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# The State of the Region: Hampton Roads 2001

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# THE STATE OF THE REGION

HAMPTON ROADS 2001



REGIONAL STUDIES INSTITUTE • OLD DOMINION UNIVERSITY

Butylo
Lively
Lancaster
Brook Vale
Stevensville
Water View
Mollusk
Free Fy.
Kilmarnock
Cumnor
Jamaica
Samos
Irvington
King and Queen C.H.
Church View
White Stone
Rose Garden
Truhart
Urbanna
Weems
Westland
Little Plymouth
Saluda
Locust Hill
Greys Pt.
Palmer
Windmill Point
Locklies
BAY
Glenns
Deltaville
Manor
Shacklefords
Hartfield
Piankatank Riv
West Point
Shacklefords Fork
Adner
Dutton
Cobbs Cr.
Gwynn
Gwynn's Island
Plain View
Nuttall
North
Mathews
Ark
Gloucester
Ware Neck
Barhamsville
York River
Allmondsville
Mobjack
Mobjack Bay
New Point
Bavon
Toano
Lightfoot
Richmond 94 Miles Norfolk
York
White Marsh
Naxera
Severn
Achilles
New Point Comfort
James City
Williamsburg
Colonial Pkwy
Hayes
Gloucester Point
Yorktown
Colonial Williamsburg
College of William and Mary
Grove
Busch Gardens
Colonial Nat'l Hist. Pk.
Jamestown
Scotland
Jamestown Nat'l Hist. Site
Surry Nuclear Power Plant
Cobham Wharf
Surry
Chippokes Plantation
Ft. Eustis
Grafton
Tabb
Poquoson
Bacons Castle
Rushmere
James River
Runnymede
Dendron
Mariners Museum
War Memorial Museum of Virginia
NASA Langley Air Force Base
Hampton
Fort Monroe
Old Point Comfort
Rescue
Smithfield
Goodrich Fork
Pons
Isle of Wight
Benns Church
Newport News
Hampton
NORFOLK
U.S. Naval Base
Roads
Little Cr.
Seashore
Fort Story
Cape Henry Lighthouse
Ivor
Zuni
Windsor
Portsmouth
Bayside
Lynnhaven
Virginia Beach
Naval Air Station
Virginia Beach-Norfolk Expwy.
Sleepy Hole
Kempsville
Princess Anne
Sedley
Walters
Chuckatuck
Carrsville
Great Dismal Swamp Nat'l Wildlife Refuge
Canal
Fentress
Virginia Beach
Franklin
Cypress
Great Dismal Swamp
Great Bridge
Pungo
Suffolk
Hickory
Chesapeake
Holy Neck
Whaleyville
Lake Drummond
Feeder Ditch
Blackwater
Back Bay
Intracoastal Waterway
Philadelphia 275 Miles Norfolk
Harborton
Pungoteague
Craddockville
Silver Beach
Franktown
Bridgetown
Eastville
Cheriton
Bay View
Cape Charles
Capeville
Mockhorn
Townsend
Kiptopeke
Cape Charles
Fishermans Island Nat'l Wildlife Refuge
Fishermans Island
Chesapeake Bay Bridge-Tunnel
(Toll)
At Norfolk
U.S. Naval Shipyard
Hampton Roads Naval
Norfolk Gardens by
Gen. MacArthur Me

October 2001

Dear Reader:

This is Old Dominion University's second annual "State of the Region" Report. While it represents the work of many individuals connected in various ways to Old Dominion, the Report does not constitute an "official" viewpoint of the University, or its president, Dr. Roseann Runte.

This year's Report was produced with the goal of making Hampton Roads an even better place to live. Those who know and love the region of Hampton Roads frequently boast of its numerous strengths and successes, but we do so with the understanding that it would be possible for us to improve the region's performance in certain areas. However, in order to improve our situation, we must have accurate knowledge about "where we are," and what the policy implications are of the various choices in front of us. This year's Report should be quite helpful in supplying such information. At the end of the day, we hope we have stimulated thought and discussion about things that matter.

The 2001 Report focuses on eight issues and topics:

**The General Economic Situation in the Region:** It's true the region's per capita income trails national averages, but much of the gap between Hampton Roads and the nation disappears when cost of living differentials are taken into account. Further, the region's per capita income gap may not be due so much to lagging wage rates, but rather to much lower levels of business income and wealth for Hampton Roads as compared to other regions.

**Major League Sports Teams**: There is remarkably little economic evidence in favor of major league sports franchises, even in cities such as Baltimore. Cities and regions that subsidize major league sports teams nearly always find it a losing proposition. If a region, such as Hampton Roads, attempts to attract a major league sports team, then it should do so for reasons of pride and identification rather than economics.

**The Port of Hampton Roads**: Since the early 1990s, the Port has stagnated in terms of the volume of the cargo it handles. This is due almost solely to a decline in bulk cargo (mostly coal). Nonetheless, the Port continues to provide major a economic impetus to the region because it has become much more efficient and competitive over the past decade.

**African Americans in Hampton Roads**: This year's Report surveyed more than 1,100 Hampton Roads residents, about half of whom were African American. African Americans see several issues differently than other citizens do. Notably, they have a different perspective on the role and effectiveness of the policy of affirmative action. African Americans also are much more likely to vote Democratic and attend church than the region's other citizens. This is the first significant public-opinion poll ever taken of African Americans in Hampton Roads.

**State Legislative Redistricting**: The region's political power in the Commonwealth has fallen precipitously over the past decade. The recent legislative redistricting process reduced the number of Hampton Roads delegates and senators by about 15 percent, and the region has lost nearly all of its most senior and powerful legislators. We are at a low ebb in terms of political clout in Richmond, but brighter times may be on the horizon.

**The Dillon Rule**: While the Dillon Rule does not explicitly appear in many Virginia statutes, it is the accepted legal and legislative standard in Virginia. In essence, it says no city, town, county or region may exercise any power not explicitly granted it by the General Assembly. We argue that the Dillon Rule, while not without points in its favor, has outlived its usefulness.

**Banking in Hampton Roads**: The economic impact of the disappearance of the headquarters of large banks from the region, and from Virginia, has been quite negative. In this chapter we contrast Virginia and Hampton Roads to North Carolina, and demonstrate that the wave of banking mergers and consolidations that occurred over the past two decades, but particularly in the 1990s, has not been good for Hampton Roads.

**Private K-12 Education**: Here we examine the nature of private and independent K-12 education in Hampton Roads. There is great diversity in private education in the region. Private institutions typically have lower average class sizes, but have fewer computers and offer lower teacher salaries than do public K-12 schools.

This Report would not have been possible without the generous financial assistance and support of the following individuals and organizations:

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Wil King
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Deborah L. Miller
Jim Oliver
Ken Plum
Wayne Talley
Gilbert Yochum

My hope is that this Report will inform you and stimulate your thinking about regional issues. Hampton Roads is a superb place to live, but we can make it even better.

Sincerely,

James V. Koch

Board of Visitors Professor of Economics and
President Emeritus
Old Dominion University


# ECONOMIC PERFORMANCE AND INCOME

# Economic Performance and Per Capita Income: The Inside Story

Have you ever wondered why per capita income in Hampton Roads has lagged the rest of the United States for more than a decade? Interestingly enough, it is not because those who work in Hampton Roads earn lower than average wages and salaries. Instead, it is because they own fewer assets, don't earn nearly as much as others do from businesses they own, and aren't receiving as much in the way of transfer payments (such as welfare) as individuals in other regions of the country. That's the surprising finding we report in this chapter.

## But, First, A Look At The Growth Rate Of The Regional Economy

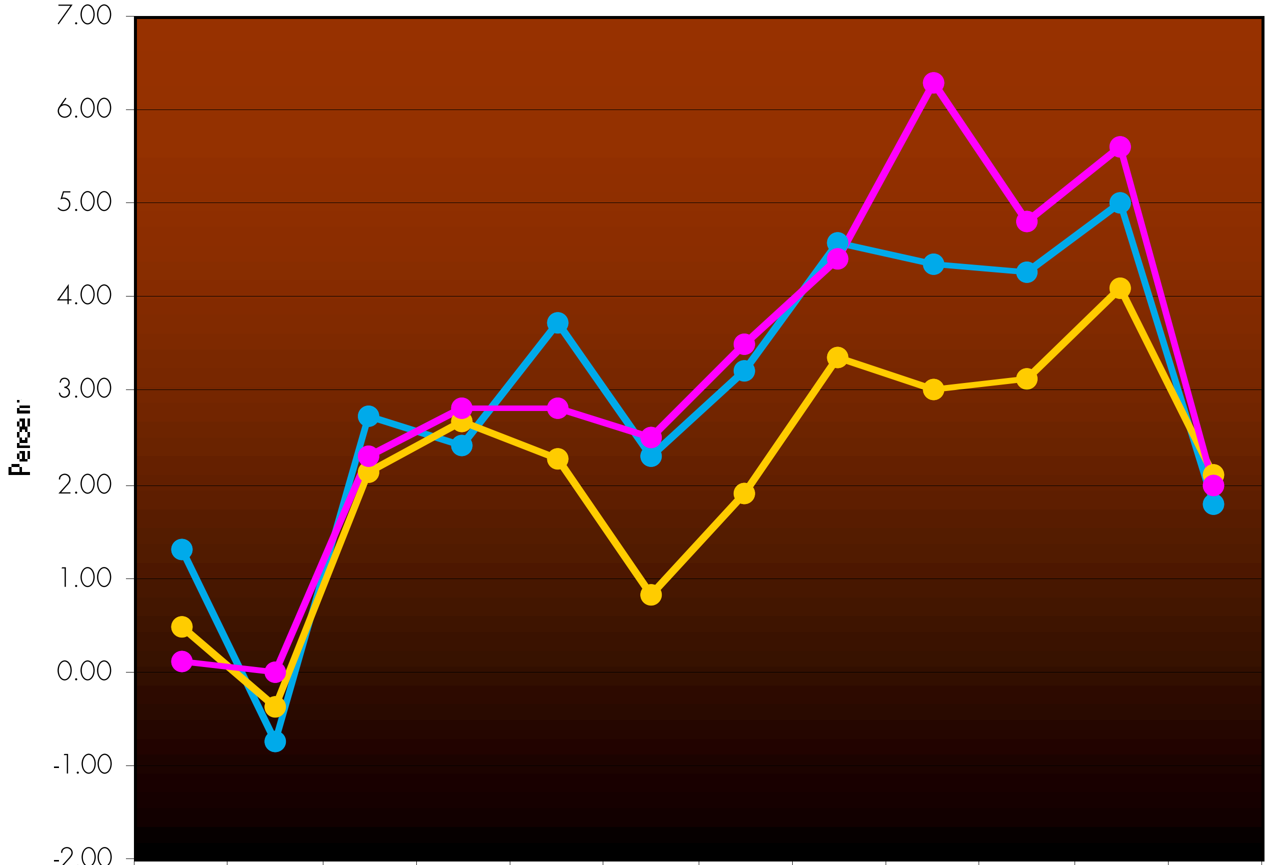
**In 2000, the Hampton Roads economy did rather well, at least compared to the past few years. The region's economy grew by 4.1 percent, which was its largest regional economic growth rate since 1987. Nonetheless, despite this rapid increase in 2000 Gross Regional Product (GRP), Hampton Roads' economic growth rate continued to lag behind that of both the United States and Virginia.** As shown in Graph 1, since 1990, the economic growth rate of Hampton Roads has trailed both the Commonwealth and the nation as a whole.

Defense spending reductions are the primary reason why Hampton Roads' economic growth has trailed the rest of the country. Fortunately, this situation is expected to change in 2001 as the region's economic growth rate is expected to exceed that of both the United States and Virginia. Why? Because defense expenditures will increase by 7 percent or more and the rest of the country is going through economic recession. Defense expenditures tend to stabilize the Hampton Roads economy. Hampton Roads grows less rapidly than other regions during prosperous times, but it also contracts less rapidly when the American economy is in recession.

There is additional good news. The nondefense sector of the Hampton Roads economy grew at an estimated 5.6 percent in 2000, well above the high GRP regional growth rate. Lest we ignore the significance of this development, it means the civilian economy in Hampton Roads recorded a banner year in 2000. This bodes well for the region's future, for it suggests the region has been creating lots of private jobs. The region's unemployment rate sank to about 3 percent, its lowest regional yearly unemployment rate in more than 30 years.

2000 defense spending, hampered by the loss of nearly 300 relatively highly paid federal civilian employees, expanded at an estimated "real" (inflation adjusted) rate of only 1.8 percent, well below the regional nondefense and GRP economic growth rates. This dragged the GRP growth rate down to the overall level of 4.1 percent. The defense sector's slower growth rate in 2000 resulted in further decline in the defense-dependent portion of the region's economy. As a proportion of GRP, the defense-dependent sector fell from a high of nearly 42 percent in 1990 to an estimated 28 percent in 2000. The opposite side of the coin is this: the nondefense sector now accounts for 72 percent of GRP.

**GRAPH 1**
**YEAR-TO-YEAR REAL GROWTH RATES**
**HAMPTON ROADS, VIRGINIA AND THE U.S.**
**1990 - 2001**




| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001est |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| U.S. | 1.30 | -0.75 | 2.73 | 2.41 | 3.73 | 2.31 | 3.22 | 4.59 | 4.34 | 4.26 | 5.00 | 1.8 |
| Hampton Roads | 0.47 | -0.37 | 2.12 | 2.66 | 2.27 | 0.82 | 1.90 | 3.35 | 3.01 | 3.13 | 4.10 | 2.1 |
| Virginia | 0.10 | -0.02 | 2.30 | 2.80 | 2.80 | 2.50 | 3.50 | 4.40 | 6.30 | 4.80 | 5.60 | 2 |

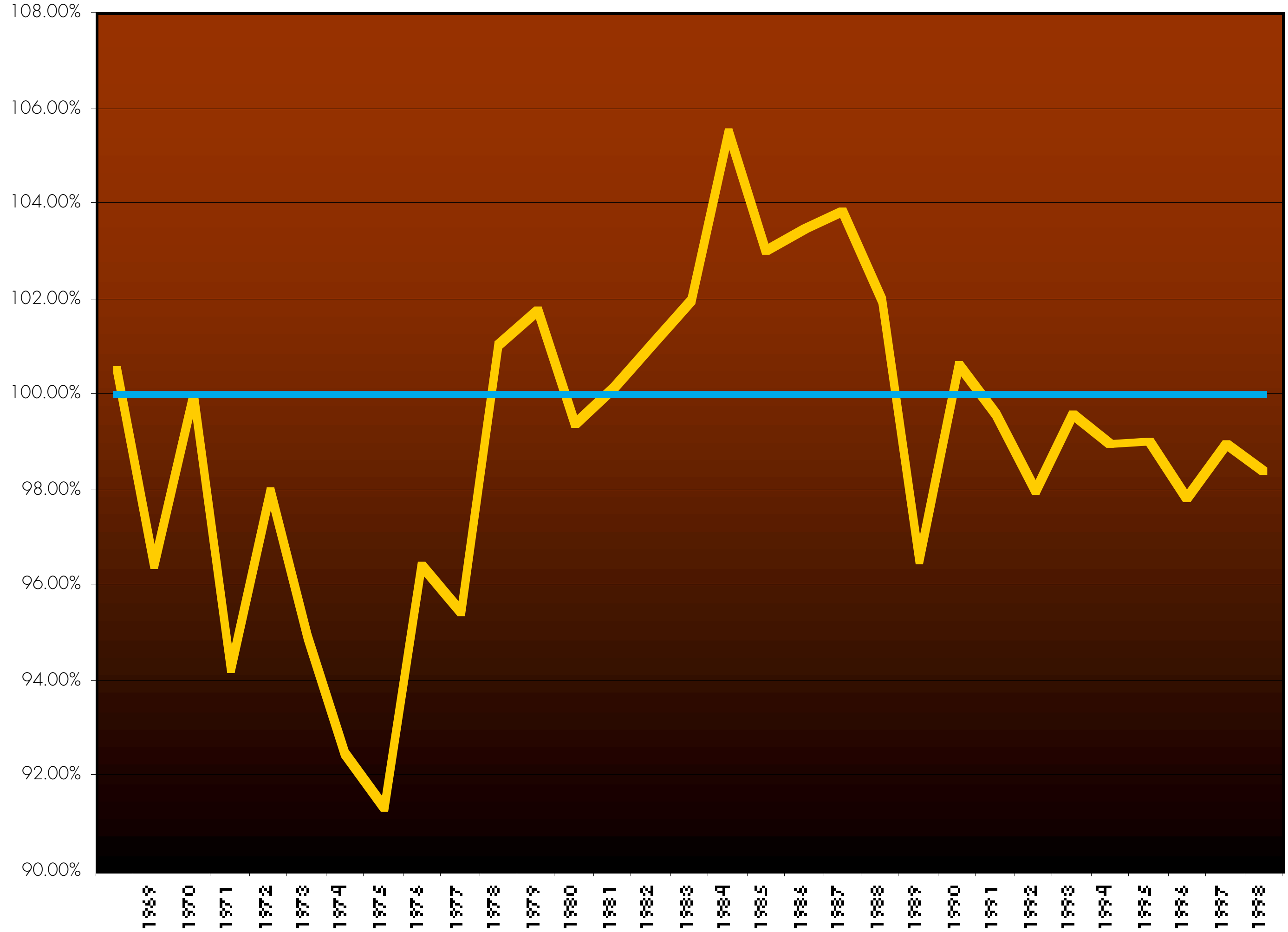
**Source: Old Dominion University Economic Forecasting Project**

# Per Capita Income And Standard Of Living

An important measure of Hampton Roads' economic standard of living is the personal income generated in the region relative to its population – per capita income, or income per person. Many individuals focus only on "money" per capita income – that is, income that is not adjusted for the cost of living. However, an accurate comparison of Hampton Roads' economic standard of living relative to other metropolitan areas (MSAs) requires adjusting for price differences between it and the other MSAs. Graph 2 shows a "real," price-adjusted percentage comparison between Hampton Roads' per capita income and that of the United States from 1969 to 1999. A value of 100 implies equality, or parity, between U.S. "real," price-adjusted per capita income and that of Hampton Roads. Values above the parity line represent years in which Hampton Roads' "real," price-adjusted per capita income exceeded that of the nation, while values below the line indicate the opposite.

