economic Development Access Program

TABLE 2

INCENTIVES FOR BUSINESS LOCATION AND EXPANSION

Governor’s Opportunity Fund	The Governor’s Opportunity Fund (GOF) is a discretionary incentive available to the governor to secure a business location or expansion project for Virginia. Grants are awarded to localities on a local matching basis with the expectation that the grant will result in a favorable location decision for the Commonwealth.	
Governor’s Agriculture and Forestry Industries Development Fund	The Governor’s Agriculture and Forestry Industries Development Fund (AFID) offers strategic grants made to businesses that add value to Virginia-grown agricultural and forest products. AFID grants are made at the discretion of the governor with the expectation that a grant awarded to a political subdivision will result in a new or expanded processing/value-added facility for Virginia-grown agricultural or forest products, and with the expectation that the grant will be critical to the success of the project.	
Virginia Investment Partnership Act	The Virginia Investment Partnership (VIP) Grant and the Major Eligible Employer Grant (MEE) are discretionary performance incentives designed to encourage continued capital investment by Virginia companies, resulting in added capacity, modernization, increased productivity or the creation, development and utilization of advanced technology.	
Virginia Economic Development Incentive Grant	The Virginia Economic Development Incentive Grant (VEDIG) is a discretionary performance incentive, designed to assist and encourage companies to invest and create new employment opportunities by locating significant headquarters, administrative or service-sector operations in Virginia.	
Clean Energy Manufacturing Incentive Grant	The Clean Energy Manufacturing Incentive Grant (CEMIG) is a discretionary performance incentive, designed to encourage clean-energy manufacturers to grow in Virginia.	
Virginia Jobs Investment Program	The Virginia Jobs Investment Program (VJIP) offers customized recruiting and training assistance to companies that are creating new jobs or experiencing technological change. The program is designed to reduce the human resource development cost of new and expanding companies.	
Corporate Income Tax Credits	Major Business Facility Job Tax Credit	Recycling Equipment Tax Credit
	Day Care Facility Investment Tax Credit	Worker Retraining Tax Credit
	Virginia Port Tax Credit Programs	Research and Development Tax Credit
	Green Job Creation Tax Credit	
Sales and Use Tax Exemptions	Virginia offers some of the broadest sales and use tax exemptions in the United States.	
Property Tax Exemptions	Virginia does not tax intangible property, manufacturers’ inventory and manufacturers’ furniture, fixtures and corporate aircraft.	
Economic Development Access Program	Administered by the Virginia Department of Transportation, this program assists localities in providing adequate road access to new and expanding basic employers.	
Sources: Virginia Economic Development Partnership (VEDP) and the Joint Legislative Audit Review Commission (JLARC). Additional information is available at www.yesvirginia.org .		

TABLE 2

INCENTIVES FOR BUSINESS LOCATION AND EXPANSION

Rail Industrial Access Program	This program provides funds to construct railroad tracks to new or substantially expanded industrial and commercial projects.
Transportation Partnership Opportunity Fund	TPOF is a discretionary grant available for transportation issues related to unique economic development projects.
Virginia Small Business Financing Authority	VSBAFA offers programs to provide businesses with access to capital needed for growth and expansion.
Enterprise Zones	Virginia’s Enterprise Zone program provides state and local incentives to businesses that invest and create jobs within Virginia’s enterprise zones, which are located throughout the state.
Technology Zones	Virginia authorizes its communities to establish technology zones to encourage growth in targeted industries. Currently, 30 cities and counties and six towns have created zones throughout the state.
Foreign Trade Zones	Virginia offers six foreign trade zones designed to encourage businesses to participate in international trade by effectively eliminating or reducing customs duties. Also, numerous subzones are provided and additional ones can be designated to enhance the trade capabilities of specific companies.
Defense Production Zones	Virginia authorizes its communities to establish local defense production zones to benefit businesses engaged in the design, development or production of materials, components or equipment required to meet the needs of national defense. Companies deemed ancillary to or in support of the aforementioned categories would also apply.
Tobacco Indemnification and Community Revitalization Commission	Tobacco Region Opportunity Fund
Virginia Film Office	Governor’s Motion Picture Opportunity Fund
Virginia Coalfield Economic Development Authority	Coalfield Regional Opportunity Fund
Virginia Port Tax Credits	Port Volume Increase Tax Credit available to companies that increase port cargo through public or private facilities in Virginia by a minimum of 5 percent in a single year.
	Barge and Rail Usage Tax Credit for companies that move cargo by barge or rail.
	International Trade Facility Tax Credit for new job creation or capital investment in an international trade facility as a result of moving 10 percent more cargo through a Virginia Port Authority facility.
	Port of Virginia Economic and Infrastructure Development Grant Program for companies that locate in the port zone and create at least 25 new jobs involved in maritime commerce.

Sources: Virginia Economic Development Partnership (VEDP) and the Joint Legislative Audit Review Commission (JLARC). Additional information is available at www.yesvirginia.org.

TABLE 3

MAJOR AGENCIES INVOLVED IN ECONOMIC DEVELOPMENT ACTIVITIES IN HAMPTON ROADS

State Level	Virginia Economic Development Partnership	
	Department of Business Assistance	
	Department of Housing and Community Development	
	Department of Rail and Public Transportation	
	Tobacco Indemnification and Community Revitalization Commission	
	Virginia Coalfield Economic Development Authority	
	Virginia Film Office	
	Center for Innovative Technology	
Regional Level	Hampton Roads Chamber of Commerce	
	Hampton Roads Economic Development Alliance	
	Hampton Roads Planning District Commission	
	Port of Virginia	
Local Level	Local Chambers of Commerce	City of Virginia Beach Economic Development
	City of Chesapeake Economic Development	City of Williamsburg Economic Development Authority
	City of Hampton Economic Development	County of Gloucester Economic Development
	City of Newport News Economic Development Authority	County of Isle of Wight Economic Development
	City of Norfolk Economic Development	County of James City Economic Development
	City of Poquoson Economic Development	County of Surry Economic Development
	City of Portsmouth Economic Development	County of York Economic Development
	City of Suffolk Economic Development	Franklin Southampton Economic Development
Other Organizations	Future of Hampton Roads Inc.	
	Hampton Roads Community Foundation and constituent committees	
	Hampton Roads Planning District Commission	
	Technology Council of Hampton Roads	

The Economic Development Incentive Scorecard for Hampton Roads

A logical place for us to start our analysis is with the Hampton Roads Economic Development Alliance (HREDA), which describes itself as “the recruitment organization tasked with attracting new opportunities for the entire Hampton Roads region.” HREDA’s future is uncertain for three reasons. First, the Great Recession that began in 2008 understandably diminished the Alliance’s ability to “score” in terms of attracting new firms to the region. Second, and not unrelated, HREDA’s financial viability depends substantially upon a per citizen assessment paid by each of the region’s cities; it seems likely that several cities will reduce or eliminate their payments to HREDA. Third, as noted above, some observers believe that HREDA’s focus on attracting new firms to the region is off target and that either HREDA or a successor organization instead should place emphasis on the “gardening” of existing firms, incubation of new firms and commercialization of research.

This past year (2013) was a more active one for the Alliance, however. Staff report they met with 342 corporate decision makers and 140 site selection consultants in 12 countries and 16 states.

Many recruitment efforts take years to reach fruition and therefore one should not place undue emphasis on the performance of an economic development authority in any single year. In 2013, HREDA (which has a proposed budget of \$2.59 million for 2014) announced six significant successful firms with whom it had worked to convince them to locate in Hampton Roads. In addition, 47 other announcements were made by the Commonwealth of new or expanded businesses for the region. Table 4 traces the number of announcements and resulting expected job growth and investment for the region for the past five years. There has been a consistency in the number of new companies attracted to the region, but the number of new employees and the capital investment have varied over the years without any apparent trend.

**TABLE 4
COMMONWEALTH OF VIRGINIA ANNOUNCEMENTS OF JOB CREATION AND CAPITAL INVESTMENT IN HAMPTON ROADS, CALENDAR YEARS 2009-2013**

Year	Companies	Employment	Investment
2009	61	3,023	\$467.14 million
2010	51	2,430	\$129.10 million
2011	56	3,125	\$599.33 million
2012	57	1,852	\$176.14 million
2013	53	2,075	\$525.33 million
Totals	278	12,505	\$1,897.04 million

Source: Virginia Economic Development Partnership

Table 5 summarizes the general types of economic development incentives that were offered to firms that chose to locate in Hampton Roads between 2009 and 2013. Note that some of the incentives involved road and transportation improvements, including railway improvements. The deals made in Hampton Roads involved an estimated \$863 million of new investment in plant, equipment and improvements. An estimated 4,328 new jobs were generated by these projects.

These are positive results, but it’s also worth noting that according to JLARC, no more than 15 percent of corporate expansion or relocation deals over the last 10 years in Virginia have included tax incentive programs. These deals were developed primarily with larger companies that JLARC estimated have created 40 percent of all new jobs in Virginia.

Table 6 provides us with a flavor of job creation results for Hampton Roads. Total “new job” announcements were made by Virginia involving 12,505 new jobs in our region. As just noted, 4,328 of these jobs (or about 35 percent) involved economic development incentives being granted to the firms creating the jobs. The remaining did not. Where new investment in plant, equipment and improvements was concerned, economic development incentives were attached

to about 45 percent of the investments announced by the Commonwealth. Only 18 percent of the companies involved in these job announcements actually received economic development incentives from state or local authorities. The total value of incentives provided from all sources during this time period was \$23.367 million, or about \$5,400 per job.³

³ The results in Table 5 reflect the definition of Hampton Roads utilized by the Virginia Economic Development Partnership, which includes in its Region 8 (Hampton Roads) the jurisdictions of Accomack County, Chesapeake, Franklin, Gloucester County, Hampton, Isle of Wight County, James City County, Newport News, Norfolk, Northampton County, Poquoson, Portsmouth, Southampton County, Suffolk, Virginia Beach, Williamsburg and York County. This is not the same as the Metropolitan Statistical Area (MSA) definition utilized by the U.S. Census.