It is evident in Graph 2 that "real," price-adjusted per capita income in Hampton Roads generally was below the national average during most of the 1970s, above the average throughout most of the 1980s and modestly below the average during most of the 1990s. As we will demonstrate in a moment, defense expenditures explain most of these trends.

**GRAPH 2**
**HAMPTON ROADS PRICE-ADJUSTED PER CAPITA INCOME**
**AS A PERCENT OF U.S. PRICE-ADJUSTED PER CAPITA INCOME**
**1969 - 1999**



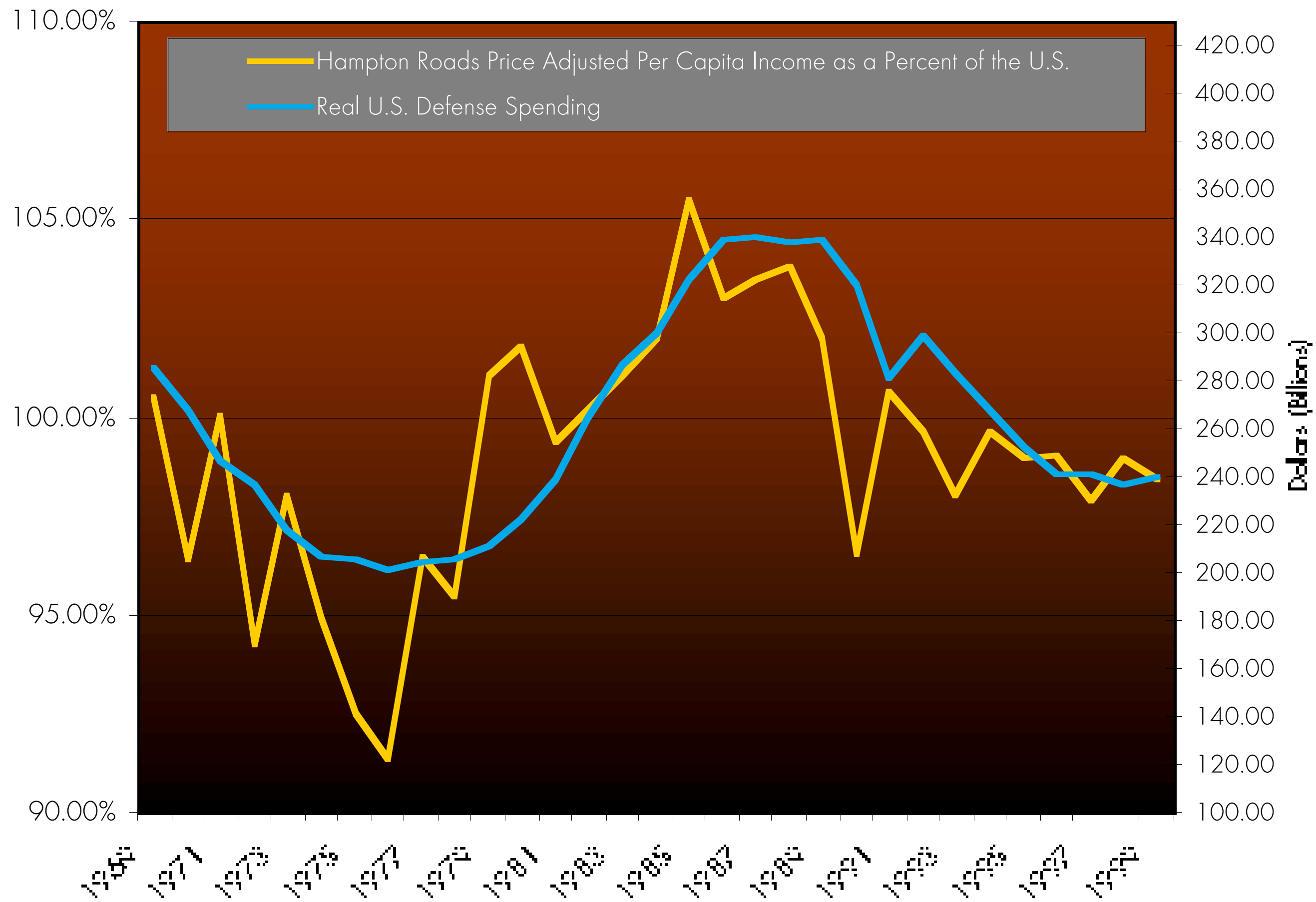

**Sources: U.S. Department of Commerce and Old Dominion University Economic Forecasting Project**

From an economic development perspective, Graph 2 immediately begs two questions. First, since 1969, what has caused the fluctuations in Hampton Roads' relative economic standard of living, especially the more recent decline of more than seven percentage points from a high of 105.5 in 1985 to its current 98.4 percent? Second, why can't Hampton Roads break away from its seeming 30-year reversion to the U.S. mean?

# Fluctuations In Relative Per Capita Income

The most important cause of the fluctuations in the region's real, price-adjusted per capita income relative to that of the nation over the last 30 years is year-to-year variation in national defense expenditures. Graph 3 supports this assertion by comparing the Hampton Roads per capita income parity percentage of Graph 2 with real national defense expenditures. The left side, or vertical axis, of Graph 3 represents Hampton Roads' real, price-adjusted per capita income relative to that of the United States. The right side, or horizontal axis, measures real national defense expenditures. One can easily see that fluctuations in Hampton Roads' relative per capita income over the last 30 years have closely tracked that of real national defense expenditures.

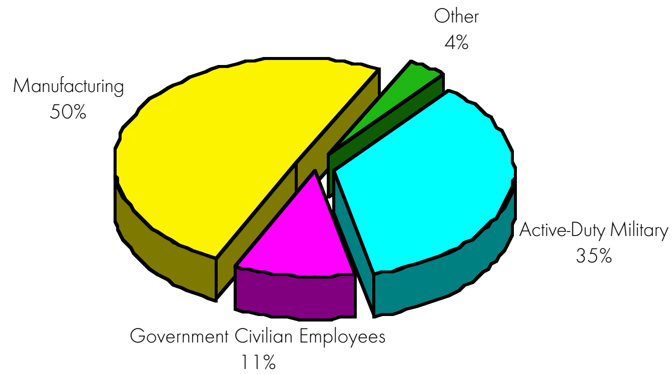
**GRAPH 3**
**HAMPTON ROADS PRICE-ADJUSTED PER CAPITA INCOME AS A PERCENT OF U.S. PRICE-ADJUSTED PER CAPITA INCOME AND U.S. REAL DEFENSE SPENDING (1992 = 100)**
**1969-1999**




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

Thus, the fall in the area's relative economic standard of living in the 1970s resulted from winding down the Vietnam War, while the rising regional prosperity of the 1980s rise resulted from the Reagan administration's military buildup. Likewise, the decline in real, price-adjusted per capita income, from 105.5 percent in 1985 to 98.4 percent in 1999, can be attributed to the end of the Cold War and the subsequent decline in defense expenditures during the Clinton administration. This decline in the region's real, price-adjusted per capita income (7.5 percent between 1985 and 1999) can be traced largely to employment and consequent income declines within the specific categories displayed in Graph 4. Shrinkage (at least relatively) in the region's manufacturing base accounted for roughly one-half of this fall in per capita income. Manufacturing job and income losses were largely concentrated in the area's civilian shipyards. The decline in active-duty military personnel and the decade-long decline nationally in the ratio of military to civilian wages were responsible for more than a third of the 7.1 percent decline. That is, the region lost active-duty military personnel and those who remained were not paid as well (relatively speaking) as in the past. Finally, the reduction in civilian federal workers, the majority of whom worked at the Norfolk Naval Shipyard and the Naval Air Rework Facility, accounted for slightly more than 10 percent of the drop in Hampton Roads' relative per capita income.

**GRAPH 4**
**SOURCES OF THE DECLINE IN HAMPTON ROADS' PER CAPITA INCOME RELATIVE TO THE U.S.**
**1985 - 2000**




**Source: Old Dominion University Economic Forecasting Project**

But, here's the most important point. **Fluctuations of Hampton Roads' relative economic standard of living over the past 30 years, as measured by real, price-adjusted per capita income, do not appear to be the product of any inherent problem or defect within the region's economy. Rather, these fluctuations, including the most recent decline, were a result of deliberate national policy decisions to change the level of national defense spending. The bottom line is this: Hampton Roads' regional economy is not sick, but it continues to be highly dependent upon military expenditures.**

The national defense policy-induced cycles displayed in Graphs 2 and 3 are likely to be repeated in the future. The region is about to go through an upward turn in its relative per capita income similar to, though not as extensive as, the 1980s. The upward movement in the region's relative price-adjusted per capita income will initially be prompted by the Bush administration's supplements to the current defense budget. These will cause an increase in the military to civilian wage ratio and supply additional spending for both ship maintenance and construction. Federal fiscal year 2002 military spending will be particularly important to the region, as national defense spending is projected to rise by 7 percent, even after adjusting for inflation. This will stimulate real, price-adjusted per capita income in the region and will push the area's economic standard of living to roughly one percentage point above parity with the nation. That is, Hampton Roads is likely to move from 98.5 percent of the national average real, price-adjusted per capita income to approximately 101 percent.

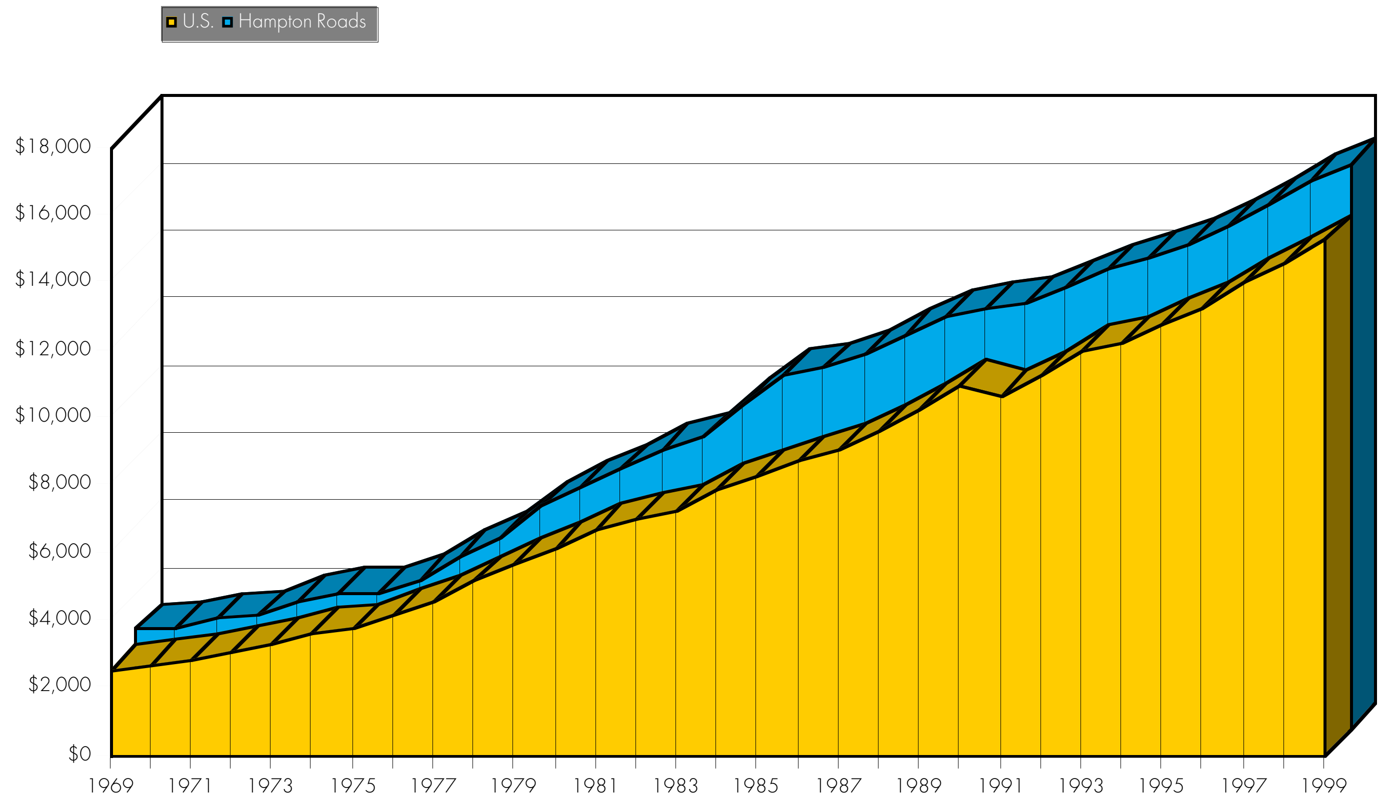
# A Closer Examination Of Per Capita Income In Hampton Roads

Per capita income generally is broken down into four major parts: (1) wages, salaries and fringe benefits; (2) property income; (3) business income; and (4) transfer payments (unearned income). Let's look at each of these, for they provide some surprising information.

## WAGES, SALARIES, AND FRINGE BENEFITS

The most important determinant of the level of a region's per capita income is how much the region's workers receive in wages, salaries and fringe benefits. In Hampton Roads, wages, salaries and fringe benefits constitute roughly 70.8 percent of personal income per capita. As seen in Graph 5, since 1978, when compared to the entire United States, this portion of Hampton Roads' personal income, measured on a per capita basis and adjusted for prices, actually exceeded that of the nation. **In 1999 the region's per capita wages, salaries and fringe benefits stood at 109.5 percent of, or 9.5 percent above, the national average. Hampton Roads typically earns total wages, salaries and fringe benefits somewhat above the national average, something many people do not believe is true.**

**GRAPH 5**
**PRICE-ADJUSTED WAGES, SALARIES AND EMPLOYEE BENEFITS PER CAPITA**
**HAMPTON ROADS AND U.S.**
**1969 - 1999**




**Sources: U.S. Department of Commerce and Old Dominion University Economic Forecasting Project**

Of course, one can gain additional income either by earning a higher wage rate, or holding more jobs or by working more hours in the jobs one holds. As we will see in a section below, a much higher proportion of Hampton Roads residents actually hold jobs than is true in the rest of the country. This is one of the reasons why the region's per capita wage, salary and fringe benefit income is above the national average.

But, these data do provoke an obvious question. If the total of what people are paid in wages, salaries and fringe benefits in Hampton Roads exceeded the national average in 1999, then why is it that the region's per capita income was only 98.4 percent, or 1.6 percent below the national average (see Graph 2)? The answer to this question lies with the nature of the nonlabor income received by households. Generally defined, nonlabor personal income comes in three forms: the return to ownership of property, business income and transfer payments.

## NONLABOR INCOME: OWNERSHIP OF PROPERTY

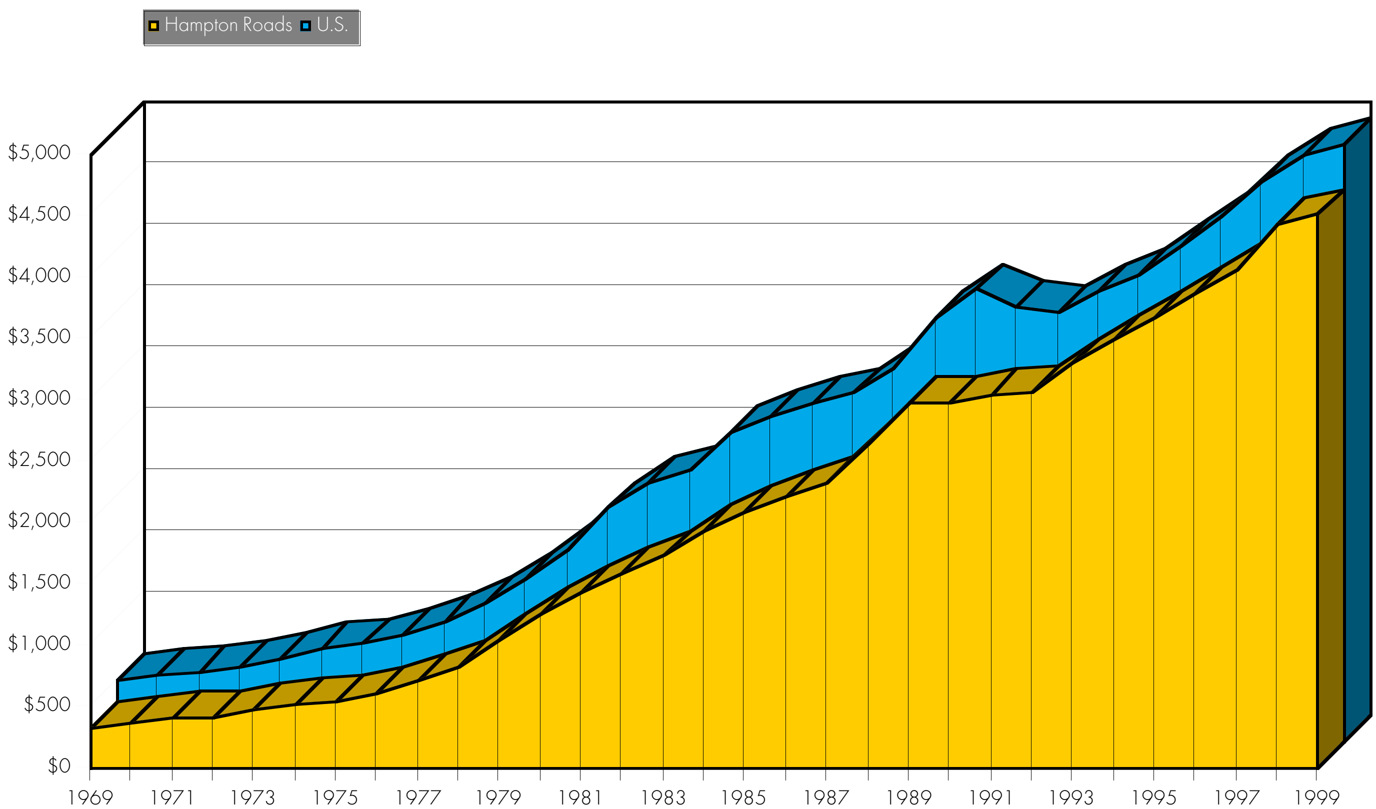
Household income from ownership of property is the return from financial, real estate and solely owned or partnership business assets. Economists say the income generated from these assets is "the return to capital." Returns from these assets are often overlooked in popular thinking about per capita income because such returns are not widely spread across households. In fact, they are highly concentrated among households – so much so, that in 1998, the top 1 percent of U.S. household income earners owned almost 50 percent of all assets, while the top 10 percent owned 80 percent of all financial assets in 1998.