TABLE 5

VIRGINIA ANNOUNCEMENTS OF NEW JOB CREATION AND CAPITAL INVESTMENT INVOLVING HAMPTON ROADS, 2009-2013

Year Announced	Companies	Employment	Investment (millions)	GOF Funding (millions)	VIP Funding (millions)	VEDIG Funding (millions)	VJIP Funding (millions)	Rail Funding (millions)	MBFJTC Funding (millions)	EZ Funding (millions)	Road Funding (millions)	TROF Funding (millions)
2013	17	1,233	\$274.98	\$1.920	\$5.550	\$0.000	\$1.534	\$0.300	\$0.000	\$0.315	\$0.650	\$0.000
2012	9	390	\$80.03	\$0.200	\$0.000	\$0.000	\$0.437	\$0.000	\$0.000	\$0.524	\$0.000	\$0.000
2011	13	1,923	\$431.85	\$4.950	\$0.300	\$0.000	\$1.847	\$0.000	\$0.039	\$1.986	\$0.650	\$0.000
2010	5	444	\$11.80	\$0.000	\$0.000	\$0.000	\$0.345	\$0.102	\$0.225	\$0.000	\$0.000	\$0.000
2009	6	338	\$64.20	\$0.300	\$0.500	\$0.000	\$0.349	\$0.047	\$0.000	\$0.299	\$0.000	\$0.000
Grand Total	50	4,328	\$862.86	\$7.370	\$6.350	\$0.000	\$4.512	\$0.448	\$0.264	\$3.123	\$1.300	\$0.000

Source: Virginia Economic Development Partnership

Note:	2013 announcements are preliminary.	GOF - Governor Opportunity Fund		MBFJTC - Major Business Facility Job Tax Credit
		VIP - Virginia Investment Partnership Grant		EZ - Enterprise Zone Job Creation Grant
		VEDIG - Virginia Economic Development Incentive Grant		Road - Economic Development Access Program
		VJIP - Virginia Jobs Investment Program		TROF - Tobacco Region Opportunity Fund

TABLE 6

VIRGINIA ANNOUNCEMENTS OF EMPLOYMENT CREATION AND CAPITAL INVESTMENT, HAMPTON ROADS PROJECTS, CALENDAR YEARS 2009-2013

Year	Total Projects			Projects with Incentives			Percentages		
	Companies	Employment	Investment	Companies	Employment	Investment	Companies	Employment	Investment
2013	53	2,075	\$525.33	17	1,233	\$274.98	32%	59%	52%
2012	57	1,852	\$176.14	9	390	\$80.03	16%	21%	45%
2011	56	3,125	\$599.33	13	1,923	\$431.85	23%	62%	72%
2010	51	2,430	\$129.10	5	444	\$11.80	10%	18%	9%
2009	61	3,023	\$467.14	6	338	\$64.20	10%	11%	14%
Total	278	12,505	\$1,897.04	50	4,328	\$862.86	18%	35%	45%

Note: Investments in millions

Source: Virginia Economic Development Partnership

Mixed Evidence Where Incentives Are Concerned

Virginia periodically appears on the Forbes magazine list of the Best States for Business and currently is ranked No. 1. Forbes has developed an index that looks at six factors influencing the business climate: (1) costs, (2) labor supply, (3) regulatory environment, (4) current economic climate, (5) growth prospects and (6) quality of life.⁴ This past year, Virginia was the only state to rank in the top five in at least four of the six areas – the Commonwealth missed only on costs and growth prospects. Hence, it is not a difficult case for Hampton Roads economic developers to argue that the region is an attractive place to do business. In its 2013 list of 200 best places in the country for business and careers, Forbes ranked the Virginia Beach/Norfolk/Newport News SMA as No. 77. The Richmond SMA was ranked 56th and the Roanoke SMA 99th.

In many ways Hampton Roads, broadly defined, has an attractive story to tell:

- The Port of Virginia is the largest natural deepwater harbor on earth.
- The region is within a day's drive of 97 million consumers.
- Eight universities and four community colleges serve more than 100,000 students in the region.
- The growth rate of federally funded research and development expenditures in the region is high.
- The region has a high concentration of federal laboratories and installations.
- The labor force includes many military veterans, who are viewed as talented, reliable and disciplined.
- The region is rich with cultural opportunities.

In the end, are these strengths of Hampton Roads what really count, or do the economic incentives that are proffered to firms matter more? Virtually every review of existing studies that

⁴ www.forbes.com/best-states-for-business

focus on economic development incentives points to factors such as those listed above as being the critical determinants of why firms choose to locate one place or another. While firms pondering a new location value incentives and often negotiate vigorously to receive them, relatively few mention incentives as being critical to their final decision. In January 2014, the Pew Research Center issued a fact sheet titled "Evaluating State Tax Incentives: How to Measure Economic Impact" (The Pew Charitable Trusts, Feb. 7, 2014) about tax incentive programs in Minnesota, Louisiana and Massachusetts, which are regarded as "models for other states to follow when measuring the results of their own incentives."⁵ Pew noted:

- In Minnesota, evaluators estimated that 79 percent of the jobs created at companies receiving incentives were likely to have been generated without the incentives. Jobs created cost the state more than \$26,000, or about five times more than originally estimated, according to the analysts.
- Louisiana's evaluation of its Enterprise Zone program found that in certain economic sectors, 90 percent of new jobs created in the program were displacing jobs with other employers. Evaluators concluded that the program had created about 3,000 jobs instead of the more than 9,000 jobs that participating businesses had reported.
- An analysis of the Massachusetts film industry tax credit reported by the Pew Research Center found that the more than 5,900 jobs created from 2006 through 2011 cost the state \$326 million, which had to be offset by cuts elsewhere in the budget. The evaluation estimated that these cuts cost the state more than 3,700 jobs, leaving Massachusetts with a net gain of 2,200 jobs for its investment, making each job gain much more costly than had been estimated earlier.

There are other skeptical assessments of the effectiveness of economic incentives as well. An Aug. 14, 2013, report by the Institute on Taxation and Economic Policy, titled "Tax Incentives: Costly for States, Drag on the Nation," estimated that \$50 billion is spent annually on tax incentives, but "the evidence suggests that tax incentives are of little benefit to the state and localities that offer them and are actually a drag on national economic growth."

⁵ www.pewstates.org/research/fact-sheets/evaluating-state-tax-incentives-how-to-measure-economic-impact-85899539342

In 2012, New York Times reporters spent 10 months compiling data on state and local incentives provided to business. The Times found that there is little knowledge of whether the money is worth it because rarely is there tracking of how many jobs are created, and even with tracking “it is impossible to know whether the jobs would have been created without the aid.” (The New York Times, Dec. 1, 2012)

Professor Richard Florida (head of the Martin Prosperity Institute at the University of Toronto’s Rotman School of Management) analyzed the data gathered by The New York Times. In a Dec. 7, 2012, issue of The Atlantic Cities, he concluded, in an article titled “The Uselessness of Economic Development Incentives,” that “there is virtually no association between economic development incentives and any measure of economic performance.” Florida went on to say “companies typically select locations based on factors such as workforce, proximity to markets, and access to qualified suppliers, and then pit jurisdictions against one another to extract tax benefits and other incentives.”

The Tax Foundation publishes annually a State Business Tax Climate Index that ranks the states on more than 100 different variables in five areas of taxation (major business taxes, individual income taxes, sales taxes, unemployment insurance taxes and property taxes).⁶ The Foundation maintains that states with more competitive tax systems score well in the Index because they are best suited to generate economic growth. **The Tax Foundation is critical of states that attempt to lure business with tax incentives and subsidies rather than broad-based tax reform that lowers rates overall and eliminates special tax breaks that suggest crony capitalism.** It cites North Carolina, which agreed to \$240 million worth of tax incentives to lure Dell to the state, only to have Dell close its plant after only four years. According to the Tax Foundation, “lawmakers create these deals under the banner of job creation and economic development, but the truth is that if a state needs to offer such packages, it is most likely covering for a woeful business tax climate. A far more effective approach is to systematically improve the business tax climate for the long term so as to improve the state’s competitiveness.”

⁶ taxfoundation.org/article/2014-state-business-tax-climate-index

With respect to the general tax climate in Virginia, the Tax Foundation ranks Virginia 26th among the 50 states. Only a brief look at the Tax Foundation map (Figure 1) is needed for one to conclude that low taxes, per se, are not sufficient to generate high levels of economic growth. An attractive tax climate is exactly that – attractive – but many other factors also determine where people choose to live and where firms decide to locate. Table 7 records the attempts of several reputable organizations to take these other factors into account.

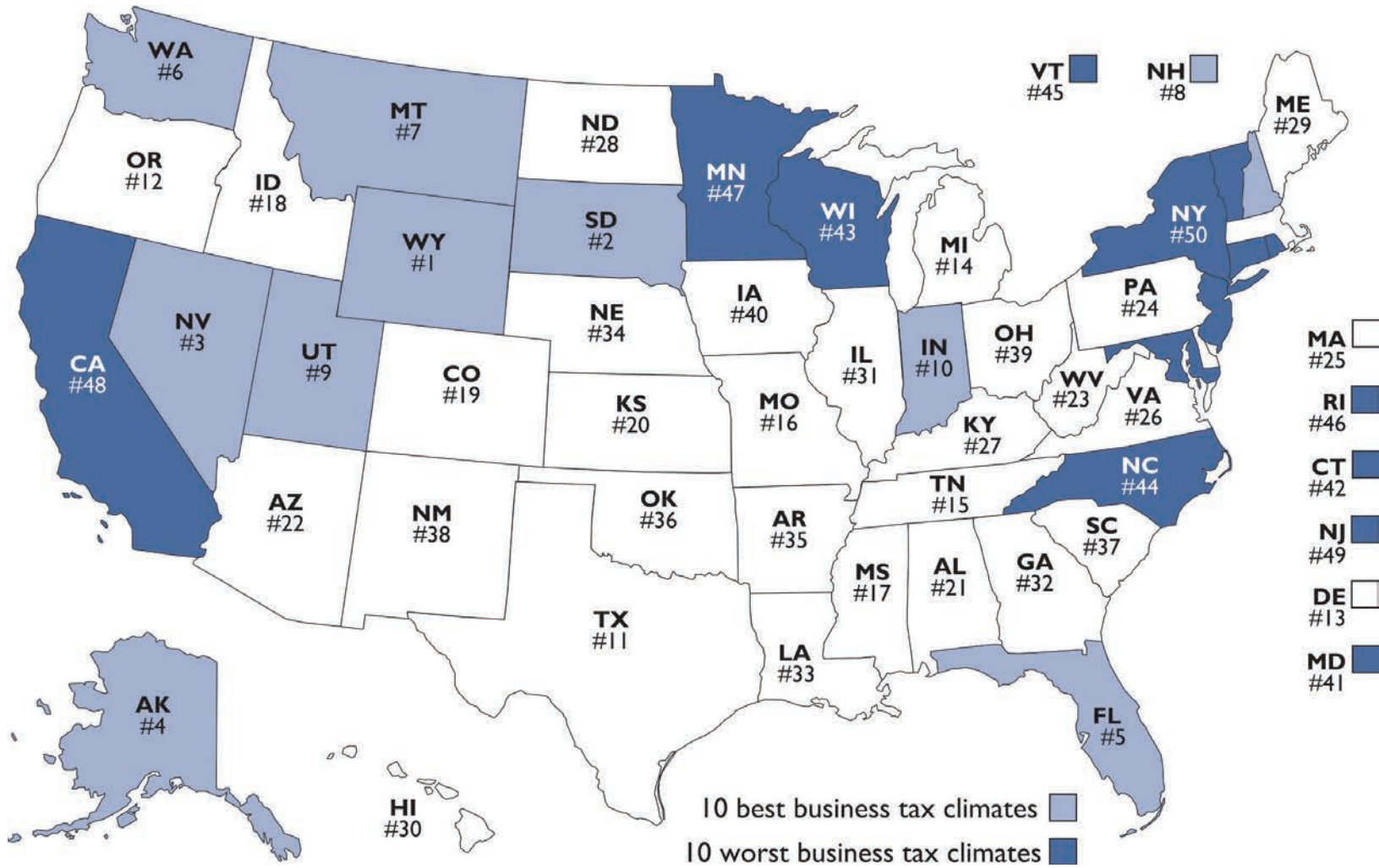
The Virginia Joint Legislative and Audit Review Commission undertook a review of the effectiveness of economic development incentive grants available in Virginia at the direction of the General Assembly and issued a report, “Review of State Economic Development Incentive Grants,” in November 2012. The researchers found the plethora of economic development programs, agencies and incentives in Virginia to be both overlapping and confusing. At least eight state agencies are involved as well as regional and local officials, as documented in this chapter.