Despite the obvious, heavy concentration of these returns to ownership among a very limited number of households, the size of these returns plays a critical role in the determination of a metropolitan area's level of per capita income. Consider two fascinating examples of how important these returns are to Hampton Roads' level of per capita income.

- In 1999, West Palm Beach, Fla. was the highest price-adjusted per capita income metropolitan area in the U.S. If Hampton Roads simply swapped its return to financial and real estate assets with West Palm Beach, then Hampton Roads would become the highest per capita income metropolitan area in the U.S. and West Palm Beach's ranking would drop to 105, very close to Hampton Roads' actual 1999 rank.

- Seattle's per capita income is one-third larger than Hampton Roads. Bill Gates, Paul Allen and Steve Ballmer, the founders of Microsoft, all reside in the Seattle metropolitan area. In1999, they had an aggregated net worth of $116 billion, according to Forbes. If only these three people moved from Seattle to Hampton Roads, then the yearly income generated from their assets would push Hampton Roads' per capita income to approximately that of Seattle. Microsoft's wealth does make a difference!

**GRAPH 6**
**PRICE-ADJUSTED PER CAPITA RETURNS TO FINANCIAL AND REAL ESTATE ASSETS**
**HAMPTON ROADS AND U.S.**
**1969 - 1999**




**Sources: U.S. Department of Commerce and Old Dominion University Economic Forecasting Project**

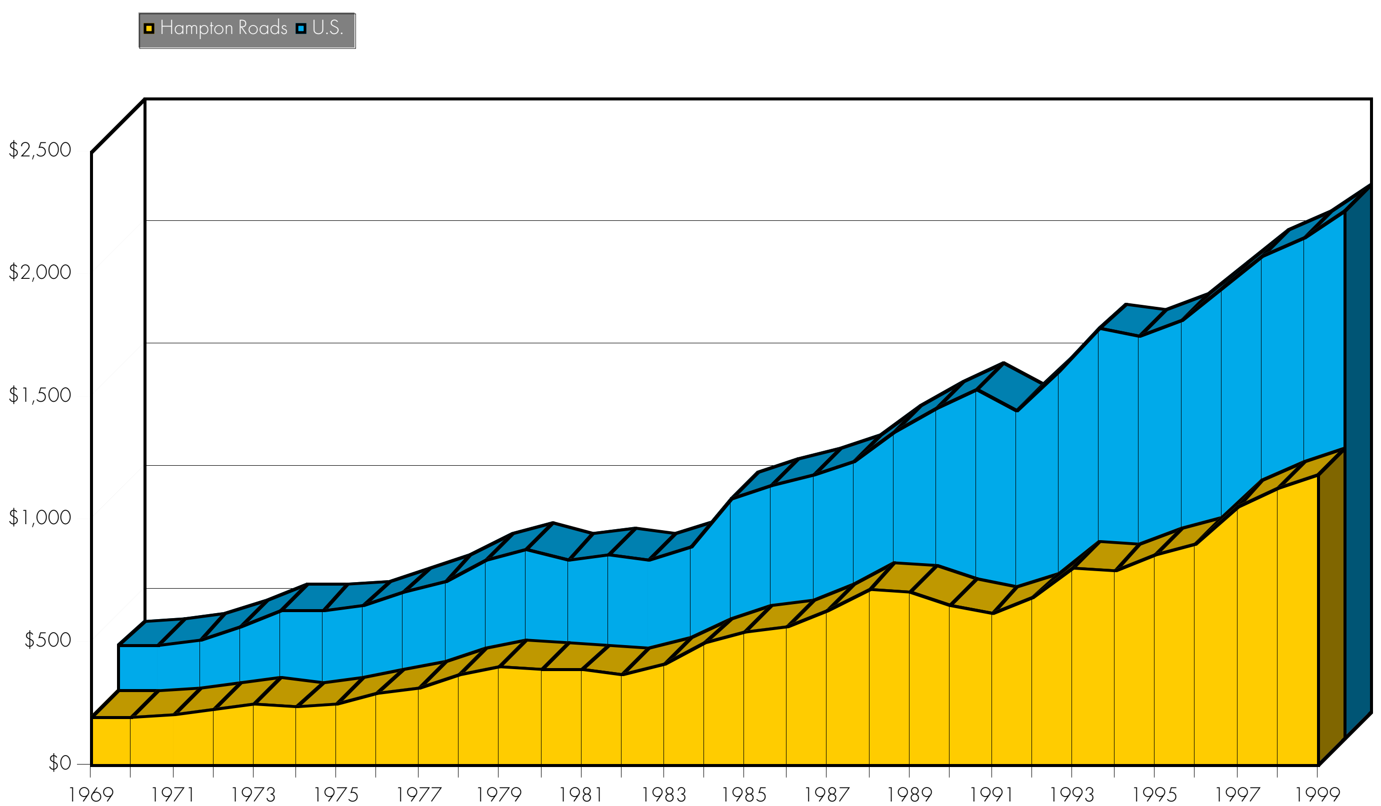
As illustrated in Graph 6, for the past 30 years Hampton Roads has lagged behind the national average in the returns it has earned from its ownership of financial and real estate assets.

Adjusted for prices, the region's return to ownership of these assets has been roughly 10 percent below the national average. Further, given the concentration of these assets in other high-income MSAs, Hampton Roads' per capita return to ownership of financial and real estate assets was only one-third that of the top 10 per capita income metropolitan areas in the United States. What this boils down to is: **Hampton Roads has wealthy people, but not nearly as many as other regions, and its wealthy residents are not as rich as those in the highest income metropolitan areas in the United States. You may already have known this, but most people have not considered its impact upon the region's per capita income.**

## BUSINESS INCOME

Hampton Roads also trails the nation where business income is concerned. Business income is assumed to come to individuals who own a business, either as a sole proprietor, or as a partner. As seen in Graph 7, in 1999, Hampton Roads' real, price-adjusted return to personal business ownership was only 55 percent of the U.S. average. This alone accounts for an almost

**GRAPH 7**
**PRICE-ADJUSTED PER CAPITA BUSINESS OWNERSHIP INCOME**
**HAMPTON ROADS AND THE U.S.**
**1969 - 1999**




**Sources: U.S. Department of Commerce and Old Dominion University Economic Forecasting Project**

$1,000 difference in annual per capita income. The region's relative lack of business income reflects the dearth of small to medium-sized businesses in the region. Nationally, in a typical metropolitan area, there are roughly 21 people in the work force for each business. In Hampton Roads, however, there are roughly 26 people per business. That is, the region simply doesn't have as many of these types of businesses. As seen in Table 1, when Hampton Roads is compared to a selected group of some of the highest per capita income regions in the both the United states and the South, it has approximately one-quarter more workers per business.

**Hampton Roads' relative lack of personal ownership of small and medium-sized businesses (and the income generated by them) has been a serious impediment to increasing the region's level of per capita income. Small to medium-sized businesses tend to incubate entrepreneurs and their subsequent "spin-off" businesses. Specifically, in many cases, existing businesses develop employees who learn the lessons necessary and acquire the experience to start new firms.**

Given the "Catch-22" nature of the spread of new firms in a region (it takes existing businesses and the learning they generate to help start new businesses), public policy designed to stimulate and make life easier for small and medium-sized business development would be helpful. For example, it might make sense to focus more of the region's economic development efforts on small and medium-sized businesses, and smaller startup businesses that are generated by the research and development activities

**TABLE 1**

**Employed Workers per Business**
**Selected MSAs**
**1995**

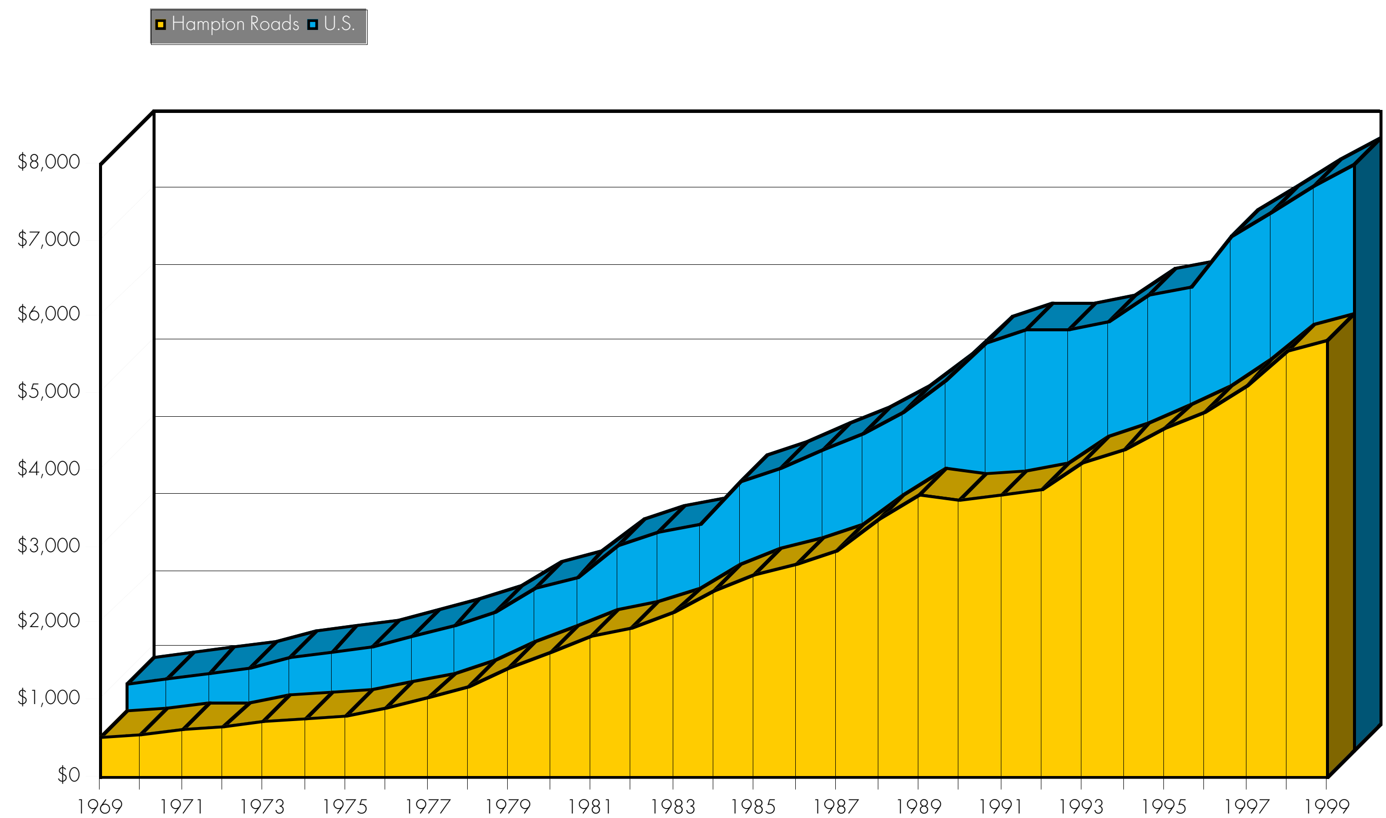
| Selected MSAs | Employees per Business |
|---|---|
| Gloucester County | 54.8 |
| Raleigh-Durham-Chapel Hill, NC | 20.8 |
| Richmond-Petersburg, VA | 19.8 |
| Seattle-Bellevue-Everett, WA | 18.4 |
| Denver, CO | 18.3 |
| Charlotte-Gastonia-Rock Hill, NC-SC | 20.4 |
| Atlanta, GA | 20.4 |
| Baltimore, MD | 22.1 |
| **Norfolk-Virginia Beach-Newport News, VA-NC** | **25.7** |
| U.S. Average | 21.2 |

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

of universities and medical schools. Such businesses often start small, and sometimes struggle, but they frequently are the seed corn of future economic development. Their rapid growth – when they succeed – has led economic growth guru David Birch to label them "gazelles." The evidence suggests Hampton Roads falls short here. Further, perhaps more economic development focus should be placed upon attracting and retaining small businesses to the region. The Hampton Roads Economic Development Authority and the Virginia Peninsula Alliance for Economic Development tend to concentrate their efforts upon attracting medium- to large-sized businesses to the region. Such successes are highly touted when they occur (an illustration being a firm such as John Deere). However, the per capita income data we have introduced here imply that Hampton Roads might be better off if it focused its efforts on attracting and retaining many small firms. The publicity might not be as attention-getting, but the long-term results in economic development might be much better.

Hampton Roads' relative lack of ownership income, whether from business or real estate and financial assets, is evident not just in comparisons to the highest income-earning MSAs but also to those of similar population. As seen in Graph 8,

**GRAPH 8**
**PRICE-ADJUSTED PER CAPITA OWNERSHIP INCOME**
**HAMPTON ROADS AND MSAs WITH 1 TO 2 MILLION PEOPLE**
**1969 - 1999**



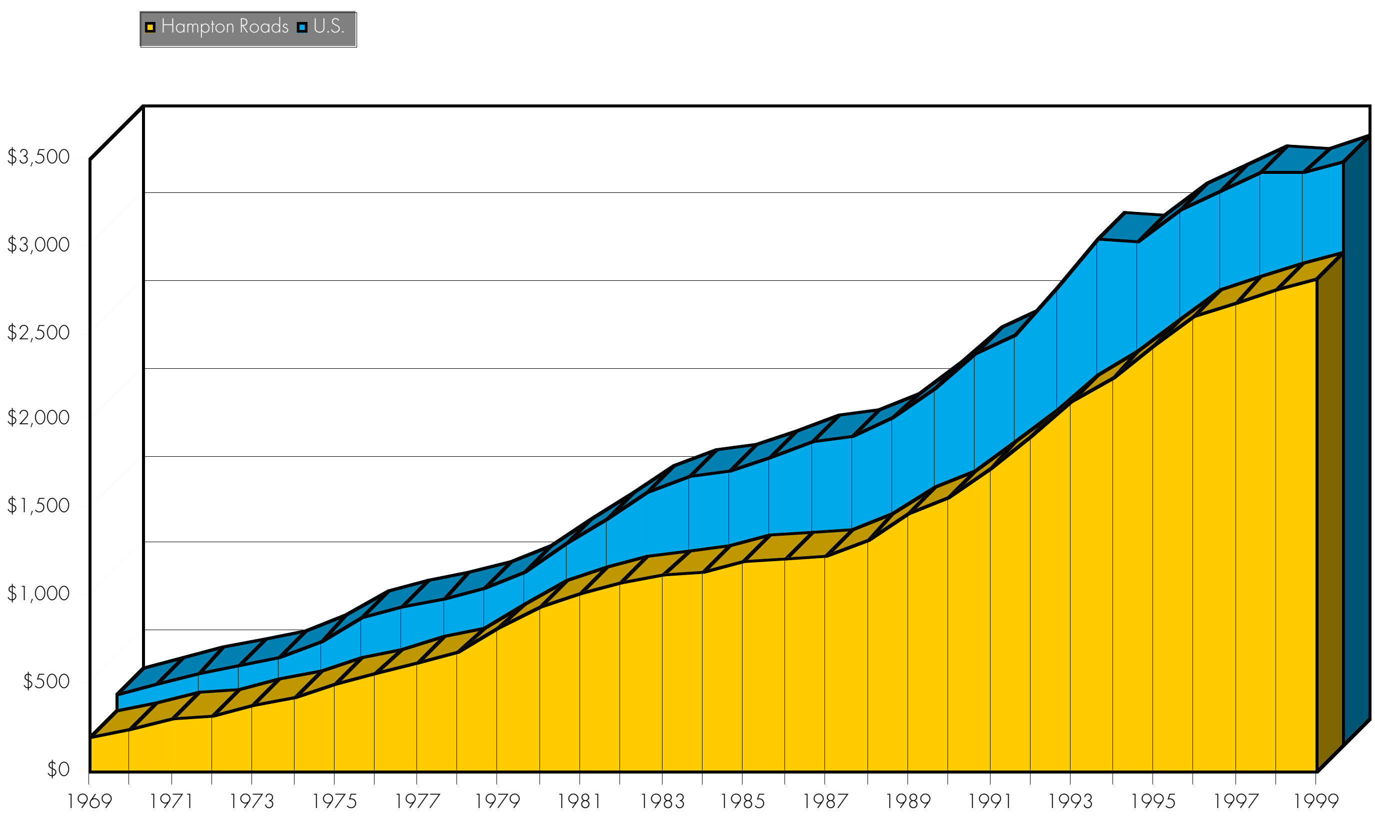

**Sources: U.S. Department of Commerce and Old Dominion University Economic Forecasting Project**

Hampton Roads has, over the past 30 years, been consistently and substantially below its population peers in the accumulation of ownership income. In 1999, Hampton Roads per capita ownership income was 75 percent of the average of its population peers.