JLARC researchers looked at several meta-reviews of 80 or more econometric studies published since 1979 and found these reviews concluded that incentive grants might sway, on average, 10 percent of the site location decisions of businesses that receive an award. While this is not the last word on a still hotly debated subject, JLARC staff concluded there is no empirical evidence to suggest “most or even the majority of business location decisions are swayed by incentive grants.”

While the report concluded “incentive grants appear to have a positive, but small impact on the site selection decisions of businesses relative to other considerations such as transportation and labor costs,” there is not a uniformity of data or practices among the many agencies involved to make a strong case for the importance of incentives to attract businesses.

FIGURE 1

TAX FOUNDATION 2014 STATE BUSINESS TAX CLIMATE INDEX



Source: The Tax Foundation

TABLE 7

ALTERNATIVE RANKINGS OF THE STATES ON THEIR BUSINESS CLIMATES

Ranking	Forbes Best States for Business - 2013	Pollina Top 10 Pro-Business States - 2013	Tax Foundation Business Tax Climate - 2014
1	Virginia	Utah	Wyoming
2	North Dakota	Nebraska	South Dakota
3	Utah	North Dakota	Nevada
4	North Carolina	Virginia	Alaska
5	Colorado	Wyoming	Florida
6	Nebraska	Kansas	Washington
7	Texas	Indiana	Montana
8	Minnesota	South Dakota	New Hampshire
9	Washington	Missouri	Utah
10	Georgia	Alabama	Indiana
26			Virginia

Notes: Forbes says it measures costs, labor supply, regulatory environment, current economic climate, growth prospects and quality of life by examining 35 different variables. www.forbes.com/best-states-for-business
 Pollina Corp. specializes in business location. It says its ranking is based on 32 factors. <http://www.pollina.com>
 The Tax Foundation considers five different business taxes. <http://taxfoundation.org/article/2014-state-business-tax-climate-index>

Lessons Learned?

CURTAIN THE USE OF TAX INCENTIVES

As we have seen, the weight of empirical evidence suggests that improving a state or region's overall business climate is a more important spur to economic development than tax incentives. What are the alternatives? The old standbys surge back to the fore. We should think long term and improve K-12 schools, stimulate workforce development in community colleges and universities, promote research and development activities, enhance our transportation infrastructure, stimulate the development of cultural amenities and reduce crime, even while we ensure that our tax structure remains competitive. **In essence, we need to improve the quality of our overall environment because, in the long term, this is what most effectively attracts and retains businesses.**

Reality intrudes on a persistent basis, however. Despite their apparent ineffectiveness, cutting back on the use of governmental tax and financial incentives could be politically risky to a governor or to members of the General Assembly if this lends the impression that they are not doing everything in their power to help their regional or state economies expand. Former Gov. Bob McDonnell's "Bob's for Jobs" slogan resonated well in the voting public even though there is general agreement that a one-term governor actually cannot do very much to influence the state's economic climate during his/her term. Ironically, it usually is the next governor who either benefits from or is hurt by the previous governor's economic development actions.

A statement by any elected official that jobs and economic development are his/her highest priority is likely to be well received, and most economic incentive programs, despite their questionable impacts, give the appearance that the elected official is serious. Successful elected officials understand that impatient constituents want action and they want it now. Investments in education, transportation, and research and development may have the greatest long-term effect, but don't necessarily put food on the table today or pay mortgages. Therefore, pressures from supporters are likely to preserve and

protect economic incentive payments far into the future. Economist John Maynard Keynes understood this demand for short-term action when he caustically noted, "In the long run, we are all dead."

THE PRISONER'S DILEMMA AND COOPERATION

There is, however, yet another reason why the use of economic incentives oftentimes turns out to be unproductive. It is contained in the phenomenon that has become known as the "Prisoner's Dilemma" and afflicts governments at all levels when they rush to offer financial incentives in order to attract specific businesses. **When many cities, regions or states simultaneously romance prospective businesses and offer such incentives, they compete themselves into a situation in which the eventual price of such incentives is well above what would have occurred without that competition. This is an argument in favor of the existence of organizations such as the Hampton Roads Economic Development Alliance because they have the potential to diminish the equivalent of "auction fever" on eBay, whereby cities and counties compete against each other to attract a business.**

Coordination and cooperation can occur. Business leaders in the bi-state Kansas City community have made great progress in achieving cooperation in their economic development activities.

This State of the Region report (page 95) contains a statistical matrix demonstrating that almost 65 percent of all job holders live in one city or county, but commute to another for their jobs. For example, 21,508 people holding jobs in Newport News live in Hampton, while 13,714 people holding jobs in Hampton live in Newport News. The bottom line is that one city or county's job prosperity nearly always is shared with other cities and counties.

Further, those who insist that all jobs be located in their city or county should remember that hosting certain kinds of jobs could be very expensive in terms of the infrastructure, policing and social services they require compared to the taxes they generate. The strenuous competition among the cities and counties that we sometimes now observe for jobs often turns out to impose losses on

everyone involved. Cooperative economic development activities make more financial sense because they increase the probability that there will be many winners within Hampton Roads when a new firm decides to locate here or an existing firm expands.

IMPROVE THE DESIGN OF ECONOMIC DEVELOPMENT INCENTIVES

All economic development incentives should include “claw back” provisions, or money-back guarantees, whereby the governmental unit can recoup the incentive payments if the businesses in question fail to live up to their job creation or investment promises. Further, following the interesting example of the city of St. Louis with respect to the St. Louis Cardinals baseball team, economic development incentives can be accompanied by “shared appreciation” agreements. If the recipient firm prospers, and later sells a major asset (such as a stadium) that the government has subsidized, then the governmental donor should share in that prosperity in the form of receiving a proportion of the sales price when those assets eventually change hands. Cities and counties also can negotiate specific requirements to accompany their investments, for example, that a certain amount of low-income housing be constructed, or even that a specific percentage of any operating profits be devoted to designated charities.

MONITOR WHAT THE RECIPIENTS DO WITH THEIR INCENTIVES

Given the many potential pitfalls connected to tax incentives, even a comparatively well-designed incentive program may yield disappointing results. Because of this, it is important to monitor the effects of all incentives on an ongoing basis. The city of Newport News provides an example of how not to do it when it gave the developers of the convention facility attached to the Marriott at City Center \$26 million in support, but amazingly did not require any public accounting of the subsequent operation and use of that facility.

Public funds must not be invested without subsequent public inspection.

In April 2014, Gov. McAuliffe announced that Virginia would participate in the Business Incentives Initiative, a joint project of The Pew Charitable Trusts, the Center for Regional Economic Competitiveness and six other states (Indiana,

Louisiana, Maryland, Michigan, Oklahoma and Tennessee), to “reform economic development incentive reporting policies and practices.”

The news release announcing Virginia’s involvement stated that “teams of economic development policymakers and practitioners from seven states will improve those states’ ability to collect and report results from incentive investments and, as a result, develop national standards and best practices that can become road maps for other states.” Eleven different state agencies are listed as participants. If this comes to fruition, it will be an important step forward.

Cities and counties in Hampton Roads should take to heart this commitment to transparency. Whether it is the convention center in Newport News, the prospective new arena in Virginia Beach or the conference/hotel complex in Norfolk, cities and counties should require recipients of their financial largesse to open their books to public inspection. Only then will citizens be able to ascertain if their tax dollars are being spent wisely.

Final Words

In another chapter in this report, “The Answer Is Always Yes,” we note the perilous tendency of cities and counties to fund large, flashy convention center/arena/hotel facilities in their communities even though there is abundant evidence both that these investments typically don’t pay off and that this is an especially bad time to move in this direction. Cities and counties do so, however, because they believe this is a sound economic development strategy (despite the overwhelming evidence to the contrary).

In this chapter, we cast substantial doubt on another cornerstone of city and county economic developers – the dispensing of economic development incentive payments to businesses. While the evidence on the effectiveness of such payments is not as negative as is true for public funding of convention centers/arenas/hotels, it is nonetheless mixed at best and frankly discouraging for those who mistakenly view this as the royal road to economic development.

What, then, is the appropriate approach for us to take in terms of economic development? We must take a long-term approach and improve our overall economic and social environment. This means improving our K-12 schools, stimulating workforce development in community colleges and universities, promoting research and development activities at our medical school and universities, enhancing our transportation infrastructure, stimulating the development of cultural amenities and reducing crime, even while we ensure that our tax structure remains competitive.

Too often, our economic development agencies and elected officials persist in looking for quick fixes that somehow will catapult our region forward to fame and fortune. Absent the next Microsoft fortuitously being invented by an enterprising student in the Frank Batten College of Engineering at Old Dominion University, it isn’t going to happen. Instead, we must develop and implement a plan for the long run – one that may not begin to yield benefits until the next decade, but will slowly transform our region and enable it to realize its potential.



The Answer Is Always “Yes”

How Our Cities Repeatedly Ignore The
Evidence And Choose To Construct
Unprofitable And Unneeded New Convention
And Hotel Capacity

A close-up photograph of a red marker writing the word "Yes!" in a bold, sans-serif font on a white surface. The marker is positioned at the bottom right of the frame, with its tip touching the end of the exclamation point. The lighting is soft, creating a slight shadow of the marker on the surface.

Yes!