## NONLABOR INCOME: TRANSFER PAYMENTS

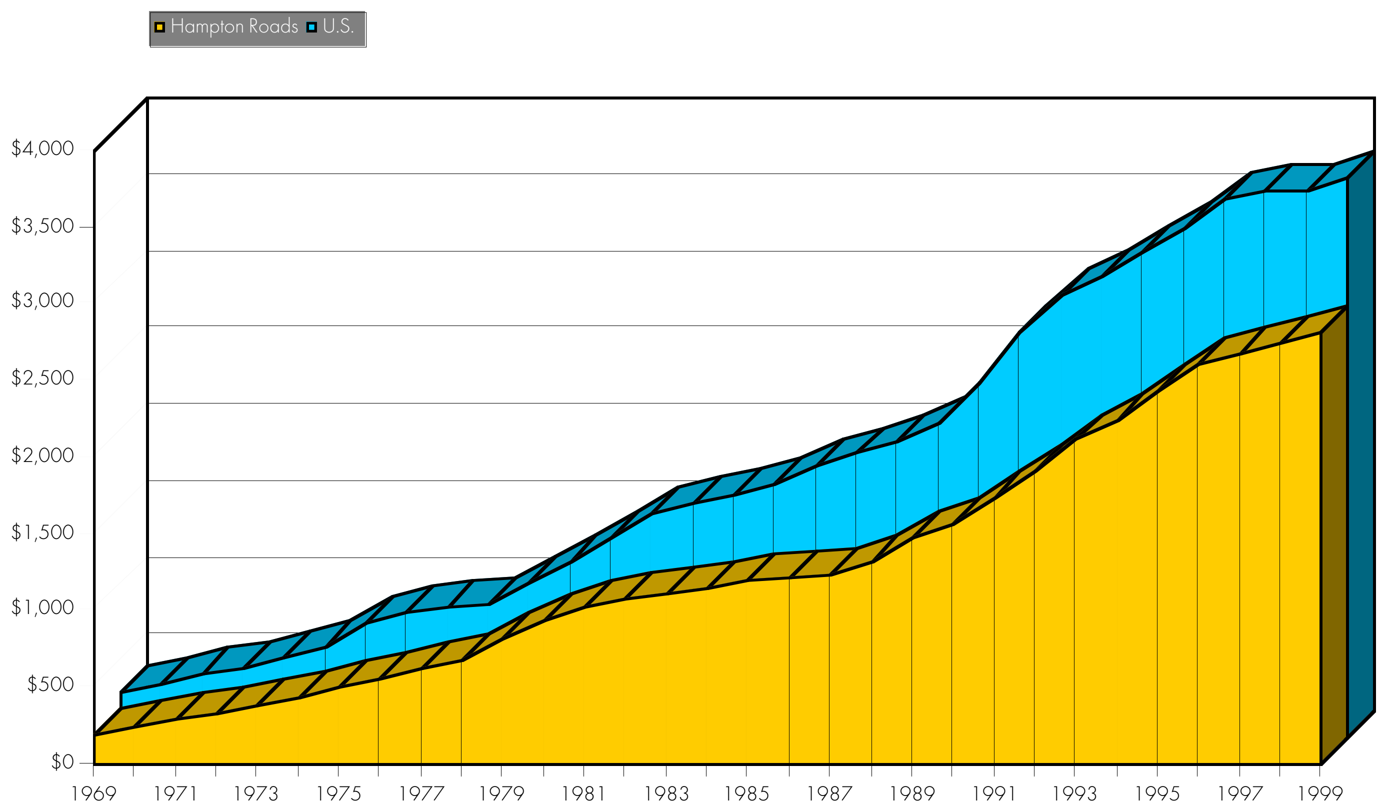
In addition to its lack of ownership income, Hampton Roads receives a smaller share of transfer payments relative to other metropolitan areas. Transfer payments include payments for welfare, unemployment compensation and Social Security. As might be expected, they are paid largely to those households at the lower end of a region's income distribution. Adjusted for prices, in 1999 Hampton Roads received only 84.5 percent per capita of the national average of transfer payments. As shown in Graph 9, the area has, over the past 30 years, consistently received fewer transfer payments per capita than the national average. Further, when compared to its population peers, as Graph 10 demonstrates, Hampton Roads received significantly fewer transfer payments per capita. For example, in 1999 the area received 77 percent of its population peer group average of per capita transfer payments.

**GRAPH 9**
**PRICE-ADJUSTED PER CAPITA TRANSFER PAYMENTS**
**HAMPTON ROADS AND THE U.S.**
**1969 - 1999**




**Sources: U.S. Department of Commerce and Old Dominion University Economic Forecasting Project**

**GRAPH 10**
**PRICE-ADJUSTED PER CAPITA TRANSFER PAYMENTS**
**HAMPTON ROADS AND MSAs WITH 1 TO 2 MILLION PEOPLE**
**1969 - 1999**

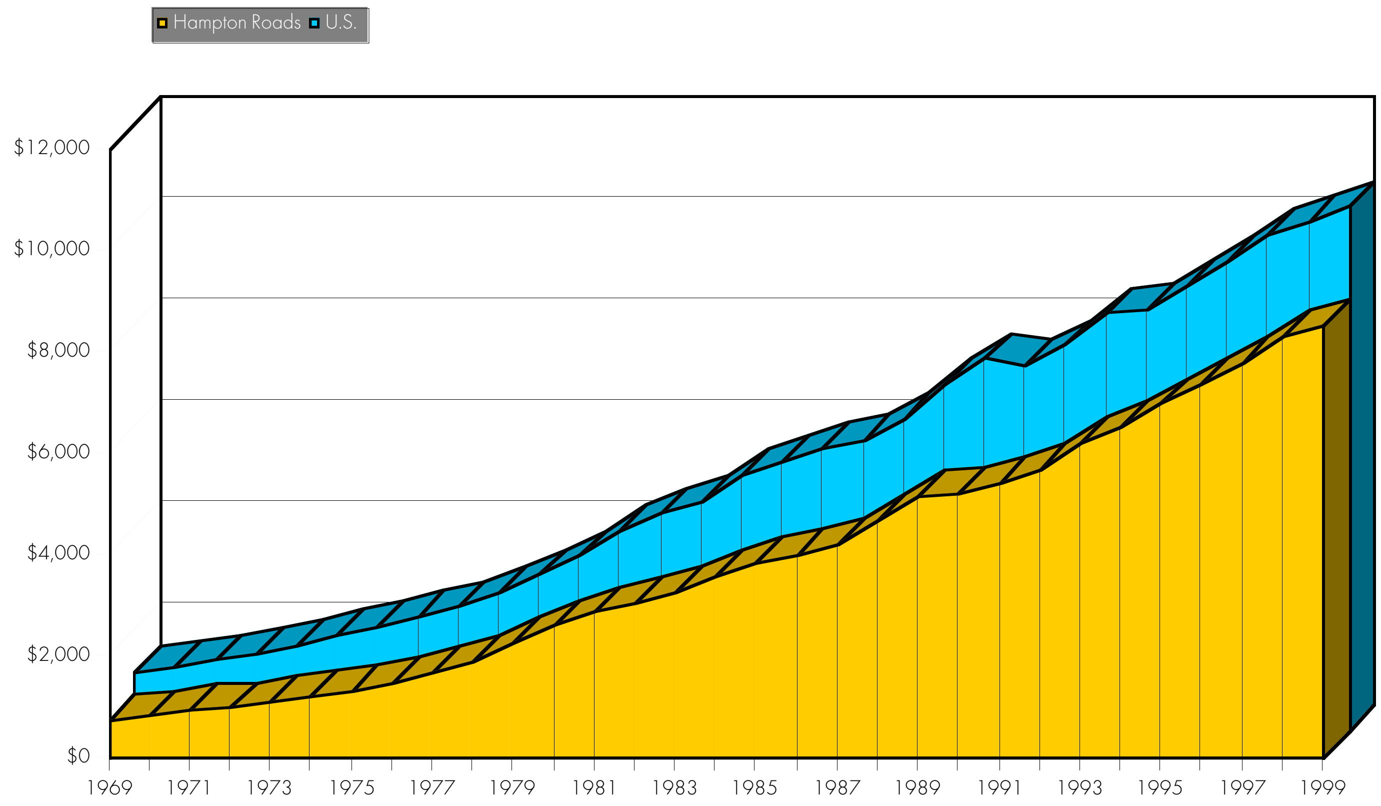



**Sources: U.S. Department of Commerce and Old Dominion University Economic Forecasting Project**

## ADDING UP THE THREE SOURCES OF NONLABOR PER CAPITA INCOME

Graph 11 depicts the sum of all of the nonlabor per capita income in Hampton Roads. It is the total of the income generated by the ownership of assets, business income and transfer payments. Graph 11 compares Hampton Roads to the United States for the year 1999. In 1999, Hampton Roads' real, price-adjusted nonlabor per capita income was only 82.1 percent of that of the rest of the country, or 17.9 percent below the national average. On the other hand, as we already have seen, Hampton Roads' labor income, or the wages, salaries and fringe benefits discussed above, were 9.5 percent above the national average. Thus, there is a 27 percent gap between per capita labor income and nonlabor income in Hampton Roads.

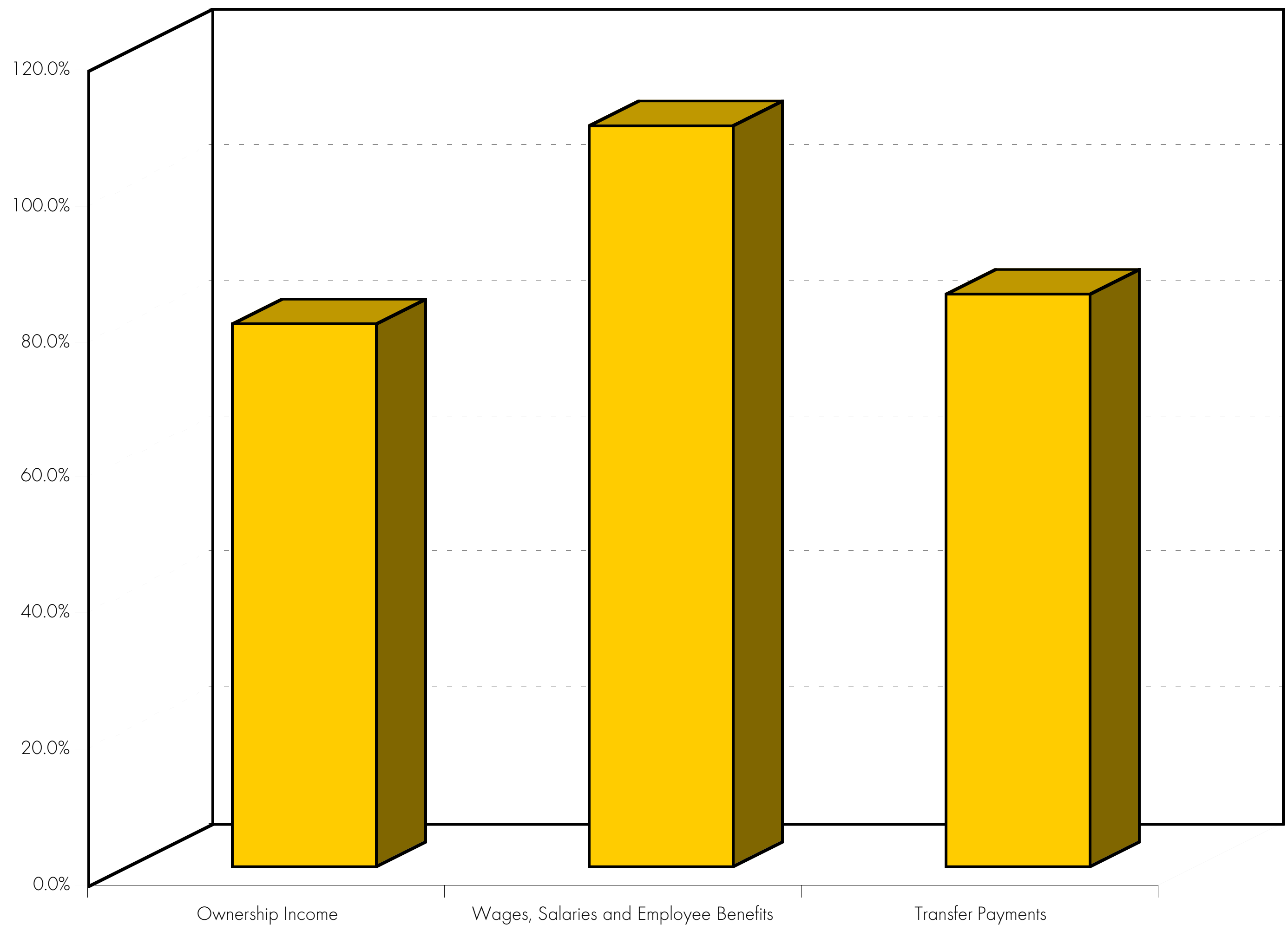
**GRAPH 11**
**PRICE-ADJUSTED PER CAPITA NONLABOR INCOME**
**HAMPTON ROADS AND THE U.S.**
**1969 - 1999**




**Sources: U.S. Department of Commerce and Old Dominion University Economic Forecasting Project**

What does this mean? First, ownership income (which is derived from the ownership of assets and the ownership of businesses) tends to be associated with the upper end of a metropolitan area's income distribution, while transfer payments are associated with the lower end of the distribution. On the other hand, wage earner or labor income is apt to be representative of those in the middle of a region's income distribution. Graph 12 compares these per capita income sources in Hampton Roads. **Compared to other metropolitan areas, Hampton Roads' income distribution is more concentrated in the middle-income categories as opposed to the upper- and lower-income extremes. This means the region has fewer very rich people and fewer very poor people than the typical metropolitan area. Hampton Roads is "exceedingly average" insofar as its distribution of income is concerned. But, there is also another interesting implication in Graph 12. Since wage and salary income goes primarily to middle-income individuals, and Hampton Roads' wage and salary income is more than 109 percent of the national average, this means the standard of living of its middle class is higher than that of the rest of the country.** That is, the region's middle class is larger than most and it is doing rather well, economically speaking. Once again, Hampton Roads tends not to have the extreme differences in incomes one sees in the typical metropolitan area nationally. The region may not have thought about itself in these terms, but Hampton Roads is a more egalitarian area than most others in the country.

**GRAPH 12**
**HAMPTON ROADS LABOR AND NON-LABOR PRICE-ADJUSTED PER CAPITA INCOME AS A PERCENT OF THE U.S.**
**1999**




**Sources: U.S. Department of Commerce and Old Dominion University Economic Forecasting Project**

Hampton Roads' relative lack of ownership income and its lack of wealth (asset) concentration have interesting consequences other than their effects on per capita income. For example, they help explain why the region has a limited number of high-end retail establishments and why it does back flips when a retailer such as Nordstrom's agrees to locate here. (Of course, it also explains why it is so difficult to get them to come in the first place.) These data also help explain why fund-raisers may find the region a bit tougher than wealthier areas to mine for donations. Hampton Roads simply doesn't have the large number of upper-income residents one finds in Richmond and Northern Virginia. This also contributes to diminished political clout for the area, especially in competition with Northern Virginia, as Hampton Roads has fewer large contributions to statewide political candidates and its own lobbyists are likely to be less well funded. Finally, the relative absence of high-income individuals, and a regional lack of privately owned small to medium-sized, and highly profitable, businesses, are important reasons why major league sports teams find the region less attractive. They anticipate they will be unable to sell a sufficient number of expensive reserved-seating areas and sky boxes.

There is a potential good side to all of this, however. Hampton Roads has an appreciably smaller concentration of lower income people, especially when compared to the largest American cities. This reflects both the nature of the jobs available here and an apparently strong regional commitment to the work ethic. This commitment is reflected in the labor force participation characteristics of the region. In 1999, 73.3 percent of all people over the age of 16 in Hampton Roads actively participated in the region's work force. However, in the United States, during the same year, only 68.1 percent were in the labor force. Hence, a significantly larger proportion of Hampton Roads' adult citizens work than is the case in the rest of the country. One can put a positive spin on this and interpret it as a statement about the work ethic of the citizenry. The possible negative spin to these data is that one might simply conclude Hampton Roads has no choice because it takes more jobs for families here to generate the same income as in the rest of the United States.

# Final Words

Opinion surveys of Hampton Roads residents, including the one reported in the *State of the Region, 2000,* consistently indicate Hampton Roads residents believe the region pays below-average wages and salaries. They believe this is why the area's per capita income is below the national average. However, the data presented here demonstrate this is not necessarily true. **The primary reason why per capita income in Hampton Roads trails other regions is that this area doesn't own as many income-producing assets, doesn't earn as much business income and doesn't receive as many transfer payments as individuals living in other regions.**

The data also reveal that Hampton Roads is a rather egalitarian place. It has fewer very high-income individuals and fewer very low-income individuals than the typical metropolitan region in the United States.

Finally, the data presented here once again underline the key role of defense expenditures in the region's economic welfare. True, defense-related expenditures now account for only 28 percent of the region's economy, as opposed to 42 percent a decade ago. Nonetheless, regional prosperity continues to be tied closely to the ups and downs of Department of Defense expenditures. The good news is these expenditures are going up, and this shot in the arm, by itself, probably will move real, price-adjusted per capita income in Hampton Roads above the national average next year.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# MAJOR LEAGUE SPORTS TEAMS

# Major League Sports Teams: A Pipe Dream?

A hot topic of public discussion in recent years has revolved around the possibility of bringing a major league sports team to Hampton Roads. Supporters believe a major league team would provide an economic boost, help unify the area, increase pride in Hampton Roads and confer "big league" status on the region. Detractors argue that the economic evidence in favor of big league sports is bogus and a major league team probably would fracture the area as the region's cities debated where the team would be located, and who would receive the benefits and bear the costs. Those opposed to the idea also downplay the psychological benefits of major league teams and consequently assert that precious public-investment dollars would better be used for other purposes.

**Regrettably, a considerable portion of the evidence concerning the economic impact of major league sports teams has been contributed by parties who have a vested interest in the matter – those who construct stadiums, team owners who receive a lion's share of the benefits and the major leagues themselves. When analyzed rigorously, most of this evidence is fatally flawed and falls by the wayside.** This means the argument for spending public moneys to attract and retain major league sports teams is largely based on pride factors and presumed psychological benefits. It is difficult to measure the value of increased city and regional pride, but as it turns out, that is the primary rationale for spending public funds on major league sports teams. The other reasons wash out on close analysis.

What follows is an evaluation of the economic evidence and a discussion of the psychological and other benefits that accrue from major league teams. The economic arguments occasionally are a bit complex; however, the financial stakes for the region are sufficiently large that even those residents of Hampton Roads without a taste for things economic will find it worthwhile to take the time to understand the rudiments.

## Setting The Stage

For many years, some individuals in Hampton Roads have expressed a desire to bring a major league professional sports franchise to the region. Hampton Roads does not host a team in any of the four major professional sports (baseball, basketball, football and hockey), and many residents and civic leaders have viewed this as a regional shortcoming. The Hampton Roads Partnership, a group of business, political and educational leaders, has focused efforts on attracting a major league baseball (MLB) franchise, though it is not averse to other possibilities. Norfolk Mayor Paul Fraim, while not opposed to MLB, believes a National Basketball Association (NBA) franchise makes the most sense. Based on commonly accepted criteria, can Hampton Roads support either an MLB or NBA team? If so, does the investment in professional sports make sense?

## Hampton Roads Compared To Other Regions

Geographers and economists have developed something called Central Place Theory (CPT), which says the role of cities is that of service centers, and the spacing of cities and their populations determines the range of activities the cities offer. We pay attention to CPT because it does an excellent job explaining the location of sports franchises in the United States.

According to CPT, the "highest-order places" in the North American urban hierarchy belong to those cities with the greatest populations. CPT and population densities arguably explain the location of sports franchises in the United States through the 1980s. Using 1990 census data, geography professors Jonathan Comer (Oklahoma State University) and Tracy Newsome (University of South Florida) reported in 1998:

"New York City represents the only 'first-order place' in the United States. It has the nation's largest catchment, or market area, in terms of population, and it also has the largest number of teams with nine… The six 'second-order' places, Los Angeles, Chicago, San Francisco, Philadelphia, Boston, and Detroit, all host at least one team in each of the four leagues, and the 17 'third-order' places, ranging from Washington, D.C.-Baltimore as the largest, to New Orleans as the smallest, have at least one team and usually two to four."

The top three urban levels arguably have reached the saturation point with regard to professional sports. As a consequence, leagues seeking to expand and teams seeking to relocate have considered "fourth-order" places such as Jacksonville, Raleigh, Charlotte and Nashville. Diffusion of professional sports teams will likely continue. The salient question is this: What place does Hampton Road occupy in the "demographic standings" among those Metropolitan Statistical Areas (MSAs) cited as contenders for an MLB or NBA franchise? Table 1 provides information on populations for the "contending cities," and selected cities that are cited as small markets relative to other cities that host MLB.

**TABLE 1**

**Populations of MSAs Cited as Candidates for MLB Franchises or Selected MLB MSAs Categorized as Small Markets[a]**

| City | Population[b] | U.S. Rank[c] |
|---|---|---|
| Buffalo | 1,151,490 | 49 |
| Charlotte | 1,382,548 | 42 |
| Greensboro | 1,167,651 | 47 |
| Las Vegas | 1,320,563 | 44 |
| Orlando | 1,502,837 | 39 |
| Portland | 1,820,007 | 27 |
| San Bernardino | 3,116,675 | 11 |
| Washington | 4,661,308 | 6 |
| **Norfolk** | **1,550,455** | **35** |
| Kansas City | 1,737,234 | 28 |
| Milwaukee | 1,459,602 | 41 |
| Pittsburgh | 2,345,139 | 19 |
| Seattle | 2,311,563 | 21 |
| Tampa Bay | 2,254,405 | 22 |

**[a] The cities identified in this table as the most suitable for MLB expansion were based on information compiled by Street & Smith. Source: Street & Smith's *SportsBusiness Journal*, February 28-March 5, 2000, p. 59.**

**[b,c] Source: Regional Economic Information System. http://fisher.lib.virginia.edu/reis/. The data are for 1998.**

The information contained in Table 1 indicates that if population was the sole criterion, Hampton Roads currently occupies fourth place in what might be termed the nine-member MLB "Aspirants League" – cities that don't have teams, but want them. Of course, factors other than population come into play. Each of the cities has deficiencies, as does Hampton Roads itself. Washington, D.C., for example, is within a long home run of Baltimore, while Portland is less than 200 miles from Seattle. In addition, Washington, D.C., has two strikes against it since it has failed to support MLB on two previous occasions.

Lurking in the background, however, is the possibility that significant financial disparities between the so-called "large market" and "small market" clubs in MLB may lead to the elimination of teams and the leagues becoming smaller. Thus, rather than moving into a period of net expansion, MLB may be moving into a period of net contraction, where the only way a city might acquire a new team is via the movement of an existing franchise. Further, MLB may not be looking to expand into "small market" regions such as Hampton Roads. It's true that more people reside in Hampton Roads than in Milwaukee, but there is not any other MLB MSA with fewer people than Hampton Roads. The Brewers will not be leaving Milwaukee any time soon since a new stadium, Miller Park, was opened in 2001, and the city also is home to MLB commissioner Bud Selig. MLB teams in Minneapolis, Tampa Bay and Miami seem the most intent on relocating, but the owners' threats to leave each of these communities may only be part of a periodic ritual relating to MBL teams extorting public dollars to finance new stadium construction or to negotiate more lucrative contracts from cities and regions. The bottom line is this: While Hampton Roads looks good when compared to other cities in the "Aspirants League," it would be a "small market" MLB franchise at a time when expansion prospects seem minimal and several "small market" MLB franchises appear to be in trouble.

As noted above, Hampton Roads may also be interested in pursuing an NBA franchise. How does its population compare to other cities that are generally identified as serious contenders for an NBA franchise? In Table 2, populations and population ranks are recorded for those MSAs generally thought to be ripe for NBA expansion or relocation.

**TABLE 2**

**Populations of MSAs Cited as Candidates for NBA Franchises or Selected NBA MSAs Categorized as Small Markets[a]**

| City | Population[b] | U.S. Rank[c] |
|---|---|---|
| Memphis | 1,092,414 | 54 |
| Louisville | 998,858 | 61 |
| Grand Rapids | 1,038,717 | 58 |
| Rochester, N.Y. | 1,080,798 | 55 |
| New Orleans | 1,306,429 | 45 |
| San Diego | 2,766,123 | 14 |
| St. Louis | 2,561,646 | 17 |
| Kansas City | 1,737,234 | 28 |
| **Hampton Roads** | **1,550,455** | **35** |
| Milwaukee | 1,459,602 | 41 |
| Sacramento | 1,554,237 | 34 |
| San Antonio | 1,540,113 | 36 |
| Indianapolis | 1,518,828 | 37 |

**[a] The cities identified in this table as the most suitable for MLB expansion were cited in: Street & Smith's *SportsBusiness Journal*, February 28-March 5, 2000, p. 59.**

**[b,c] Source: Regional Economic Information System. http://fisher.lib.virginia.edu/reis/. The data are for 1998.**

Among those cities or regions that never have had an NBA franchise and are contending for one now (Grand Rapids, Hampton Roads, Louisville, Memphis and Rochester), Hampton Roads leads the population standings. In fact, the population of the Hampton Roads MSA exceeds that of Milwaukee, San Antonio and Indianapolis, and is nearly equal to that of Sacramento, all of which are cities that currently host NBA franchises.

Recent statistics indicate professional sports require not only large populations, but also people with significant discretionary income. In a recent issue of American Demographics, an analyst observed:

> "…Today, baseball is a sport for the well-off. The likelihood of attending a baseball game increases steadily with household income. Twenty-one percent of adults with household incomes of $75,000 (the upper limit for the fourth quintile was $64,300 in 1992) or more attend baseball games making them 72 percent more likely than the average to do so.
>
> "Other major sports also have an upscale audience. Football, basketball and hockey all have above-average attendance rates among those with household incomes of $40,000 or more.

"Baseball's customers are much more upscale than they were ten years ago. People with household incomes of $50,000 or more were more likely in 1995 than in 1985 to attend baseball games."

Table 3 provides information on per capita incomes for cities that are considered strong contenders for an MLB presence.

Hampton Roads does not fare well in the income rankings. In absolute terms, the region possesses per capita income greater only than that of San Bernardino among those cities identified as potential MLB hosts. Hampton Roads trails small-market cities that actually have teams by a minimum of 13.6 percent.

**TABLE 3**

**Per Capita Incomes of MSAs Cited as Candidates for MLB Franchises and Current MLB MSAs Categorized as Small Markets[a]**

| City | Per Capita Income[b] | Per Capita Income as a Percentage of Per Capita Income for the Top 318 MSAs in the United States |
|---|---|---|
| Buffalo | $25,654 | 101.1% |
| Charlotte | $28,784 | 113.4% |
| Greensboro | $27,283 | 107.5% |
| Las Vegas | $27,780 | 109.5% |
| Orlando | $25,555 | 100.7% |
| Portland | $29,430 | 116.0% |
| San Bernardino | $21,300 | 83.9% |
| Washington | $36,043 | 142.0% |
| **Hampton Roads** | **$23,771** | **93.7%** |
| Kansas City | $28,473 | 112.2% |
| Milwaukee | $30,582 | 120.5% |
| Pittsburgh | $28,149 | 110.9% |
| Seattle | $36,854 | 145.2% |
| Tampa Bay | $27,224 | 107.3% |

[a] The cities identified in this table as the most suitable for MLB expansion were cited in: Street & Smith's *SportsBusiness Journal*, February 28-March 5, 2000, p. 59.

[b] Source: Regional Economic Information System. http://fisher.lib.virginia.edu/reis/. The data are for 1998.

What about the NBA? The per capita income evidence here is similarly discouraging. Consider Table 4, which records per capita income data for potential and current small-market cities.

**Hampton Roads' MSA does generate per capita income equivalent to San Antonio, a current NBA host city. However, as a region, Hampton Roads does not compare favorably to all other potential host cities or current small-market clubs in terms of per capita income.**

**TABLE 4**

**Per Capita Incomes of MSAs Cited as Candidates for NBA Franchises and Current NBA MSAs Categorized as Small Markets[a]**

| City | Per Capita Income[b] | Per Capita Income as a Percentage of Per Capita Income for the Top 318 MSAs in the United States |
|---|---|---|
| Memphis | $27,511 | 108.4% |
| Louisville | $27,749 | 109.4% |
| Grand Rapids | $26,694 | 105.2% |
| Rochester, N.Y. | $27,390 | 107.9% |
| New Orleans | $25,225 | 99.4% |
| San Diego | $27,657 | 109.0% |
| St. Louis | $29,089 | 114.6% |
| Kansas City | $28,473 | 112.2% |
| **Hampton Roads** | **$23,771** | **93.7%** |
| Milwaukee | $30,582 | 120.5% |
| Sacramento | $27,232 | 107.3% |
| San Antonio | $23,800 | 93.8% |
| Indianapolis | $29,022 | 114.4% |

[a] The cities identified in this table as the most suitable for MLB expansion were cited in: Street & Smith's *SportsBusiness Journal*, February 28-March 5, 2000, p. 59.

[b] Source: Regional Economic Information System. http://fisher.lib.virginia.edu/reis/. The data are for 1998.

Whether it is MLB or the NBA, then, Hampton Roads is less attractive because of its low regional per capita income. To some extent, this reflects the reality that most Southern states still lag other parts of the country in terms of most measures of economic activity. True, the gap between the South and other sections of the country has gradually been closing, but the opposite has occurred in Hampton Roads for a considerable period of time. Consider this: While population in the United States grew about 13 percent between 1990 and 2000, and more than 14 percent in Virginia, it increased only 7.68 percent in Hampton Roads. Income growth in the 1990s was similarly stagnant in Hampton Roads. Nationally, per capita income grew 4.29 percent in the 1990s, and 4.26 in Virginia, but only 3.69 percent in Hampton Roads. Professional sports leagues emphasize market potential as much as current economic conditions in determining cities suitable for expansion or relocation. Growth trends do not constitute a plus for Hampton Roads. The deceleration of Hampton Roads' population and economic activity is a disadvantage for the region.

Additionally, whether a major league sports franchise makes sense for an area depends in part on how close that area is to other areas that already host major league teams. For example, any consideration of a major league baseball franchise for the Washington, D.C., region must take into account the presence of the Baltimore Orioles 45 miles away. Proximity to other franchises can be analyzed in terms of the driving distance to cities that currently host competitive franchises. Driving distance reflects the impact of nearby franchise competition on both attendance and media attention. This reality is recognized through the extraordinary franchise fees currently paid by league aspirants. How does Hampton Roads rate in terms of proximity to the other professional sports franchises?

**TABLE 5**

**Driving Distances to Nearest Franchises for Urban Areas Cited as Candidates for MLB Franchises**

| City | Driving Distance to Nearest MLB Franchise (City – Miles) | Driving Distance to Nearest Professional Sports Franchise (City – Miles) |
|---|---|---|
| Buffalo | Toronto – 105 | Buffalo (NFL) – 0 |
| Charlotte | Atlanta – 240 | Charlotte (NBA) - 0 |
| Greensboro | Atlanta – 331 | Charlotte (NBA) - 91 |
| Las Vegas | Los Angeles – 272 | Los Angeles (MLB) -272 |
| Orlando | Tampa Bay – 84 | Tampa Bay (MLB) - 84 |
| Portland | Seattle – 174 | Portland (NBA) – 0 |
| San Bernardino | Anaheim – 48 | Anaheim (MLB) - 48 |
| Washington | Baltimore – 45 | Washington (NBA) – 0 |
| **Hampton Roads** | **Baltimore – 242** | **Washington (NBA) – 197** |
| Kansas City | Not applicable | Not applicable |
| Milwaukee | Not applicable | Not applicable |
| Pittsburgh | Not applicable | Not applicable |
| Seattle | Not applicable | Not applicable |
| Tampa Bay | Not applicable | Not applicable |

**Source: Rand McNally Road Atlas, United States and Canada, 1994.**

The information in Table 5 indicates that the Hampton Roads MSA is located farther from any other MLB MSA than all of the cities in the "Aspirants League" except Las Vegas and Greensboro. In considering the driving distance to an MSA that already hosts a franchise in any one of the major sports leagues, only Las Vegas is farther. Thus, a major league sports franchise in Hampton Roads likely would not be seriously disadvantaged by nearby major league sports competition.

**Taking into account all of the information contained in Tables 1 through 5, it is apparent Hampton Roads clearly ranks among the leading contenders for an MLB or NBA franchise.** This assessment echoes the conclusions reached by Street & Smith. Street & Smith devised a city-by-city rating of sports capacity based on total personal income for 172 MSAs and a measure of total personal income necessary to support a franchise in MLB, the NBA, the National Football League (NFL), the National Hockey League (NHL) and Major League Soccer (MLS). On a scale of 0 to 100, where a score of 100 indicated that the MSA was capable of hosting a franchise in the professional sport, Hampton Roads scored 84, 100, 100, 100, and 100, respectively, for MLB, NFL, NBA, NHL and MSL. The score of 84 for MLB ranked third among MSAs without an MLB team, and was exceeded only by Grand Rapids, Mich. (90), and Orlando, Fla. (91). Of course, since all of these MLB scores are less than 100, Street & Smith concludes that no city in North America (with the possible exception of Washington, D.C.) has the circumstances currently necessary to support an MLB team. MLB, then, has expanded just about as far as is economically feasible. Washington, D.C.'s, proximity to Baltimore (45 miles) indicates that Baltimore would have to agree to a franchise in Washington, since such a franchise would encroach on its media market.

Based on conventional criteria, then, Hampton Roads would appear to be a leading contender for a new major league sports franchise of some kind. Unfortunately, the devil is in the details, and a closer examination of the region's situation suggests several significant problems distinctive to the area.

Two issues in particular merit discussion. First, the geography of Hampton Roads is unique among the aspirants for an MLB franchise. Water is ubiquitous in the region and separates most cities and counties from each other. The question of the stadium location takes on particular significance since some proportion of peak stadium traffic would have to use the bridges and tunnels that connect the communities. Second, Hampton Roads includes several large communities that value their separate identities. The communities tend toward political autonomy, and that may prove an impediment to the development of a fan base beyond the community in which the stadium is located. If the communities are considered separately, then no single Hampton Roads community ranks above the 70th position in the U.S. urban hierarchy.

Hampton Roads has a transportation system that by most measures already is stressed and hence would have difficulty supporting a typical major league franchise. In addition, as Hampton Roads develops economically, a greater number of cars will be on the road. Projections for growth in the number of vehicles and miles traveled are sobering. The Hampton Roads Planning District Commission has projected average annual growth rates over the period 1995 to 2015 of .79 percent for population, 1.74 percent for automobiles and 2.59 percent for vehicular miles traveled. These estimates do not include the additional stress that a professional sports team would add, in some instances at peak travel times.

If a smallish, 40,000-seat MLB stadium were built somewhere in Hampton Roads, and if there is one car for every four seats in the ballpark, then 10,000 additional cars would compete for space on the roads before and after games. The Hampton Roads Planning District Commission has estimated that there will be 90,000 person-trips per day across the Hampton Roads Bridge-Tunnel in 2010. Suppose half of the stadium traffic flowed one way or the other. Then, traffic would increase by more than 5 percent across the critical bridges and tunnels connecting the Peninsula and the South Side. **Traffic bottlenecks have proven irksome even for cities that host professional sports teams with a more accommodating geography. If the additional stadium traffic could not be absorbed easily, then congestion on the roads would likely have adverse implications for attendance at games and the viability of a professional sports franchise in the area.**

The Hampton Roads Planning District Commission has estimated it would cost $3.7 billion alone to improve traffic in two corridors critical to major league sports: widening and improving Interstate 64 ($1.3 billion) and constructing a third crossing from Newport News to Norfolk ($2.4 billion). Would these improvements accommodate the additional traffic on game day, and if not, what would it cost to accommodate peak game-day traffic flows? Would the team identify the potential problem and require more convenience for its fans? If so, what would it cost Hampton Roads to provide the infrastructure that professional sports teams commonly demand of their host cities?

Hampton Roads includes six cities with populations in excess of 100,000 (Chesapeake, Hampton, Newport News, Norfolk, Portsmouth and Virginia Beach). Nearly all are separated in some way by the waters of the Chesapeake Bay, or the Elizabeth, James or York rivers. Charitably, one can observe that this has fostered separate identities, making the cities less united and less contiguous than the miles separating them would suggest. The construction of a major sports facility requires cooperation, particularly as it relates to financing. If the area cities and counties already view themselves as autonomous, then it is difficult to envision how they would manage the political divisions that are inherently a part of large public projects. Stadium site selection is contentious even in the most homogeneous communities. Would the good burghers of Chesapeake willingly support a stadium constructed on the Peninsula? Would Virginia Beach's citizens support a stadium located in Norfolk? Alas, past history is not encouraging on this matter.