THE ANSWER IS ALWAYS “YES”: HOW OUR CITIES REPEATEDLY IGNORE THE EVIDENCE AND CHOOSE TO CONSTRUCT UNPROFITABLE AND UNNEEDED NEW CONVENTION AND HOTEL FACILITIES

– “The Answer Is Always Yes” description comes from Forbes magazine, Feb. 28, 2005

Alas, the 2005 Forbes magazine observation remains largely on target in 2014. Virtually every one of Hampton Roads’ major cities and tourist destinations either has constructed, or is planning to construct, new convention space, usually to be accompanied by increased hotel capacity. This is despite the reality that: (1) both nationally and regionally, convention business has been struggling with declining attendance for well more than a decade;¹ and (2) by nearly every measure, our region’s hotel/motel sector prosperity and performance stand below where they were in 2007.

Whether serious analysis of these issues comes from the political right (Manhattan Institute), or the political left (Brookings Institution), they are unanimous in concluding that investments in additional convention/conference/hotel capacity hardly ever break even, much less generate a respectable, positive rate of return on the funds the public invests.

Here is a sample of their conclusions:

- “The overall convention marketplace is declining in a manner that suggests that a recovery or turnaround is unlikely to yield much increased business for any given community, contrary to industry projections.” (Brookings Institution, 2005)²
- “Many of these expansions appear to have been based on feasibility studies that failed to present rigorous reviews and examinations regarding

alleged claims of positive impacts and over-optimistic operational pro-forma statements.” (Gerald Kock, University of Central Florida, 2007)³

- “The whole thing is a racket.” (Boston Globe, 2011)⁴
- “Convention Center Expansion: Build It and They Won’t Come.” (Baltimore Sun, 2011)⁵
- “From Boston to Austin, politicians spend money on fancy white elephants.” (Manhattan Institute, 2011)⁶
- “The Dubious Economics of Convention Centers” (ThinkProgress, 2011)⁷

¹ Convention center attendance nationally fell by almost 32 percent from 126 million to 86 million between 2000 and 2010. Joe Lawlor, “City officials suffer from conference center fever,” *Daily Press* (April 11, 2013), www.dailypress.com.

² Heywood Sanders, “Space Available: The Realities of Convention Centers as Economic Development Strategy,” Brookings Institution (January 2005).

³ Gerald Kock, “Proposing an Alternative Framework for Feasibility Studies for Large Public Tourism Investments: A Quantitative Analysis of the Orange County Convention Center,” Master of Science thesis, Rosen College of Hospitality Management, University of Central Florida, 2007.

⁴ Steven Malanga, “Have We Got a Convention Center to Sell You!,” *The Wall Street Journal* (Dec. 31, 2011), <http://online.wsj.com/news/articles/SB10001424052970204720204577126603702369654>

⁵ Marta H. Mossberg, “Convention Center Expansion: Build It and They Won’t Come.” *Baltimore Sun* (June 7, 2011), http://articles.baltimoresun.com/2011-06-07/news/bs-ed-mossberg-20110607_1_heywood-sanders-attendance-hilton-baltimore

⁶ Steven Malanga, “Have We Got a Convention Center to Sell You!,” Manhattan Institute (Dec. 31, 2011), www.manhattan-institute.org/html/miarticle.htm?id=7759

⁷ Matthew Yglesias, “The Dubious Economics of Convention Centers,” ThinkProgress (March 18, 2011), <http://thinkprogress.org/yglesias/2011/03/18/200256/the-dubious-economics-of-convention-centers>

- “Yet they have continued to pour money into the convention business, even in the face of a national glut of meeting space and Charlotte’s inability to fill its building.” (Charlotte Observer, 2012)⁸
- “City officials suffer from conference center fever.” (Daily Press, 2013)⁹
- “The heyday of conventions is over. More meetings are being held online.” (The Daily Page, 2013)¹⁰

The truth is that it is difficult to generate any reliable evidence in favor of the public subsidization of the construction of new convention/conference/hotel/motel facilities in Hampton Roads (or hardly anywhere else in the United States). As the foremost national expert on the economics of convention centers has put it, the studies that cities have presented in favor of their convention centers “have been consistently flawed and misleading.”¹¹ We’ll present persuasive data in this chapter that clearly call into question any publicly financed project that would add to what already is a glut of convention/conference/hotel/motel space in Hampton Roads. Such investments constitute a distinctly inferior economic development strategy either for individual cities, or for the region as a whole.

Where Does Real Economic Development Come From?

Barring the discovery of a huge vein of gold during the construction of a new highway or building, or a wildly successful, but unexpected, new invention or business, reality is that economic growth is a very long-term process. A city or region grows faster than its neighbors either because: (1) it has found attractive

ways to sell its goods and services to those outside that city or region; or (2) it has become a more powerful magnet that keeps increasingly large proportions of its citizens’ expenditures within its boundaries.

FINDING WAYS TO SELL TO OR ATTRACT OUTSIDERS

With respect to (1), unless we unexpectedly discover oil in Pungo or Poquoson, smart, well-educated, ambitious, entrepreneurial citizens are the key to our being able to sell more goods and services to those outside the region. Such individuals are an important part of what economists refer to as our “human capital.” Non-economists shorthand this by saying “great schools” and they should be referring to kindergarten through Ph.D.

Our experience in Hampton Roads is mixed. We have pockets of excellence in our schools and colleges, but if we pay attention to measures such as SOL performance and school rankings, we must acknowledge that we often fall short of the nation’s leadership regions. In the business sector, we’ve prospered from more than a few firms in our region that have met the market test and have found ways to sell their attractive wares outside of Hampton Roads. These firms range in size from large, highly visible enterprises, such as Amerigroup, Ferguson Enterprises, Newport News Shipbuilding and Sentara, to small and medium-sized firms, such as Measurement Specialties, Paramount Sleep and Stihl.

Real economic growth – the kind that does not involve transferring money from one pocket to another inside our region – also can be generated by universities and medical schools. These institutions not only can draw students from outside our region, but also can attract significant research grant money. When they succeed in doing so, they provide us with a readily understandable model of selling goods and services to outsiders: we produce something that others want to use or purchase.

Some Virginians may take umbrage when the College of William & Mary grants admission to out-of-state residents, but this is a positive source of economic development that must not be forgotten. Analogously, when Old Dominion University logs approximately \$100 million in annual research and development

⁸ Steve Harrison, “Selling Charlotte: Convention Business Requires Millions From Taxpayers,” *The Charlotte Observer* (Aug. 20, 2012), www.charlotteobserver.com/2012/08/20/v-print/3464298/cost-of-convention.html

⁹ Joe Lawlor, “City officials suffer from conference center fever,” *Daily Press* (April 11, 2013), www.dailypress.com

¹⁰ Joe Tarr, “Convention Center Researcher Heywood Sanders Warns Against Building New Monona Terrace Hotel,” *The Daily Page* (Nov. 15, 2013), www.thedailypage.com/daily/article.php?article=41421

¹¹ Heywood T. Sanders, “Convention Myths and Markets: A Critical Review of Convention Center Feasibility Studies,” *Economic Development Quarterly*, 16 (2002), 195-209, p. 195. Sanders also noted, “The errors and failings of these studies are not limited to the case of convention centers. Other equally flawed market analyses and forecasts have been employed to support light rail projects, stadiums, arenas, cultural attractions, and aquariums.” p. 208.

Paramount Sleep, headquartered in Norfolk, provides an excellent example of real economic development in action. In 2008, Paramount, which manufactures and sells mattresses to a wide variety of customers, including the government, sold more than 52 percent of its mattresses inside Virginia on annual sales of about \$18 million. By 2014, the company had expanded its revenues to more than \$30 million through four manufacturing/licensing partnerships with out-of-state firms. Paramount's out-of-Virginia sales constitute about 70 percent of its business. Paramount now sells in U.S. Navy Exchange stores around the world, and its products appear in Bloomingdale's and Costco stores throughout the country. This is genuine economic growth that did not come at the expense of other companies in our region.

funding, this too fuels the engine of economic development because the great proportion of these dollars comes to the university from outside Hampton Roads.

Contrast the examples of Paramount Sleep and Old Dominion University to the "economic development" that allegedly occurs when a city chooses to subsidize a local business that is not capable of attracting outside expenditures because it has little or no magnetic power. A quintessential illustration is an approximate \$250,000 subsidy that one Hampton Roads city once provided a fast food outlet. The city claimed additional jobs and tax revenues would be generated from the expanded/renovated business. However, this dubious claim evaded the critical question: Where are the customers for this fast food outlet going to come from? Are customers going to drive in from Richmond to patronize it? Not likely. Will local customers stay in Hampton Roads to spend their food money because of this restaurant? Again, it's not likely.

Virtually all additional sales, jobs and tax revenues emanating from the fast food restaurant will come from existing fast food restaurants. One restaurant's gain is

another's loss. **This illustrates the economic phenomenon known as displacement – one restaurant's increasing sales come from another restaurant's decreasing sales. In net terms, there is no new economic development from such "investments."**

Those interested in actual rather than imaginary economic development must be wary of the displacement of existing expenditures, which does not constitute net, new economic development. Instead, such redistribution disappointingly often also involves crony capitalism, whereby a few favored businesses are subsidized at the expense of all the others. In fairness, however, we must note that expenditure displacement certainly is not limited to fast food restaurants. It also often afflicts new or expanded arenas, convention centers and hotels.

Consider the case of a new or renovated hotel. If a new hotel or motel can only be made viable by means of a public subsidy, then one should ask whether that new hotel or motel actually will add to total hotel/motel patronage in our region, or instead simply redistribute expenditures, jobs and tax collections from one place to another. Will it effectively impoverish existing hotels and motels? To be sure, existing hotels must be renovated or improved periodically (and we are pleased when this occurs), but it is not clear why other hotels and businesses should be asked to pay for such improvements.

All too often, elected officials and regional economic development personnel ignore displaced expenditures. They revel in trumpeting the additional jobs and tax payments connected to a subsidized project without acknowledging that some or all of those jobs and tax payments will be realized only because the subsidized business will take those jobs and tax payments away from existing competitors.

INCREASING REGIONAL MAGNETISM

But, it is legitimate to ask: Shouldn't we endeavor to improve our region and make it more attractive to ourselves and to others? And, doesn't that take investment? The answer to both questions is "yes," but we must be careful how we go about this. We are capable of making our region more attractive – increasing its magnetism – by well-chosen investments in infrastructure and amenities. Attractions such as the Norfolk Tides, The Mariners' Museum and the Virginia Aquarium not only entice outside guests, but also keep our own

expenditures within Hampton Roads. The entire Virginia Beach oceanfront acts as a magnet that attracts visitors and retains expenditures inside the region.

A well-devised, efficient transportation system pays dividends by reducing travel costs even while it pleases guests and makes our region a more attractive place to live. We improve our quality of life and reduce travel costs when we make cost-efficient investments in our transportation system. (Route 460, however, was the opposite kind of public investment – one in which the costs exceeded the benefits.)