Public funding for stadium projects is often rationalized by noting that a ballpark serves as a catalyst for economic development. Increased economic activity is arguably most apparent in the neighborhood in which the stadium is located. If citizens from Hampton attend a game at a stadium in Norfolk, then Hampton is, *de facto,* taxed twice – first through increased taxes to fund the project, and second through entertainment spending which is diverted from Hampton to Norfolk. Richard F. Kiefner, an area businessman and noted sports fan, opined:

> "No one city of this metro area could build a facility by itself, and this area historically has not been able to act rationally. We have 15 municipalities and approximately 113 city council people, and each has an agenda. We can't get a cohesive, agreeable consensus, because what someone might perceive as excellent for Norfolk doesn't help Suffolk. If something happens in Hampton, a politician in Virginia Beach says, 'So what? Doesn't affect me at all.' "

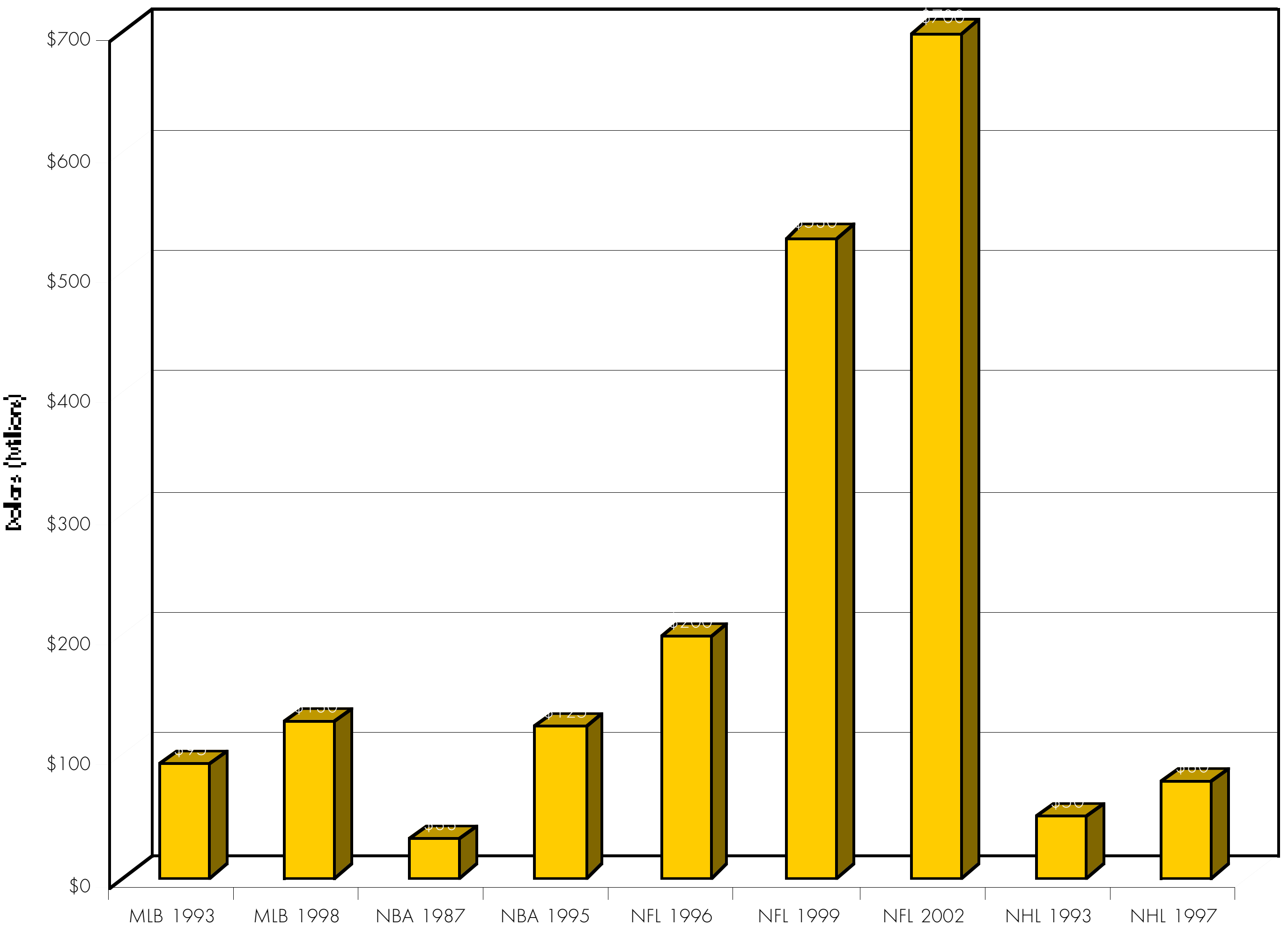
# The Major Costs Of A Major League Sports Franchise

Hosting a professional sports franchise requires significant financial resources, both to acquire a team and to sustain it. The primary costs include: (1) the franchise fee; (2) the playing facility; (3) start-up costs; (4) ancillary facility infrastructure; and (5) opportunity costs (sacrificed public alternatives). The analysis in this section focuses on the acquisition costs for an MLB franchise, though other major leagues are considered.

## FRANCHISE FEES

Franchise fees have increased substantially since the latter 1980s. Several circumstances account for this trend: (1) significant appreciation in equity markets (even taking into account recent stock market reverses); (2) the continuation of generous government subsidies for sports stadiums; and (3) large television contracts for the NFL and NBA. Graph 1 provides information on franchise fees for the most recent expansions in the four major professional sports leagues.

**GRAPH 1**
**FRANCHISE FEES ASSESSED NEW TEAMS FOR THE MOST RECENT EXPANSIONS IN THE FOUR MAJOR PROFESSIONAL SPORTS LEAGUES IN THE UNITED STATES**




**Sources: Various team and league publications for selected years.**

The Arizona Diamondbacks and the Tampa Bay Devil Rays paid a $130 million franchise fee to begin play in MLB in 1998. By way of contrast, the Florida Marlins and Colorado Rockies paid only $95 million in 1993. Using these two data points, franchise fees in MLB are increasing by 42 percent every five years. If this trend continues, and MLB expands once again in 2005, the franchise fee would be approximately 59 percent greater than in 1998, or $207 million.

NBA franchise fees have increased even more rapidly than in MLB. The Vancouver Grizzlies and Toronto Raptors paid a $125 million franchise fee when they entered the NBA in 1995. The NBA approved expansion by four teams in 1987 (two teams began play during the 1989-90 season and the other two during the 1990-91 season), and each paid a franchise fee of only $32.5 million. Thus, over the period 1987 to 1995, franchise fees in the NBA increased 300 percent. The NBA has struggled somewhat since the retirement of Michael Jordan, and another three-fold increase in franchise fees for a team to begin play in 2003 seems unlikely. A more realistic estimate of an NBA fee for the next expansion approximates $250 million.

The NFL has exhibited significant increases in franchise fees in the 1990s. In 1996, Jacksonville and Carolina each paid $167 million outright, but $200 million if their reduced share of television revenue is included. In 1999, Cleveland paid $530 million, and Bob McNair will ante up $700 million for the new Houston franchise that will begin play in 2002.

The appreciation in franchise values in the NHL, although less spectacular, is nonetheless substantial. The franchise fee for NHL expansion in 1993 was $50 million. To participate in NHL play for the 1998-99, 1999-2000, and 2000-01 seasons, Nashville, Atlanta, Minneapolis-St. Paul and Columbus each paid $80 million. This represents a more modest 60 percent increase.

The actual amount Hampton Roads would pay for a franchise in any of these leagues would depend on when the team commenced play, the number of other cities that bid for the same franchise, the health of the economy and market conditions in the professional sports industry, particularly as they related to television ratings at the time of negotiations. **Based on the history of franchise fees and current market conditions, reasonable estimates are that in a future year, say 2005, the owners of a Hampton Roads team would pay in the vicinity of $200 million to $250 million for either an NBA or MLB franchise, $700 million to $800 million for an NFL franchise and a "modest" $100 million for an NHL franchise.**

## START-UP COSTS

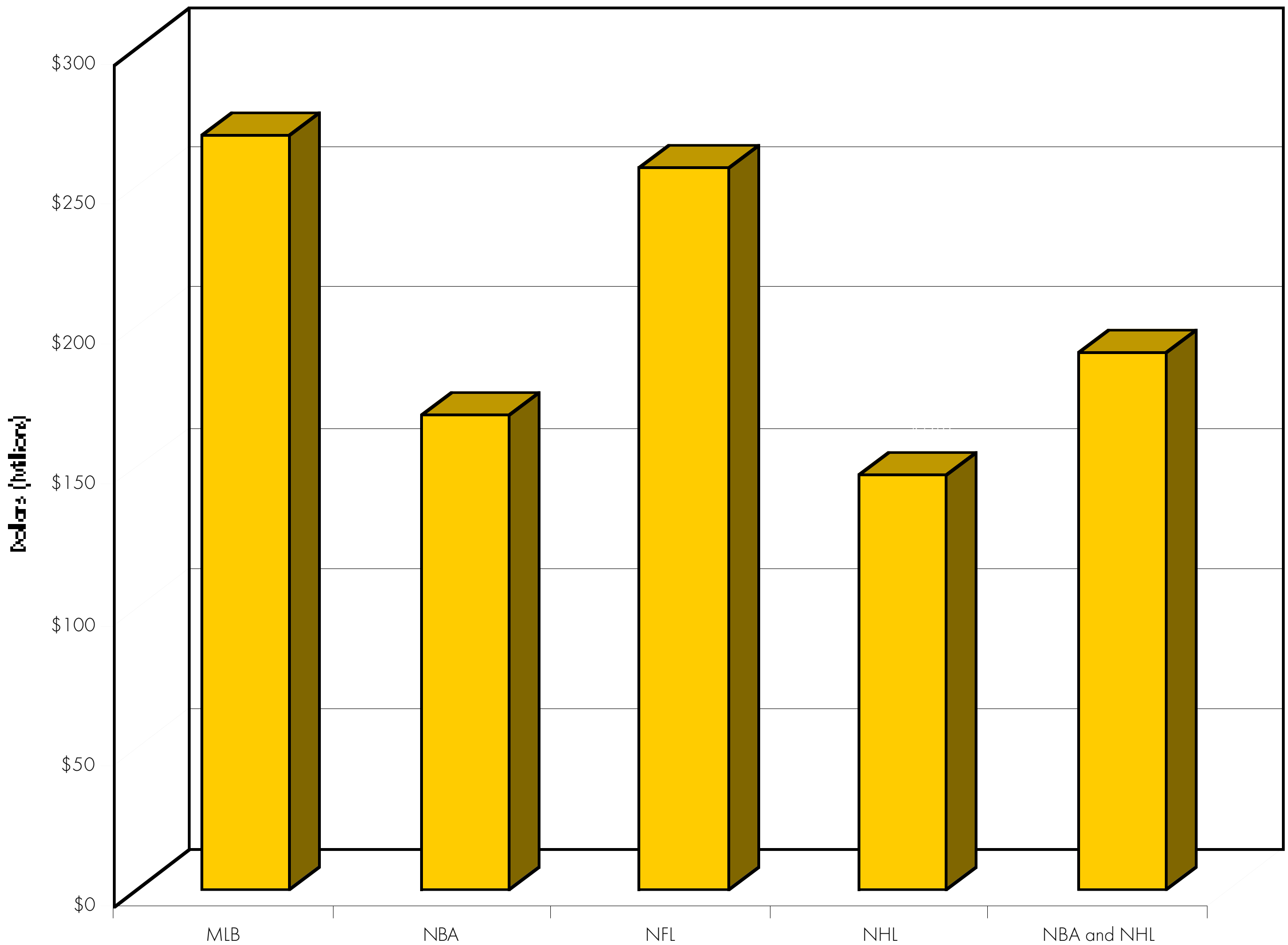
**But, the costs don't stop there. Start-up costs would likely equal another $60 million to $100 million, with the lower figure applicable to basketball.** Baseball requires a farm system and spring training facilities in either Florida or Arizona. Basketball does not require a farm system since players are drafted out of college or high school, but does expend large sums of money on scouting and promotion. Other start-up costs include personnel, offices and advertising.

It appears, then, that the cost of acquiring a major league team might be expected to approximate the sum of the franchise fee and start-up costs for an expansion team. However, acquiring existing teams nearly always costs substantially more. The primary reason is the bidding process that typically surrounds teams that are thinking about moving. Community pride tends to generate a type of "auction fever," and cities currently hosting a franchise ante up to keep that franchise, whether or not that action makes economic sense. Teams thinking about moving always entertain offers from other communities, though sometimes such shopping is part of a deliberate strategy to wring financial concessions from their current hosts, particularly as it relates to new stadium construction. Even George Steinbrenner and the New York Yankees have not been above threatening to move their historic franchise if New York City does not provide it with significant concessions.

## COST OF CONSTRUCTING A STADIUM

It is an understatement to observe that new stadiums cost lots of money. Recent history indicates that baseball parks are the most expensive major league sports facilities to build. Graph 2 provides information on average facility construction costs for the four major professional sports.

**GRAPH 2**
**AVERAGE FACILITIES CONSTRUCTION COSTS FOR THE FOUR MAJOR PROFESSIONAL SPORTS FROM 1990 TO 1997**




**Source: Forbes Magazine**

Between 1990 and 1997, new MLB stadiums cost an average of $269 million. Comparatively speaking, NBA arenas were a bargain. The average cost incurred in constructing an arena for NBA basketball was $100 million less. Evidence from the 1990s also indicates that taxpayers shouldered 77 and 31 percent of the construction costs, respectively, for new MLB and NBA facilities. If Hampton Roads had adopted an MLB team four years ago and if the averages identified here applied, taxpayers would have spent approximately $207 million to build a baseball stadium in 1997. In 2005, a $300 million to $400 million figure could be anticipated.

Even given the rosiest scenario, it is unlikely MLB could play in Hampton Roads prior to 2005, and by then a new stadium would be even more expensive. Both Milwaukee and Seattle built retractable dome stadiums in the past two years, and Safeco

Field in Seattle (2000) and Miller Park in Milwaukee (2001) cost $517.6 million and $399.6 million, respectively. **A ballpark without a dome, but with the amenities demanded by teams and corporate sponsors that pay for naming rights, would cost in the neighborhood of $300 million. This translates to a $231 million contribution in public funds, if one uses the 77 percent average public contribution cited above.** The financial dynamics are such in professional sports that teams insist on state-of-the-art facilities because of their impact on revenue generation.

Before Hampton Roads would be awarded an expansion franchise or an established team that decided to relocate, it would have to convince MLB that it would meet the rather high standards MLB has set with regard to revenue generation. It is highly unlikely that Hampton Roads would be approved for inclusion in MLB with a plan for a "vanilla" stadium that could still be built for less than $200 million. Bud Selig, MLB's commissioner, is an advocate of comprehensive revenue sharing arrangements, and it is highly unlikely that MLB would award franchises to teams that could not pull their financial weight. Consolidation (elimination of teams) in MLB is being considered at this point precisely because some teams are thought of as "poor cousins" rather than equal partners. Another concern is some teams that receive league subsidies would not spend these funds in a manner the league would prefer – that is, acquiring better players – but would pocket the money.

Facility costs necessary for joining the NBA likely would be more modest. New arenas built in Atlanta (1999) and Miami (2000) cost $213.5 million and $212 million, respectively. **If the Atlanta and Miami facilities are representative of regional construction costs, an arena in Hampton Roads suitable for the NBA in 2005 would cost approximately $250 million. If the public sector in Hampton Roads funded 31 percent of the stadium construction costs, then the community would pay $77.5 million for the facility.** (This figure is extremely conservative. The 31 percent public funding average in the 1990s has been skewed by the Fleet Center in Boston, which was built with no public funding. More representative of the public contribution is the Phillips Center in Atlanta in 1999. That facility was 81 percent publicly financed. For cities seeking an NBA franchise, the public would likely shoulder a larger portion of the construction costs as part of the deal to secure the franchise.)

Another potential cost advantage for an NBA arena is that such a facility could accommodate hockey without compromising the sight lines for either sport. The sight lines in baseball, on the other hand, are unique – a baseball stadium cannot accommodate another spectator sport without compromising viewing. In fact, MLB has stated that no franchise will be awarded to a city that does not have a "baseball only" stadium. The adoption of an NBA team, therefore, offers potential economies of scale, where the facility is concerned, that is not currently possible in hosting an MLB team. This potential, however, has not always been exploited. Different ownership groups in the NBA and NHL in the same city have been successful in convincing their host community to provide separate venues. Exclusive facilities, teams contend, allow them to generate revenues sufficient to sign the players necessary to compete. It should be noted, however, that if all teams build state-of-the-art venues, then the financial advantage a new stadium provides is eliminated. What is true for an individual team is not true for the sum of teams.

## RELATED FACILITY AND LOCATION COSTS

Many other things are necessary to make a stadium operational from the team's point of view. In particular, roadways and parking lots have to be modified or constructed, and the site has to be prepared. Site preparation can run into the tens of millions of dollars if there are environmental problems such as contaminated soil or water at or near the stadium's surface. In addition, host communities often provide land at or below market value, or offer tax abatement, as part of a package to attract the team. Based upon the experience of other cities, it is reasonable to assume the public "other infrastructure" subsidy would equal $100 million for an MLB franchise and $50 million for an NBA team. (This estimate is, again, conservative, given the special infrastructure needs imposed by the ubiquity of water in Hampton Roads. Phillips Arena in Atlanta incurred $62 million in infrastructure costs, which will be financed by a car rental tax.)

## OPPORTUNITY COSTS: SACRIFICED REGIONAL ALTERNATIVES

Opportunity cost boils down to this question. What is the best alternative use of the public funds that might be spent on a major league team? That is, what else could the region do with such funds and how valuable is the best "other" choice? If the rate of return on the operation of the professional sports team exceeds that of the next best alternative, then the public subsidy necessary to host a team does represent the best use of those funds. If not, the investment should not be made.