If, however, the only customers that a conventional business or attraction ever attracts are local and regional citizens, then even though we should praise those businesses and attractions for serving local citizens well, it is difficult to fashion a respectable economic argument why either should be subsidized by the public. This is particularly true when displaced expenditures are involved – for example, when the construction of a new hotel would simply take patronage away from existing local hotels.

Even so, let's be clear – public policy should not discourage the construction of a new, nonsubsidized hotel (or any other business) unless doing so would unleash noticeable spinoff costs on other citizens. Entrepreneurs sensing opportunities and taking advantage of them is intrinsic to a market-based economy. We usually end up better off when entrepreneurs leap to meet our needs. Only a brief look at the massive oppression of consumers in the former Soviet Union is necessary to understand this principle. Nevertheless, providing entrepreneurs with the freedom to innovate and invest does not justify subsidizing such ventures with public funds.

It's not clear why taxpayers should subsidize a new hotel or conference center at the expense of existing hotels and centers unless the new hotel demonstrably would be able to attract incremental new visitors from outside the region. Or, alternatively, perhaps the new hotel would provide the critical amenities and capacity that would complement existing facilities and amenities and complete a package capable of attracting incremental new visitors and customers. (Unfortunately, while decision makers often make the argument, it seldom holds water.)

We should not limit our analysis to hotels. Athletic facilities, convention centers, fine and performing arts venues and recreational facilities such as

golf courses also should be in our purview. In each case, we need to ask three critical questions:

- (1) Will this public investment attract incremental new visitors and customers from outside our region and, if so, how many will come and how much money will they spend?
- (2) Will this public investment act as a magnet and induce local and regional citizens to spend their time and money in Hampton Roads rather than somewhere else? And, if so, in how many cases will this be true and how much money is involved?
- (3) When we add up the benefits we have calculated in (1) and (2) – most of which will spread out over future years and therefore must be discounted appropriately¹² – are they at least as large as the cost of the public investment?

The problem is that numerous studies of public investments in hotel and convention center complexes reveal that the answer to question (3) often is not simply “no,” but a resounding “NO!” Put simply, the benefits often do not exceed the costs despite the rosy forecasts of those investing the public funds. While those advocating such investments usually point to increased tax revenues and incremental jobs, they consistently ignore displacement in their calculations. It does our region no good if a public investment adds \$10 million of tax revenues from a new source, even while it reduces tax revenues from existing sources by \$10 million. This is not economic development; it is an exercise in crony capitalism.

None of this should be taken to mean that our region should not invest in new buildings, new plants and equipment, new roads, new and improved homes, etc. Such investments can improve the quality of our lives and some will make us more productive. Nevertheless, such investments do not generate the economic development jolt we receive from regional economic activities that enable us to sell to those outside our region.

¹² This means we must find the “present value” of the future benefits and requires us to “discount” the future benefits in order to reduce them to current dollars so that we can compare these future benefits to the current investment costs. Present value is an absolutely fundamental concept in economics and finance and underpins analysis and decision making both on Wall Street and Main Street.

Convention Facilities In Hampton Roads

Let's take a look at the convention/conference/meeting facilities (hereafter shortened to "convention facilities") currently available in Hampton Roads.

THE SUPPLY SIDE OF THE MARKET

Table 1 reports the major convention and meeting facilities in Hampton Roads along with the number of guest rooms attached to these locations. It is important to note that these facilities differ significantly in terms of their characteristics. The largest facility in our region is the Virginia Beach Convention Center, which provides 516,000 square feet of potential space for conventions or meetings, followed by the Hampton Roads Convention Center in Hampton (344,000 square feet) and the Boo Williams Sportsplex in Hampton, a successful, specialized, sports-oriented venue (135,000 square feet).

The Virginia Beach Convention Center also is capable of hosting the largest banquets (2,000 capacity), followed by the Hampton Roads Convention Center (1,800), and the Norfolk Waterside Marriott (1,000) and Norfolk Sheraton (1,000). While many national conventions involve banquets much larger than these capacity limits, it is not clear that our region is capable of attracting such events because of hotel room and transportation constraints.

Where hotel rooms are concerned, our largest regional facility is Kingsmill Resort in Williamsburg (605 rooms), but several cities are capable of exceeding this number by combining the room capacities of existing, nearby facilities. In the case of Norfolk, for example, the Waterside Marriott and Sheraton Waterside together field 873 hotel rooms. Similarly, both Virginia Beach and Williamsburg are capable of fielding much larger combinations of hotel rooms by piggybacking multiple hotel locations, but these possibilities usually involve transporting some guests from hotels to meeting facilities.

All things considered, Hampton Roads fields a rather wide, though often duplicative, variety of convention, meeting and hotel facilities. The region is capable of hosting many different types of conventions and meetings, though

not the largest meetings, which often are trade and business shows, political conventions and some academic meetings. The 2012 Consumer Electronics Show in Las Vegas, for example, reportedly attracted 156,000 visitors. Even if this number is exaggerated by a factor of five, such numbers vastly exceed the hosting abilities of Hampton Roads.¹³

UTILIZATION OF OUR CURRENT SUPPLY

"If they don't want to tell you how often their facilities are being used, then that usually means that the numbers are bad," a well-placed national meetings official told us. If this observation holds water with respect to Hampton Roads, then the underlying event and attendance data for our region's convention and hotel facilities must be sour indeed. Even public convention and tourism agencies routinely decline to supply data on events hosted and attendance, though they have a legal obligation to do so.

Only six of the 24 facilities listed in Table 1 were willing to supply information that would allow one to infer how intensively these facilities are used. Nevertheless, one can sneak a peek at reality by inspecting city budgets (though convention center numbers often are well disguised) and by listening to the periodic debates that occur in city councils when a council member discovers or rediscovers the fact that their convention center is losing money. For example, the \$106 million Hampton Roads Convention Center in Hampton, which opened in 2005, has been losing millions of dollars every year, but city officials nevertheless argue that the facility attracts sufficient business from the outside that it overcomes these losses.¹⁴ This evidence, however, has not been shared with anyone.

Hampton, however, is more forthcoming than Newport News, which supplied \$26 million of public funds to construct the Conference Center at the Marriott Hotel in City Center. The investment dollars may have been public, but the financial books of the conference center are not. Newport News signed an agreement with the Marriott that does not require the Marriott to make public any financial information concerning the taxpayer-subsidized conference center. This is an unusual arrangement.

¹³ www.vegasinc.com/business/public-record/2013/jan/07/list-2012-largest-conventions.

¹⁴ Joe Lawlor and Robert Brauchle, "Taxpayer Money for Conference/Convention Centers Scrutinized," *Daily Press* (June 25, 2012), www.dailypress.com

TABLE 1

HAMPTON ROADS CONVENTION/CONFERENCE FACILITIES AND RELATED HOTELS: MARCH 2014

Name	City	Total Meeting Space: Sq. Ft.	Largest Meeting Room: Sq. Ft.	Largest Banquet Capacity	Guest Rooms
Boo Williams Sportsplex	Hampton	135,000	N/A	N/A	N/A
Cavalier Hotel	Virginia Beach	50,000	16,320	1,500	400
Chesapeake Conference Center	Chesapeake	22,700	20,000	1,100	N/A
Doubletree (now The Williamsburg Hotel & Conference Center)	Williamsburg	45,000	13,303	1,030	281
Fort Magruder Hotel & Conference Center	Williamsburg	26,000	5,680	500	303
Founders Inn and Spa	Virginia Beach	25,000	12,876	1,000	240
Great Wolf Lodge	Williamsburg	14,500	4,524	350	406
Hampton Coliseum	Hampton	88,599	26,263	500	N/A
Hampton Roads Convention Center	Hampton	344,000 101,000 **arena space	14,000 4,000 **	1,800	N/A
Hampton University	Hampton	14,916	14,000	N/A	N/A
Hilton Garden Inn Suffolk Riverfront	Suffolk	14,000	7,260	500	150
Hilton Virginia Beach Oceanfront	Virginia Beach	12,196	7,100	1,000	289
Holiday Inn Virginia Beach/Norfolk Hotel	Virginia Beach	22,000	5,220	450	307
Holiday Inn & Suites North Beach	Virginia Beach	8,000	2,100	350	321
Kingsmill Resort	Williamsburg	17,101	6,050	500	605
Newport News Marriott at City Center	Newport News	25,000	12,032	880	250
Norfolk Waterside Marriott	Norfolk	60,000	14,400	1,400	405
Renaissance Hotel and Conference Center	Portsmouth	24,355	11,858	1,000*	249
Sheraton Norfolk Waterside	Norfolk	35,000	12,685	1,000	468
Sheraton Virginia Beach Oceanfront Hotel	Virginia Beach	13,138	5,700	500	214
Smithfield Center	Smithfield	16,000	8,000	340	N/A
Virginia Beach Convention Center	Virginia Beach	516,000	31,029	1,800	N/A
Williamsburg Lodge	Williamsburg	45,000	11,190	1,000	323
Wyndham Hotel Oceanfront	Virginia Beach	16,000	5,218	550	244

*Per Sales and Service - Renaissance

**Arena space can be configured for banquets. The 14,000 square foot space is considered the largest meeting space other than arena.

In 2012, when Virginia Beach rejected a proposal to supply \$67 million in taxpayer funds to spur the construction of a \$109 million four-star Hyatt Regency hotel near its \$207 million convention center (which opened in 2007), some council members and many taxpayers grumbled that the convention center had yet to fulfill its promise. Instead, the convention center appeared to specialize in local and regional events rather than attracting larger, national events.

The relevant point of these examples is that convention/conference centers virtually never make money; they nearly always require subsidies. In an attempt to make them profitable, elected officials frequently propose public investments in complementary facilities, such as hotels. One losing proposition frequently leads to another for taxpayers. Virginia Beach is one of the few cities that has resisted what one external industry observer termed “second-stage developments.”

The Founders Inn and Spa (at Regent University) did tell us that it hosted more than 500 events in 2013, while the Smithfield Center, a public endeavor, indicated it hosted 480. The Chesapeake Conference Center, while losing money, reported hosting 440 events between June 2012 and July 2013. The Wyndham Hotel in Virginia Beach reported that it hosted more than 300 events in 2013. Nearly every other facility declined to supply any data concerning events, usage or profitability.