The rate of return on an investment in professional sports depends substantially on the economic growth induced by the teams. The increase in economic activity a community reasonably can expect from a major league team is considered in the next part of this report. In any case, in principle, one must compare the productivity of an investment in a major league sports team with investments a city or region might make in items ranging from K-12 schools, university research parks, medical facilities, parks and recreation, increased police and law enforcement, and so forth.

## SUMMARIZING THE COSTS

A summary of the costs both the private and public sectors in Hampton Roads reasonably could be expected to incur in attracting either an NBA or MLB team is represented in Table 6. Costs are based on the preceding discussion.

**TABLE 6**

**REASONABLE ESTIMATES OF THE PUBLIC SUBSIDIES NECESSARY TO ATTRACT MLB OR NBA TEAMS TO HAMPTON ROADS**

| Statistic/Sector | Total ($ millions) | Public ($ millions) | Private ($ millions) |
|---|---|---|---|
| Franchise Fee – MLB | $200 | $0 | $200 |
| Stadium Construction – MLB | $300 | $230 | $70 |
| "Other Infrastructure" – MLB | $100 | $100 | $0 |
| Start-up Costs – MLB | $100 | $0 | $100 |
| **Total for MLB** | **$700** | **$330** | **$370** |
| Franchise Fee – NBA | $200 | $0 | $200 |
| Stadium Construction – NBA | $250 | $77.5 | $172.5 |
| | | ($202.5)[a] | ($47.5)[a] |
| "Other Infrastructure" – NBA | $60 | $60 | $0 |
| Start-up Costs – NBA | $50 | $0 | $50 |
| **Total for NBA** | **$510** | **$133.5** | **$388** |
| | | ($262.5)[a] | ($297.5)[a] |

**Sources: (1) 2000 National Sports Law Institute of Marquette University Law School, Appendix 2 to Sports Facility Reports, Volume 1, Number 1. (2) Forbes Magazine**

**[a] This figure assumes the public sector will assume 81 percent of the stadium construction costs, as was the case in the construction of Phillips Arena in Atlanta in 1999.**

**As Table 6 indicates, Hampton Roads' best bet is to attract an NBA team. A low estimate of the public contribution necessary to attract an NBA franchise is $133 million, though perhaps a more realistic estimate is almost twice that amount. By contrast, an MLB team is likely to require a much greater infusion of public funds – approximately $330 million. Such a consideration may be moot, since Hampton Roads does not appear to generate the per capita income necessary to support an MLB team anyway.** This means Hampton Roads is a risky location for MLB. Tampa Bay appears to have discovered that harsh reality. A May 6, 2001, article in the Chicago Tribune assessed the situation in Tampa Bay:

> "Ain't no sunshine: Baseball is on life support in Florida. Both the Florida Marlins and Tampa Bay Devil Rays are stuck with stadiums that may be their undoing.
>
> "Owner John Henry brought much-needed enthusiasm when he bought the Marlins from Wayne Huizenga in 1999, but he has been frustrated in his efforts to get a stadium. The latest session of the Florida Legislature adjourned Friday without a financing bill even reaching the floor. It was blocked by Senate President John McKay, perhaps as a protest against all those tacky flags that were attached to car antennas during the 1997 World Series.
>
> "Then there are the Devil Rays, who are last in the AL in attendance. They play at Tropicana Field, a quirky dome that is near downtown St. Petersburg and far from the population center in the area.

" 'We overestimated the strength of the market, frankly,' said Bill Bunker, who was executive director of the Pinellas Sports Authority when it sought a franchise. 'We thought there were a lot more baseball fans in this market than there are and we may have overestimated the financial abilities of the market.' "

## COMMENTS ON MARKET SIZE AND FRANCHISE VIABILITY

Market size determines gate and local broadcast revenues in major league sports. MLB offers a good example of how financial inequities may put small-market clubs at some peril. There is a positive correlation between team payrolls and team winning percentage. Between 1994 and 2000, each additional $2 million in team payroll equated to approximately one additional regular season win in MLB. **Simply put, MLB shares less revenue among teams than does the NBA or NFL. Therefore, small-market teams have a much tougher time surviving in MLB. This is another strike against MLB insofar as Hampton Roads is concerned.**

High payrolls are even more strongly related to post-season success. Since 1995, when MLB switched to its current playoff format, teams in the highest quartile of payrolls have appeared in the playoffs 30 times, compared with 15 appearances by teams in the second quartile, one appearance by a team in the third quartile and two appearances by teams in the bottom quartile. In terms of success in the playoffs, the gulf between the "haves" and the "have-nots" is even wider. Teams in the top quartile have won 168 of the 190 playoff games played since 1995, with second-quartile teams winning another 20 of the 190 games. Of course, a high payroll is no guarantee of success: Witness such big-budget failures as the 2000 L.A. Dodgers, which failed to make the playoffs despite having the second highest payroll in baseball, or the 1998 Baltimore Orioles, which failed to even break .500 with MLB's highest payroll.

Hampton Roads possesses a small-market demographic profile when compared to communities that currently host teams in MLB or the NBA. Small-market franchises are financially vulnerable from the point of view of both the team and the community for at least five reasons. First, teams flirting with the notion of relocating usually would be silly not to seek compensation for the additional risk they would assume by entering a small market. This forces small markets to provide larger public subsidies for constructing stadiums and/or more generous lease arrangements. It is highly unlikely that Nashville would have attracted NFL interest in the absence of it offering an irresistible financial incentive.

Second, after the novelty effect of a new team erodes, team revenues tend to track competitiveness on the field. Small-market clubs (consider Montreal in baseball) do not have the financial wherewithal to compete with the larger markets for playing talent in this free-agency era, and that generally translates into reduced competitiveness and a further erosion of revenues as fan interest wanes.

Third, owners tend to emulate each other and adopt the financial strategies of the most successful clubs. The spate of new stadium construction in the 1990s corroborates this behavior. The risk for a city or region is they will be asked to fund the renovation or construction of new playing facilities, whether or not they are needed. Forty-six facilities were constructed or renovated in the four major professional sports leagues in North America between 1990 and 1998, and as of the end of 1999, an additional 49 facilities were either under construction or in the planning stages. **In other words, more than 80 percent of the venues for the four major professional sports leagues have been renovated or replaced since 1990. The shelf life of stadiums has been substantially reduced.** The Miami Heat and the Charlotte Hornets of the NBA, for example, have clamored for new arenas despite the fact their old facilities are only slightly more than 10 years old and have construction bonds still unpaid. Miami (Dade County) has built a new stadium for the Heat, while the Hornets are threatening to leave Charlotte if the city does not agree to replace the second largest arena in the NBA in terms of seating capacity.

Fourth, as pressure for greater revenue sharing mounts, the league will be less tolerant of clubs that will not or cannot pull their financial weight. MLB commissioner Bud Selig has expressed concern publicly that some teams appear to have been permanently consigned to also-ran status. Coincidentally, as MLB discusses "contraction," or the elimination of financially troubled franchises, all teams considered for dissolution are in cities that have ballparks that are considered economically obsolete. This generates additional pressure for new publicly financed facilities. The cities include Montreal, Miami, Tampa Bay and Minneapolis-St. Paul. When questioned about league contraction, Selig said:

> "The more I've analyzed the problems, the more I refuse to take any option off the table. Do I consider contraction a serious and viable option? I do. The economic problems are so pervasive that they are going to need a myriad of solutions."

Fifth, there is evidence some of the teams in the four major professional sports leagues are experiencing financial problems. Of course, many of the claims of financial distress issued by league offices are suspect because they represent thinly veiled attempts to convince cities that have balked at financing new ballparks to get on with it or suffer the consequences. MLB's blue ribbon panel on baseball economics, however, concluded that since 1994 MLB has lost collectively $1.4 billion, and only three MLB teams (New York Yankees, Cleveland Indians and Colorado Rockies) were profitable over that time. While one might quibble with these data, at least one MLB team may be in imminent danger. There have been persistent reports that the Tampa Bay Devil Rays may not be able to make their payroll.

The NBA is also experiencing some financial difficulty. Television ratings for NBA broadcasts on both NBC and TNT for the 2000-01 season were down 31 percent from peaks reached in 1997-98. Over the same period, attendance at regular-season games fell by 4.9 percent.

Hampton Roads and other communities seeking a professional sports presence must be mindful of the realities of the sports marketplace. Clearly, there are financial challenges and stresses that accompany inclusion in the big leagues, particularly for "small markets."

Those who support the use of public subsidies to attract major league sports have argued the public benefits induced by a major league presence exceed the public costs. However, while such individuals typically have ignored some costs, they have in particular tended to exaggerate benefits. The next section analyzes the public benefits identified by sports boosters.

# The Rationale For Public Subsidies For Professional Sports Teams

## ARE PROFESSIONAL SPORTS TEAMS "PUBLIC GOODS"?

Cities and regions subsidize professional sports most visibly through funding playing facilities, though less visibly by means of police and security provision, and enduring crowding, congestion, trash and rowdy behavior, and so forth. Proponents of subsidies for sports infrastructure argue that such subsidies are a fiscally responsible strategy because they properly should be viewed as public investments rather than expenses. Thus, they contend, Hampton Roads should view an expenditure on a major league baseball park in the same fashion as investments in things such as the port, schools, airports and the like. Such items, it is argued, generate benefits in excess of their costs and hence represent good investments of public funds.

This provokes an obvious question. If stadiums are such good investments, then why don't private entrepreneurs put up the necessary funds in the same fashion they do for suburban developments or even dot.coms? The reason, say supporters, is private investors cannot capture all of the benefits generated by large-ticket items such as stadiums. The problem, they say, is similar to that for many other "public" goods such as public safety and education. While the party who pays for an item such as a stadium receives some of the benefits, numerous other individuals (hotel and motel owners, and restaurateurs are examples) also enjoy some of the benefits even though they did not pay for the stadium.

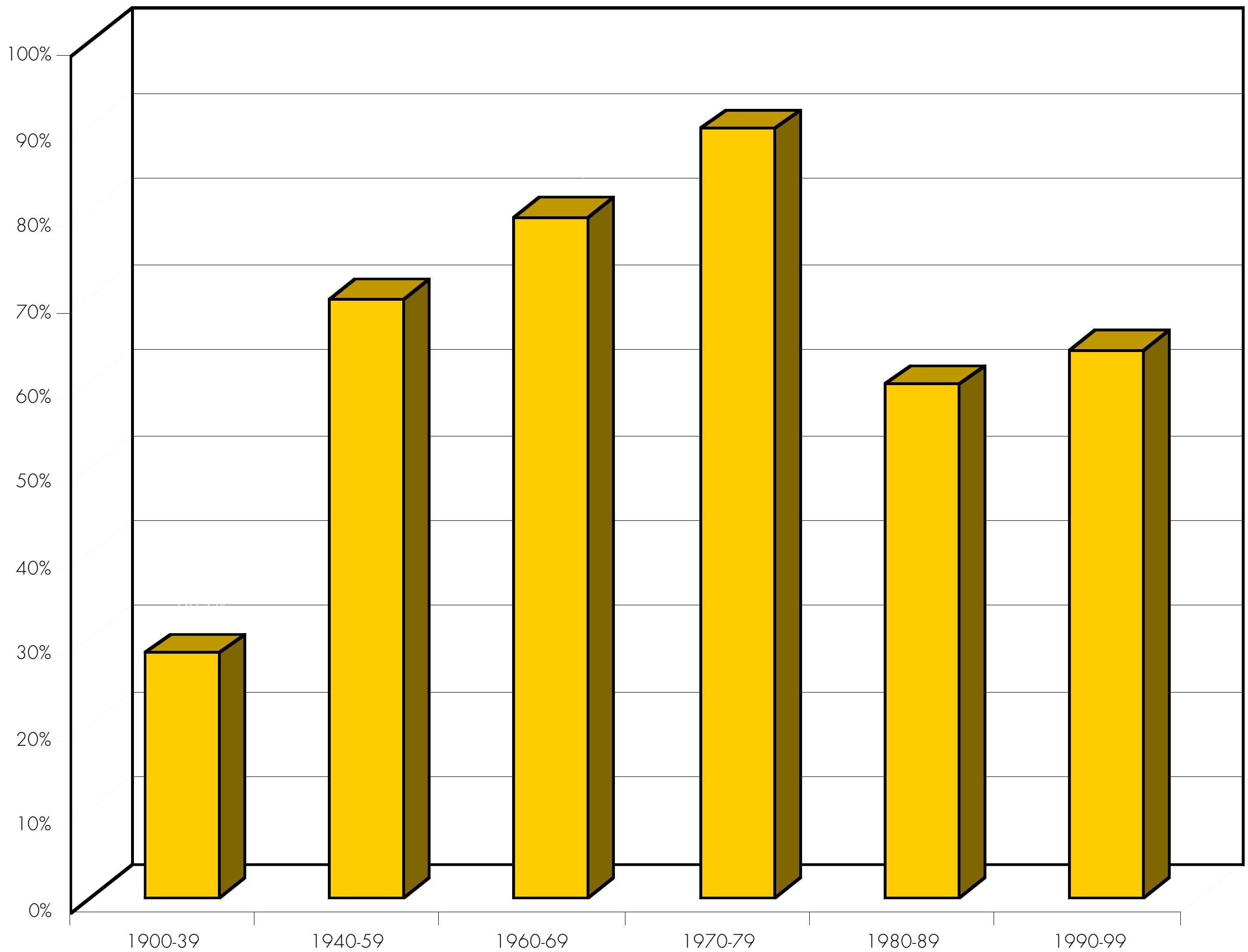
Thus, supporters of public subsidies for stadiums contend there are benefits "external" to the stadium's primary output that go to those who haven't made any investment. In the absence of public financial support, private entrepreneurs may decline to invest their funds because some of the benefits frequently go to other individuals who have not invested. Sufficient benefits do exist to justify major league teams, proponents argue, but these benefits are diffused over so many different individuals and groups that no single person will find it worthwhile to make the huge investment required. For example, every resident of the Cincinnati metropolitan area, they believe, derives some identification and prestige benefits from the Reds and the Bengals because the presence of these teams defines Cincinnati as "a major league city." Civic and regional pride have values, they contend, and this is among the reasons why public investment in major league stadiums is merited.

All of this is based upon the notion that professional sports are properly construed as "public" rather than private goods. National defense expenditures are determined publicly since all citizens benefit from the same arsenal of military goods, whether or not they pay taxes. The benefits of national defense go to all individuals, whether or not they know it or even want the protection. The optimal provision of pizzas, on the other hand, is determined privately since once a pizza is purchased and eaten, the benefits derived from that pizza go only to the person who purchased and ate it. Are stadiums really "public" goods, or are they "private" goods like pizzas? And, If they are, indeed, public goods, what is the balance between costs and benefits? **Questions relating to the external benefits professional sports impart and the extent to which they are public in character are at the heart of the debate about professional sports subsidies.** These issues are analyzed in succeeding sections.

## WHO PAYS FOR STADIUM CONSTRUCTION?

The increase in the fraction of stadium construction costs borne by the teams on average in the 1990s creates the misleading impression that overall, private investors are shouldering an increasing share of the financial responsibility for professional sports. Encouraging this view are the data depicted in Graph 3, which shows the fraction of infrastructure costs borne by the private and public sectors for the four major professional sports leagues.

**GRAPH 3**
**THE FRACTION OF STATIUM CONSTRUCTION COSTS BORNE BY THE PUBLIC SECTOR, 1900-1996**




**Source: David Swindell, "Public Financing of Sports Stadiums: How Cincinnati Compares," mimeographed by The Buckeye Center for Public Policy Solutions, January 30, 1996**

It is true the public sector no longer provides as large a proportion of stadium construction costs as it did in the 1970s and 1980s. The reality, however, is that the *absolute* (not proportionate) dollars cities have committed to stadium construction terms have never been higher than over the period 1996-2000. This is true even when price inflation is taken into account.

One reason construction costs have increased so rapidly is today's stadiums are much more plush than they were even 20 years ago. In MLB, new stadiums generally have fewer seats but generate more revenue because of the growing emphasis on luxury seating and other amenities. However, this is only half the story because it does not take into account the other side of the picture – public-sector sharing of revenues. Most cities or regions that construct stadiums also share in the revenues generated by the stadiums and the teams that play in them.

## DO TEAMS SHARE REVENUES WITH CITIES AND REGIONS?

Times have changed in this arena. Prior to the 1990s, cities and teams shared significant proportions of the revenues generated by stadiums and teams. Such is not the case today. **Sports stadium leases have evolved such that teams take virtually all of the significant revenue streams generated by a stadium, except for those they earmark for financing construction of the stadium itself. Clearly, teams expect a new stadium will improve their financial condition, otherwise they would not clamor for them. As a consequence, Hampton Roads should not expect to share revenues with teams. It is not the standard in professional sports today.** Communities might expect teams to earmark certain revenue streams; for example, the funds generated from naming rights might be earmarked to pay for the construction of a stadium. However, the *quid pro quo* will be complete appropriation of all the other revenues by the team. Confidential NFL data made available to the public as a result of the lawsuit Oakland Raiders owner Al Davis filed against the NFL revealed:

> "The average per-team operating profit, arrived at by deducting expenses from revenue, jumped to $11.6 million in 1999, up 68 percent from 1994. In 1999, the team generated an average of $45.3 million in local revenue, meaning primarily the dollars that can be wrung out of a stadium, an increase of 80 percent from 1994."

Hence, even while cities and regions have begun to pay a lower proportion of the construction costs of new stadiums, increasingly they are being pushed out of a significant share of the revenue generated by these stadiums and the teams that play in them. Most important, one of the largest sources of economic gain to a team is the increased value (price) of its franchise over time. As noted above, the value of franchises has climbed dramatically in recent years. Today, the average value of a major league baseball franchise is at least $200 million. If the construction of a new stadium is one of the reasons why a team's value increases, and the public has paid a majority of the construction costs of that stadium, then should the public share in the appreciated value of the franchise, if and when the owners sell it? Perhaps it should, but only rarely is that the case. The newly negotiated agreement the city of St. Louis and the State of Missouri have negotiated with the St. Louis Cardinals is an exception. Generally, wily owners have convinced star-struck cities and regions to fork over public cash without receiving in return any of the appreciation in the value of the franchise that nearly always results. Indeed, if and when they sell the team, they may realize capital gains of $100 million or more, none of which is shared by the public.