NATIONAL UTILIZATION DATA

While those that operate our region’s convention facilities are very close to the vest with their data, we do have access to national data on convention attendance, convention revenues and space utilization. Graph 1, which is derived from Center for Exhibition Industry Research (CEIR) data, reveals that times have been very tough for conventions, meetings and exhibitions since 2000. We’ll refer to these collectively as “events.” Graph 1 discloses that:

- Total attendance at events in 2013 remained below that in 2007 and was only about 2 percent higher than in 2000.
- Revenues derived from these events were about 15 percent below those in 2007 and about 2 percent below those in 2000.
- The number of exhibitors at events was about 8 percent below that in 2007 and about 7 percent below that in 2000.

- Space utilization at events was about 8 percent below that in 2007, but about 2 percent higher than that in 2000.

At the very least, the data and trends illustrated in Graph 1 are very discouraging to any city contemplating the subsidized construction of additional convention space. The problem is

exacerbated by the new event-hosting capacity that has been coming on line. Graph 2 reveals that event-hosting capacity has grown by about one-third since 2000, even while attendance has barely budged above 2000 levels.

Further, as Graphs 3 and 4 demonstrate, the adverse trends observed in Graph 2 apply both to large and small venues. **The convention market is in the midst of a long-term slump that applies to virtually all types of venues.**

Optimists blame the Great Recession that began in 2008 for the demise of the convention market. While there is no doubt that the recession has contributed to the attendance and revenue challenges facing convention venues, it would be a mistake to assume that convention problems will disappear if economic conditions improve. First, the industry suffers from overcapacity. The blunt truth is there are far too many convention venues available relative to even the most generous estimates of future demand. Graph 2 drives this point home.

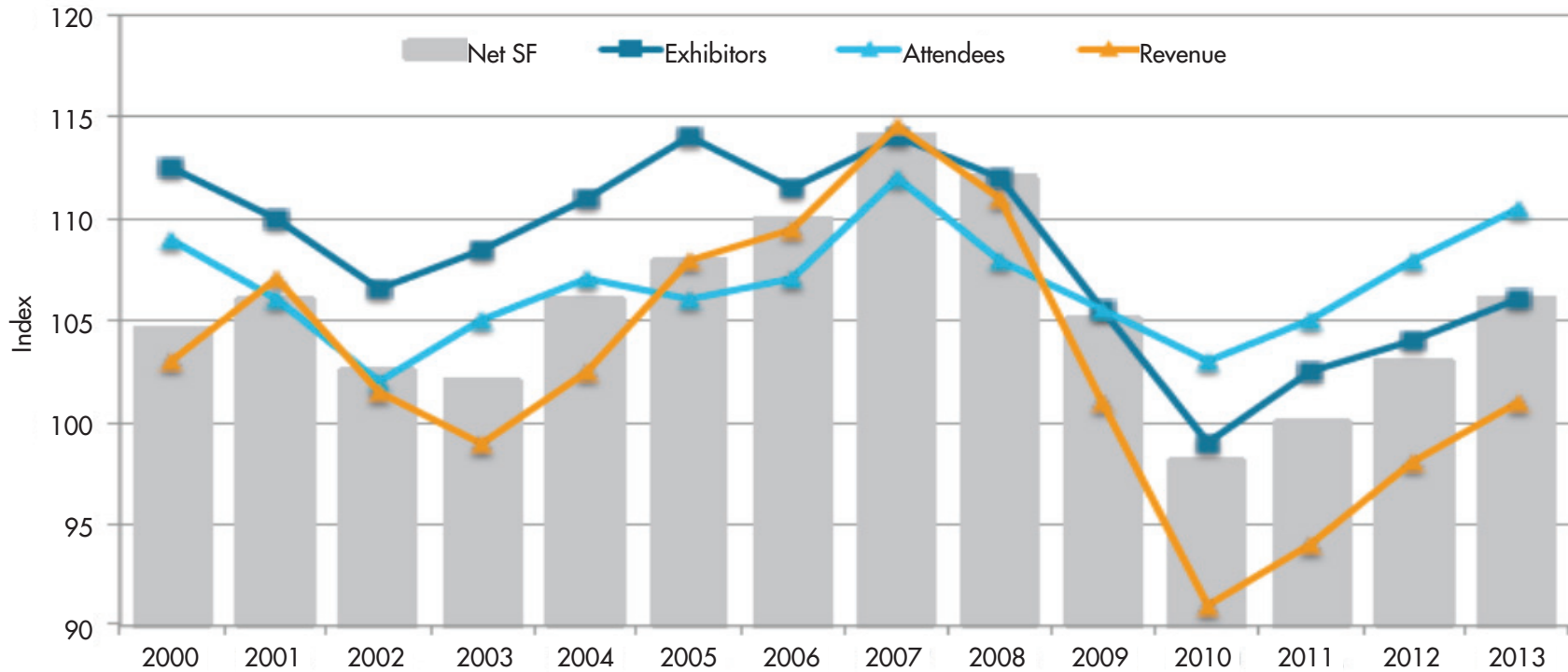
Second, the funk into which the convention market has descended already preceded the Great Recession. Convention attendance and revenues have been stagnant or falling since the end of the 1990s. An increasingly important reason for this is the ability that individuals now have to see and talk with each other in high definition over the Internet. This has put a serious dent in the need for employees and individuals to attend a convention in a distant city.

Even Voltaire’s Dr. Pangloss (in “Candide”) would have difficulty pulling an optimistic interpretation from the data and trends found in Graphs 1 through 4. Is it possible that Hampton Roads could constitute an exception to these adverse national trends? This is unlikely. Our region is highly dependent upon federal expenditures (especially those involving defense) and there is little prospect that federal expenditures on travel and meetings are going to climb.

In fact, our region has been unable to make headway in the face of the strong national winds that have buffeted convention venues and hotels. The next section provides data that demonstrate this point.

GRAPH 1

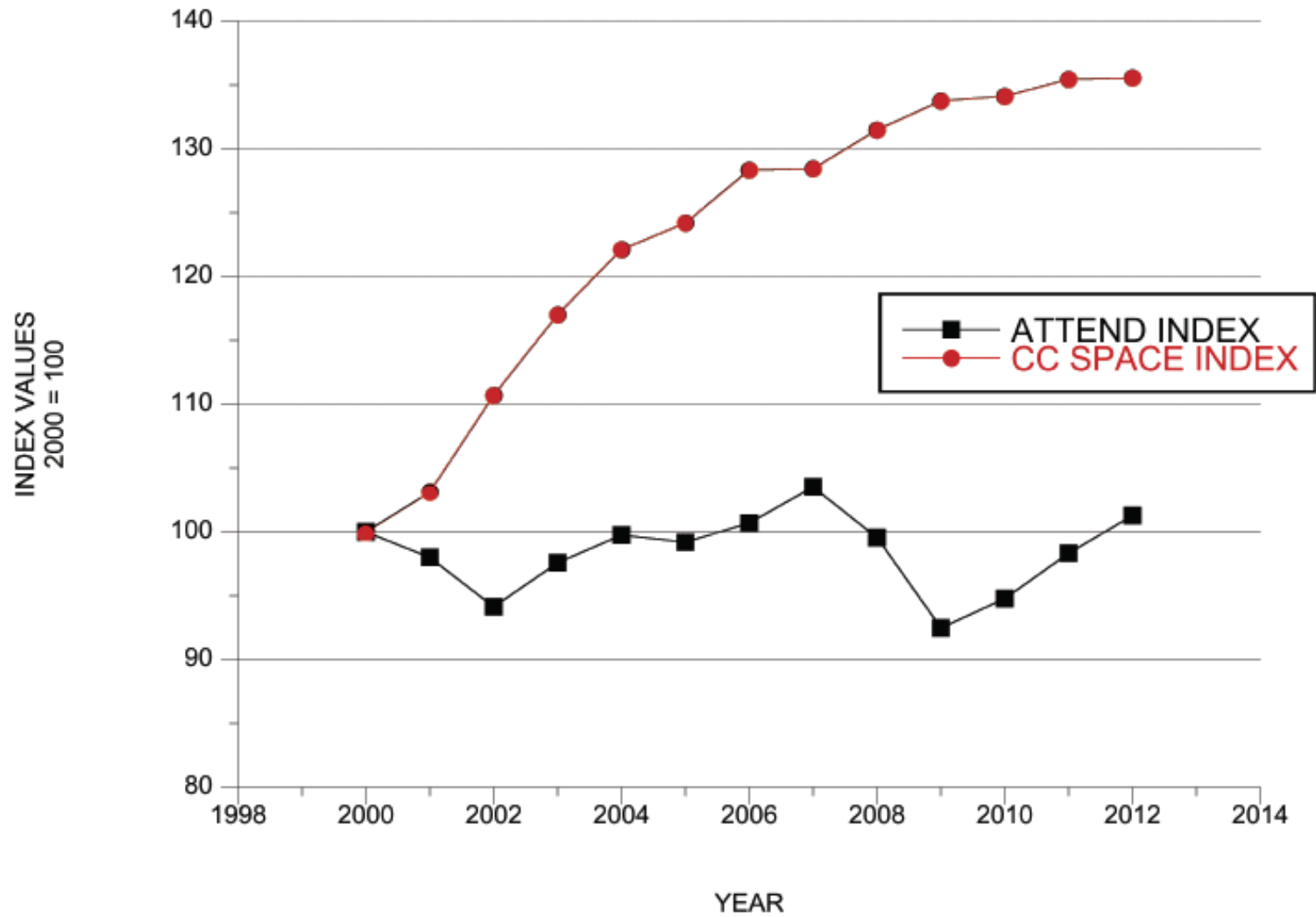
HISTORIC AND FORECAST CONDITIONS INDEX – MEETINGS AND EXHIBITION INDUSTRY



Sources: Heywood T. Sanders, "Convention Centers, Hotels, and the Case for Monona Terrace: A Case of Information Asymmetry," University of Texas at San Antonio, November 2013, and CEIR Index Report, 2013, Center for Exhibition Industry Research, www.ceir.org

GRAPH 2

CEIR ATTENDANCE INDEX AND EXHIBIT SPACE SUPPLY BY YEAR

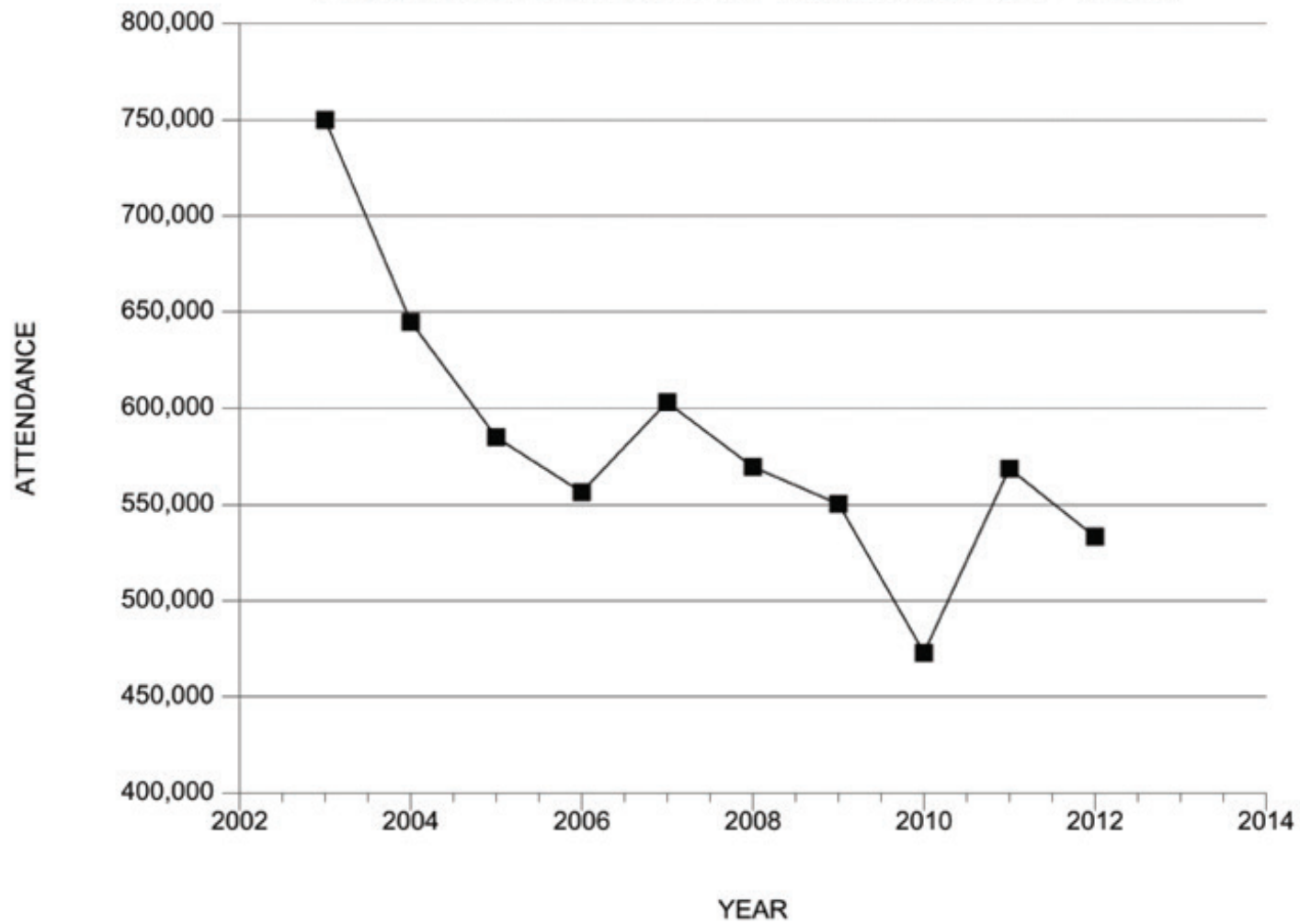


Note: CEIR stands for the Center for Exhibition Industry Research.

Sources: Heywood T. Sanders, "Convention Centers, Hotels, and the Case for Monona Terrace: A Case of Information Asymmetry," University of Texas at San Antonio, November 2013, and CEIR Index Report, 2013, Center for Exhibition Industry Research, www.ceir.org

GRAPH 3

PWC LARGE CONVENTION CENTERS AVERAGE CONV/TS ATTENDANCE BY YEAR

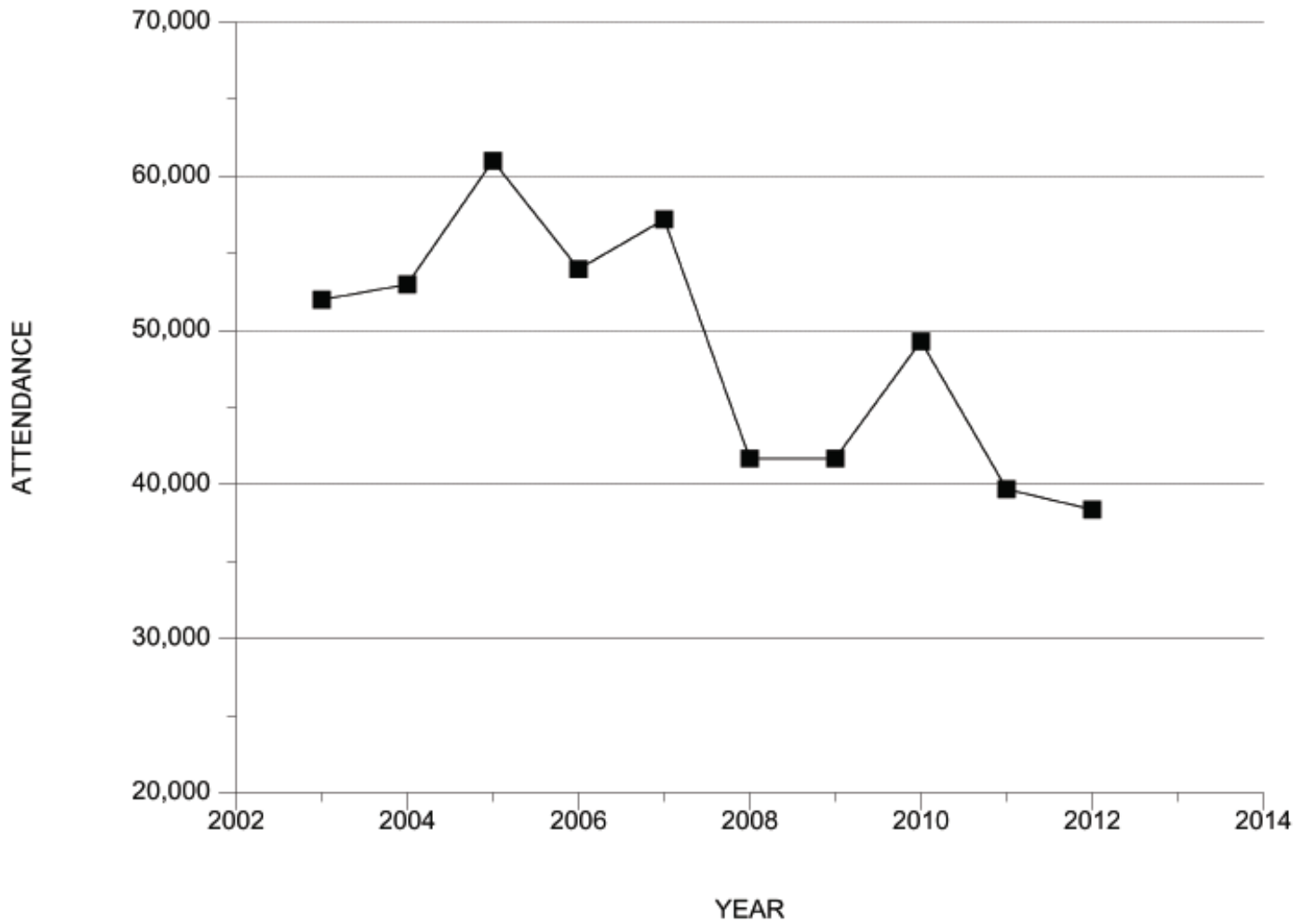


Note: PwC stands for PricewaterhouseCoopers. CONV/TS stands for conventions/trade shows.

Source: Heywood T. Sanders, "Convention Centers, Hotels, and the Case for Monona Terrace: A Case of Information Asymmetry," University of Texas at San Antonio, November 2013

GRAPH 4

PWC SMALL CONVENTION CENTERS AVERAGE CONV/TS ATTENDANCE BY YEAR



Note: PwC stands for PricewaterhouseCoopers. CONV/TS stands for conventions/trade shows.
Source: Heywood T. Sanders, "Convention Centers, Hotels, and the Case for Monona Terrace: A Case of Information Asymmetry," University of Texas at San Antonio, November 2013

Hotel Facilities In Hampton Roads

While our region's cities jealously guard data concerning the utilization of their convention centers, a variety of trade groups collect data concerning hotel/motel (we'll henceforth abbreviate this to "hotel") utilization and prosperity.

Simply put, the Hampton Roads hotel industry is smaller now than it was in 2007 and room utilization fell during that time as well. **One can see in Graph 5 that total hotel revenues in our region peaked in 2007 and still are expected to be 4.6 percent below that level in 2014. In real, inflation-adjusted terms, total hotel revenues in Hampton Roads in 2013 were 18.1 percent below those in 2007.**

The coin of the realm in the hotel business is REVPAR – revenue per available room – because REVPAR takes into account how many rooms are being utilized to generate revenue. Implicitly, it reflects the costs attached to generating revenue. One can see in Table 2 that REVPAR in 2013 lagged the 2007 high-water mark by 10.7 percent.

The most easily understood statistic for those not closely connected to the hotel industry is the hotel vacancy rate – the average percentage of rooms that are occupied by guests. Vacancy rates in 2013 also were below those in 2007 and, in contrast to the hopes of some, continued to decline in 2013. Graph 6 reveals that the Historic Triangle (Williamsburg) was the sole exception to this trend.

In May 2014, Norfolk announced an approximate \$90 million public investment in a conference center/hotel/parking complex on Main Street. Norfolk decision makers say they are aware of the seriously adverse market conditions they will confront as they move ahead with this project, but for public consumption have argued that: (1) the "conference center" they contemplate differs from a typical convention center and therefore will attract upscale, technologically savvy guests capable of paying perhaps a \$30 per night

Both Norfolk's new downtown project and the renovation of Virginia Beach's historic Cavalier Hotel are being spearheaded by Bruce Thompson, an experienced and savvy developer. According to Inside Business (May 12-18, 2014), Mr. Thompson will receive an \$18 million subsidy from Virginia Beach in addition to an approximate \$90 million subsidy from Norfolk. Inside Business quotes Mr. Thompson: "Another hotel in downtown Norfolk would be a disaster." Mr. Thompson will earn the title of wizard if he can simultaneously: (1) buck the adverse patronage trends that have afflicted national and regional hotels and conference centers for many years; (2) successfully position the new Norfolk development so that it is not regarded as just "another hotel;" and, (3) not harm the existing Marriott and Sheraton hotels as he does so.

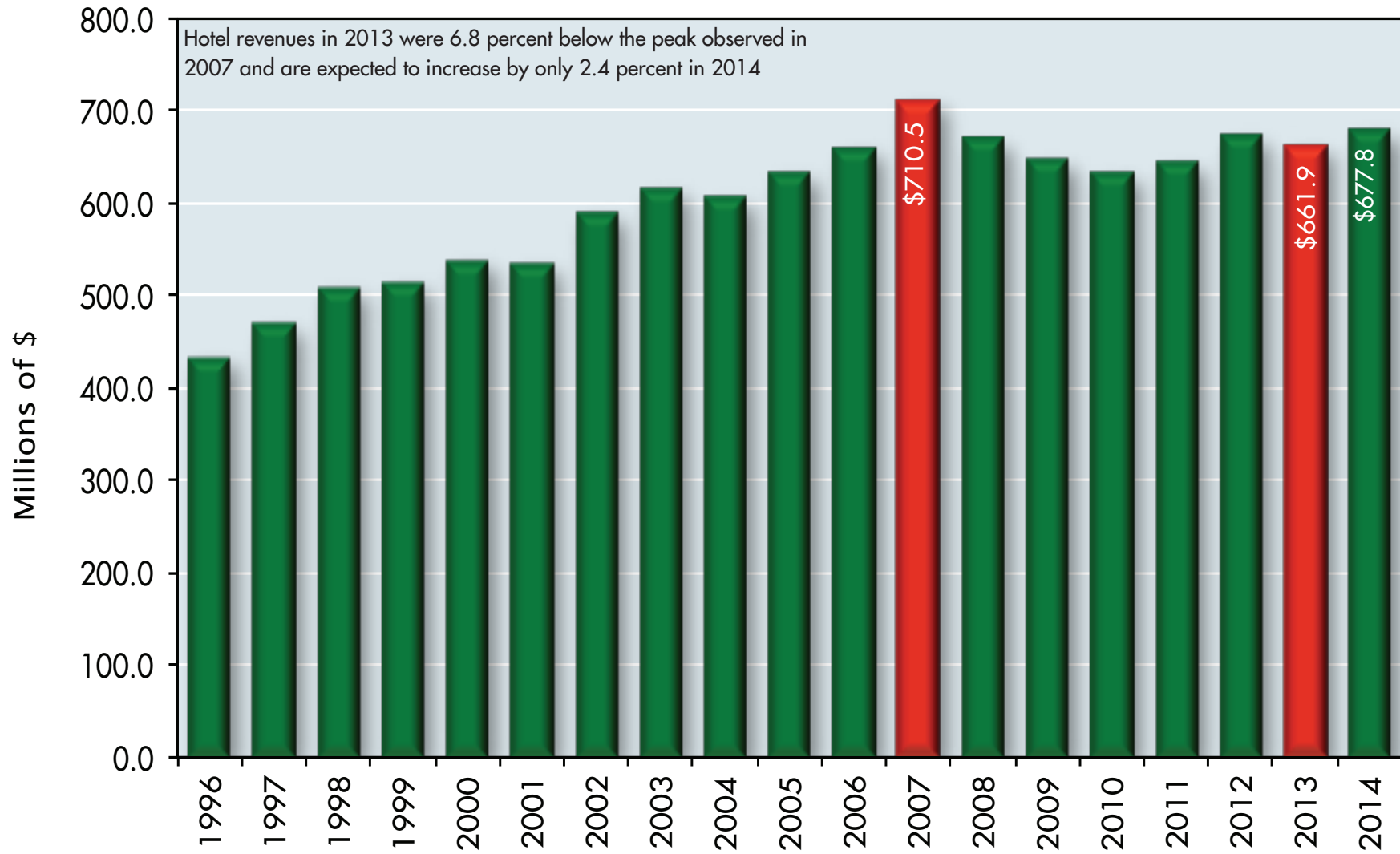
premium at a new, upscale hotel made more attractive by high-quality dining opportunities; (2) the project will attract new conferences and meetings that heretofore have skipped by Norfolk and therefore will not diminish the number of guests served by nearby hotels, such as the Waterside Marriott and Sheraton Waterside; and (3) combined with other downtown improvements, the project will enable Norfolk to assemble a highly attractive overall package that would make the city competitive for many additional conventions and meetings.

These are strong assertions that are inconsistent with the national and regional trends delineated in Graphs 1 through 7 and therefore are an uncertain basis for an investment of \$90 million of public funds. This is especially true since during the project's development the city declined to share any relevant data that would illuminate why it believes this particular project constitutes the best available use of its scarce funds.

"Providing more hotel space to attract more convention business has been the philosophy behind cities across the country that have publicly financed and built convention center hotels. But too often, the convention groups and visitors that are supposed to fill those new rooms never show." Baltimore Business Journal (March 1-7, 2013), www.baltimorebusinessjournal.com

GRAPH 5

TOTAL ANNUAL HOTEL REVENUE IN HAMPTON ROADS, 1996-2013



Sources: Smith Travel Research Trend Report, January 7, 2014 and the Old Dominion University Economic Forecasting Project.

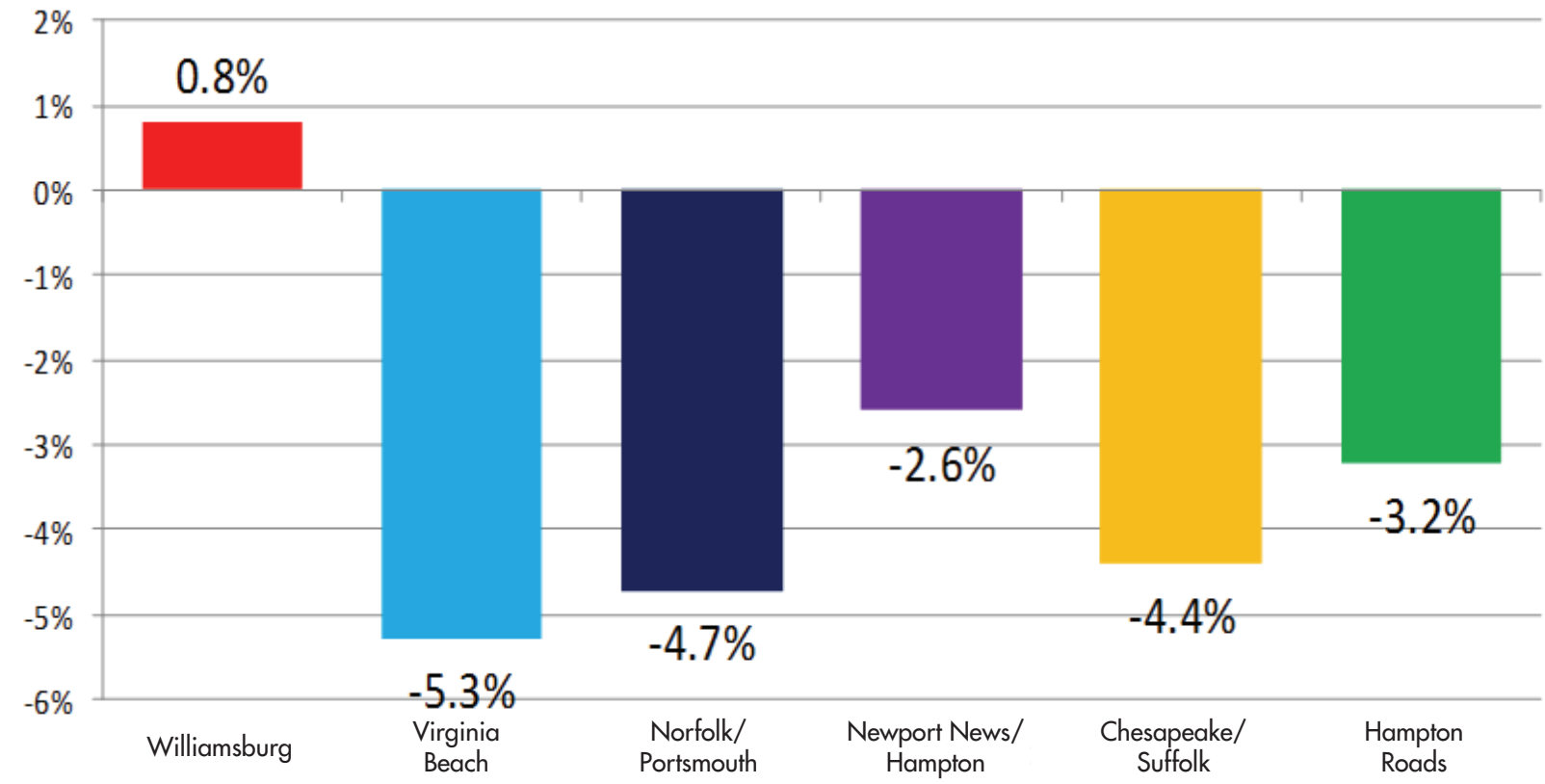
TABLE 2**REVPAR IN SELECTED MARKETS, 2007-2013**

	2007	2013	Percentage Change
U.S.	\$65.58	\$68.69	+4.7%
Virginia	\$61.95	\$55.69	-10.1%
Hampton Roads	\$52.90	\$47.25	-10.7%
Myrtle Beach	\$54.03	\$56.40	+4.4%
Coastal Carolina	\$55.83	\$56.26	+0.8%
Ocean City	\$71.74	\$68.81	-4.1%
Virginia Beach	\$64.73	\$64.64	-0.1%
Newport News/Hampton	\$41.49	\$36.12	-12.9%
Norfolk/Portsmouth	\$54.05	\$45.35	-16.1%
Williamsburg	\$47.48	\$39.08	-17.7%
Chesapeake/Suffolk	\$52.90	\$41.11	-22.3%



GRAPH 6

PERCENT CHANGE IN OCCUPANCY RATES FOR REGIONAL CITIES, 2012-2013



Final Thoughts

There is real economic development and then there is alleged economic development. Real economic development occurs when a city or region becomes increasingly capable of producing goods and services that those outside the region want to purchase, or when it becomes increasingly capable of retaining the expenditures of its own citizens rather than watching those expenditures go elsewhere.

“Smarter, better” is the time-honored way cities and regions increase their external sales capabilities, or enhance their own magnetism. This requires well-devised, cost-efficient investments in education and health, strategic infrastructure, well-chosen amenities, and both basic and applied research and development.

Antithetical to real economic development are activities that merely redistribute sales within a city or region, or that blatantly redistribute income by favoring one firm or organization over another without any sound economic rationale for doing so. On closer inspection, it becomes apparent that this is a form of crony capitalism and in the long run this actually discourages real economic growth.

Unfortunately, most (though not all) investments governments make in convention venues, arenas and attached hotel capacity fall into this latter, suspect category. Such investments usually do little more than redistribute existing sales and do not actually produce any incremental tax revenue. Further, they favor some firms and entrepreneurs over others, and therefore often do not pass the proverbial smell test.

All of this occurs in city after city, year after year, despite the accumulated negative empirical evidence. Some elected officials in our region appear to be seduced by their own flashy announcements of large projects that falsely promise economic growth. “Our city is on the move!” Unfortunately, in the wrong direction.



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Virginia Department of Transportation
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