The allure of a new, modern stadium to a team is the increased "local revenues," over which teams have exclusive rights, and the increased value of the major league franchise that results. Local revenues are defined as those receipts not subject to league revenue-sharing arrangements and are the moneys teams keep for themselves. Examples include parking, concessions and the like. These are revenues that have climbed significantly in recent years, but cities and regions typically have not shared in this largesse.

The full exercise of the financial muscle provided by passionate demand for professional sports franchises has enabled teams to exclude cities from sharing these local revenues. Cities and regions have wanted major league teams so badly that they have negotiated agreements excluding the public from "local" revenues and a share of the appreciation in the value of the franchises.

The number of corporations and large organizations headquartered in a community largely determines the market price for luxury seating. Corporations represent the most important consumers of luxury seating. The roster of corporations headquartered in Hampton Roads to a substantial degree would determine the price for premium seats. Would the owners of a Hampton Roads professional sports team receive sufficient revenue from luxury seating to enable them to compete with current MLB or NBA franchises? This seems doubtful because Hampton Roads is home to only two firms listed among the Fortune 500 and cannot claim many large firms whose headquarters actually are in the region. Hampton Roads is a "branch region." Its large banks are headquartered elsewhere, for example, in Charlotte, and most of the region's large corporations are controlled from sites elsewhere in the United States or the world.

In any case, the evolution of stadium leases has restricted cities from sharing revenues that emanate directly from teams' operations. This has occurred for several reasons, but the primary one is cities and regions clamoring for teams have become pushovers for the teams they have attempted to attract. The contention, therefore, that public subsidies for professional sports represent prudent investments must be based on something other than a city's share of direct revenues. Those revenues go elsewhere and therefore do not play a big part in rigorous studies of the economic impact of professional sports teams.

## INDIRECT EXPENDITURES

What about indirect revenues – from expenditures fans make at restaurants, bars and hotels in a professional sports city or region? **In most reputable studies of the feasibility of a professional sports franchise and its economic impact, the benefits accruing to the city through indirect spending (including multiplier effects) represent the pillar upon which the rationale for professional sports subsidies rests**. In the broadest sense, indirect spending includes all *additional* spending beyond direct spending that occurs in the community, for example, spending at a restaurant or bar in another neighborhood. Note the deliberate emphasis on the word "additional." There is no economic gain to those in Hampton Roads if, because of a major league team, its citizens stop spending money at, say, Patrick Henry Mall, and instead now spend it on a major league baseball team.

In the standard development models, local growth comes from increased export sales – net inflows of spending from *outside* the area. These expenditures then have a multiplier effect as individuals spend and re-spend these dollars several times. For example, the owners and employees of restaurants serving major league sports fans spend the money they receive from the fans.

Of course, it also is true that a major league team could convince local residents to spend their money in Hampton Roads rather than elsewhere. This is what economists label "import substitution" and represents a valid additional source of economic stimulation for a city or region. If the $100 spent by a local resident at a professional sports event in Hampton Roads would have been used to buying things from, say, New York City, then the presence of the local professional team would increase net local spending.

The size of the multiplier following any net increase in area spending depends similarly on the locus of the re-spending. If all of the new income generated by the sports team is re-spent on locally produced goods, then the multiplier will be substantial. If, however, the highly paid athletes or executives maintain their residences outside the area, or if the concessionaires import their T-shirts and beer from outside the region, then the multiplier will be small.

The impact of a professional sports team on the local economy depends, therefore, on the details of where each dollar is spent – on imports, exports or local production. Precise data on this are not easy to obtain, and the common technique is to proceed by making assumptions about the sources and uses of spending. **Not surprisingly, those who measure the greatest impact of professional sports teams on local economies assume that all the initial spending constitutes a net increase in local spending. This means they assume: (1) individuals who patronize a major league team will not reduce their expenditures on any other items in Hampton Roads; (2) those who live outside the region will spend new money on a major league team in Hampton Roads; and (3) Hampton Roads residents will stop spending money in other regions and now spend that money locally on the major league team. It seems obvious, however, that these propositions are not totally true, or even close to it.**

The discussion of whether people who patronize a major league team reduce their purchases of other things inside the city or region in order to do so is grounded in economic fundamentals. Individuals have limited budgets in terms of time and money. More time and money spent watching a professional sporting event necessarily means less time and money for other things. Consider the following nonsports example. Does the appearance of a new shopping venue such as Norfolk's MacArthur Center have an effect on sales at other shopping sites such as Patrick Henry Mall, Lynnhaven Mall or the Military Highway corridor? All one needs to do is to add the total retail sales in the region, and adjust them for inflation, to see that the appearance of a new shopping venue such as MacArthur Center does in fact impact other shopping areas. The effects sometimes are subtle and one may not see them unless one looks at city or regional totals. A small, strip shopping center store may go out of business or perhaps a store narrows its choice of merchandise because sales do not merit a larger selection. The point is, there is substitution present where regional expenditures are considered, whether for retail shopping or for a major league team. It's not all new money.

Since the appropriateness of public subsidies is of primary interest, it is worth noting that substitutions also can occur in the public sphere. If public moneys are spent on a professional sports team, will there be fewer dollars available for other public purposes, such as schools, roads and policing? Again, the answer almost surely is "yes." As cities and regions relearn bitterly each year at budget time, they can't spend the same dollar in two places. Local elections frequently turn on spending priorities and where public investments should best be made – "downtown" or in the neighborhoods. The point, then, is that to some extent the public investments made in major league stadiums reduce public expenditures made in other arenas. The question is not whether this is true, but to what degree it is true. Public financing does not emanate from a bottomless well.

It is true that high-visibility projects such as professional sports typically draw more popular support than many alternatives. If, however, such support is based only on the perception of substantial economic development flowing from the project – bolstered by the assumption-flawed impact studies – then this support is based on false premises. **In fact, according to several studies, it is plausible to assert that professional sports teams actually may be detrimental to area income growth. The types of jobs created by professional sports activity are low-wage and seasonal: ticket-takers, ushers, vendors, restaurant and bar workers, taxi drivers, etc.** That is not to demean the importance of such jobs to a community, but there are long-term development implications that need to be considered. An area development strategy concentrating on these types of jobs could lead to a situation where the region's comparative advantage is based on a relative abundance of such workers. Compared to other areas (with comparative advantage based on high-skilled and high-wage labor), future growth rates in the region investing in sports may lag growth rates in regions whose developmental strategy concentrates jobs in low-wage sectors. This is especially relevant for Hampton Roads, because the region's per capita income is only 87 percent of the national average (98 percent if cost-of-living differences are taken into account). Would Hampton Roads rather be like Austin, Texas, which has no major league teams, but an abundance of high-income, high-skill jobs, or instead a sink for low-income, low-skill jobs?

Those advocating sports-based development envision a very different long-run outcome. They project that a city's "major league" image is an intangible that will attract new, unrelated businesses. This is the "St. Louis Argument," though the decline of the city of St. Louis over the past few decades does not encourage this view. **Nonetheless, without question, civic and regional pride do have value; cities and regions with such pride are more uplifting places to live and play. Still, it is not clear such things are worth hundreds of millions of dollars that could be spent on other indisputably productive investments.**

To summarize, advocates of subsidies for professional sports identify several possible benefits to justify the public investment in sports infrastructure. They include: (1) direct benefits that accrue from spending that occurs in conjunction with the operation of the team; (2) indirect economic benefits accruing to the community as a consequence of hosting the team that are external to the team's activities and not captured by the team; and (3) the psychological benefit the community derives from hosting a team.

## INDIRECT BENEFITS

A persistent argument for public subsidies for professional sports states that the indirect benefits realized by society (including psychological benefits and pride) exceed the costs society incurs in subsidizing professional sports. What does the available empirical evidence have to say about the magnitude of such benefits? The evidence provided by analysts without an economic or political stake in the outcome of subsidy debates is not encouraging about substantial indirect economic benefits imparted by professional sports.

An evaluation of the indirect economic impact of major league sports must consider both the region-wide and neighborhood impacts. Does the team contribute to the economic vitality of the metropolis; is there a region-wide contribution? Does the presence of the team enhance the economic activity in the neighborhood in which the stadium is located; is there a localized impact? The question of neighborhood economic impact has become more important because suburban stadium sites are increasingly being abandoned in favor of sites at the edge of or within central business districts (CBDs). Proponents of relocating stadiums to CBDs claim that such a move can help transform deteriorating city cores.

To help understand indirect economic impact, imagine drawing rings with increasingly larger radiuses around the stadium. If a major league team attracts fans outside the neighborhood in which the ballpark is located, that neighborhood is in effect "exporting" professional sports and an inflow of funds results. The communities from which the fans are drawn, however, experience diminished economic activity since those communities are "importing" the sports activity, which results in a dollar outflow. If the area analyzed includes nearly of all of the communities that are exporting and importing professional sports, no net dollar inflows or outflows are recorded for that area's economy. Metropolitan statistical areas (MSAs) generally consist of more than one county. If fans are primarily drawn from the MSA, then we would expect little or no net spending changes within the MSA, since the money spent at the professional sporting event is simply supplanting money that would be spent elsewhere in the MSA. The primary methodological problem with promotional impact studies for professional sport is they ignore this "substitution" effect and other leakages that may occur as a consequence of the national character of the professional sports industry. **That is, the overly optimistic promotional studies touted by the most rabid supporters of major league teams blithely ignore the reality that most of the money fans spend on a major league team simply reduces their spending on other things within the region. This makes a huge difference.** To illustrate this, consider the information recorded in Table 7.

**TABLE 7**

**Two Ways to Analyze the Economic Impact of Professional Sports for a Hypothetical Game in New York City with 30,000 Fans Attending a Game**

| Assumptions | Overly Optimistic Promotional Model: Estimated Economic Impact | Proper Assessment Model: Estimated Economic Impact |
|---|---|---|
| Game attendance = 30,000 fans, 10 percent, or 3,000 of whom come from outside New York City | Includes spending undertaken by 30,000 fans | Includes spending undertaken by 1,500 fans[a] |
| Spending on concessions = $10 per fan | $300,000 (30,000 x $10) | $15,000 (1,500 x $10) |
| Local value added in producing concessions = .4 | Fails to consider local value added | $6,000 (.4 x $15,000) |
| Nonresident game attendees buy $20 worth of gas in NYC (25 percent of sales represents local income) | $60,000 ($20 x 3,000) | $7,500 (.25 x $20 x 1,500) |
| 200 nonresident game attendees stay overnight, spending $100 each (50 percent of sales represents local income) | $20,000 (200 x $100) | $5,000 (100 x $100 x .5) |
| Multiplier | 2 | 1.2[b] |
| Estimated economic impact before multiplier | $360,000 | $18,500 |
| Estimated economic impact to include multiplier | **$720,000** | **$22,200** |

**Source: This example is drawn from Roger G. Noll and Andrew Zimbalist, "Sports, Jobs, & Taxes: The Real Connection," in *Sports, Jobs & Taxes,* edited by Roger G. Noll and Andrew Zimbalist, (Washington, D.C.: The Brooking Institution Press), 1997, pp. 495-496.**

**[a] The assumption here is that 50 percent of the nonresident game attendees came to New York City for other reasons – for example, to go to the Statue of Liberty, or Times Square, or whatever. For support for both the 10 percent nonresident game attendee figure and the 50 percent figure, see John L. Crompton, "Economic Impact Analysis of Sports Facilities and Events: Eleven Sources of Misapplication," Journal of Sports Management, vol. 9 (January 1995), pp. 27-29.**

**[b] This multiplier accounts not only for the fraction of income that is spent again, but also for taxes and value added.**

As Table 7 indicates, ignoring the substitution effect accounts for most of the substantial disagreement on the estimated size of indirect economic benefits generated by major league teams. One way to assess the reliability of promotional economic impact studies is to compare their promises to an "after-the-fact" audit in communities where there have been changes in the professional sports industry. Consider the following excerpts from empirical work performed by a variety of researchers with no ax to grind on the impact professional sports has had on metropolitan economies.

In 1996, Robert A. Baade, Vail Professor of Economics at Lake Forest College, examined the impact of changes in professional sports in all 48 cities in the United States that have experienced some change in their status within the four major professional sports leagues over the period 1958 through 1987. In considering changes in the professional sports industry had on metropolitan real per capita personal income, Baade found: "The results of the empirical tests … were statistically insignificant for all but a few cities."

**Baade's conclusion that professional sports have no discernible impact on metropolitan real per capita personal income is strong, but too kind, according to a 1998 study by Dennis Coates and Brad R. Humphreys, both of whom are on the economics faculty at the University of Maryland, Baltimore County. Not only did these researchers not find a positive impact on per capita income by professional sports, but they actually discovered that professional sports reduce per capita income in cities and regions.** In a 1999 Journal of Policy Analysis and Management article, they wrote:

> "This paper investigates the relationship between professional sports franchises and venues and real per capita personal income in 37 Standard Metropolitan Statistical Areas in the United States over the period 1969-1994.Our empirical framework accounts for the entry and departures of professional football, basketball and baseball franchises, the construction of arenas and stadia, and other sports related factors over this time period. In contrast to other existing studies, we find evidence that some professional sports franchises reduce the level of per capita personal income in metropolitan areas and have no effect on the growth in per capita income, casting doubt on the ability of a new sports franchise or facility to spur economic growth."
>
> In assessing the correlation between jobs and the professional sports industry, Baade found in 1996 that "…sports teams and stadiums have an insignificant impact on jobs in the commercial sports industry."

This last result is particularly significant in that one would expect changes in the professional sports industry to exert some measurable influence on jobs in the commercial sports sector, which is small, relative to a large, diverse metropolitan economy. To provide some context on the size of a professional sports team, Roger G. Noll, co-editor of the 1997 book *Sports, Jobs & Taxes*, observed:

> "By measures such as revenue, a sports team is a considerably smaller business than many less visible enterprises. To take but one example, a major university is not only larger than any sports team, but many exceed the size of an entire league. Stanford University expects to generate revenues of approximately $1.5 billion in fiscal 1997. In 1994 fifty universities each received mote than $75 million in research grants from the federal government. The top ten universities together received approximately $2.8 billion in federal grants in 1994, which was more than the combined revenues of the NFL and the National Hockey League, or the combined revenues of the Major League Baseball and the National Basketball Association."

Given the fact that Hampton Roads comprises several large cities, the issue of what a team would contribute to the metropolitan economy is particularly important. Even if there were a measurable economic impact, these benefits would have to be allocated among the cities in some fashion. One does not have to be a practiced politician to understand that those Hampton Roads cities that did not host a team, but which helped defray the costs of attracting and maintaining a team, would not have agreed to forgo being a host site without receiving some concrete, benefits in return. A reasonable measure of what a team actually would contribute to the metropolitan economy, therefore, must be determined.

Two of the alleged success stories of major league sports are baseball's Baltimore Orioles and their congenial ballpark, Camden Yards. However, Bruce W. Hamilton and Peter Kahn, economics professors at Johns Hopkins University, have estimated the economic impact of Camden Yards on the Baltimore economy. In their chapter on "Baltimore's Camden Yards Ballparks" (*Sports, Jobs & Taxes*, 1997), they concluded:

> "Taking account of all the measurable benefits of the Camden Yards investment (that is, job creation and tax imports), we estimate that baseball at Camden Yards generates approximately $3 million in annual economic benefits to the Maryland economy, at an annual cost to the taxpayers of Maryland of approximately $14 million. The net annual cost is approximately $11 million, or about $14.70 a year per Baltimore metro household."

Most individuals in Crab Town believe the Orioles (and the football Ravens) are the financial equivalent of Old Faithful – they generate economic growth for the region on a predictable schedule. The truth is just the opposite – they diminish economic growth on a regular schedule.

Thus, the critical question: If there is no evidence to support the supposition that professional sports have a positive effect on regional economies, is there evidence that major league teams have a substantial economic impact on the neighborhoods in which their stadiums are located? This may be a particularly important issue if the neighborhood is located in the urban core. Legislatures have become sensitive to the demise of urban America and, as a consequence, initiatives designed to rejuvenate downtowns have enjoyed some support at the state and federal levels. Arguably, revitalizing downtown areas (Newport News, Portsmouth and Norfolk all have pursued this strategy) may generate benefits that spill beyond the urban core. If this is so, non-local public subsidies for downtown redevelopment may have merit. Before a stadium can be used to rejuvenate a downtown area, however, it must be determined that it represents the best use of that land.

The local economic impact depends on the extent to which spending and re-spending occurs by those residing outside the environs where the sports event is held, or by local citizens who spend money on the games as opposed to spending discretionary income outside their neighborhood. It is difficult to dispute the game-day impression that substantial economic activity does occur in the neighborhood. The sense is that enthusiastic spendthrifts descend on a community. However, the important question is this: Does the money stay in the neighborhood? **Stadiums may well serve only as a conduit through which money is transmitted from fans to nonresident players and owners. Thus, even at the local level, professional sports may not provide much of an economic boost.**

Robert Baade studied the economic impact of professional sports on Pioneer Square, the Seattle neighborhood in which the NFL Seahawks and MLB Mariners play. Based on an analysis of the changing mix of commercial activity in the neighborhood, he concluded:

> "The evidence from Seattle is decidedly mixed. Clearly the stadium channels economic activity in the direction of businesses that have a connection to sports. Stadium bars and restaurants and retail outlets selling sports paraphernalia benefit. Many other businesses, particularly those that do not appeal to sports fans, lose business. This occurs as a consequence of peak use of shared community resources on event day; parking and sidewalk space are the most obvious examples. Customers that ordinarily would patronize local businesses do not on event day because the cost of doing so increases. Routine or normal business, therefore, is crowded out on a scale that may well offset any neighborhood gains. Unless the excess demand for key local resources is somehow mitigated, many other commercial activities in the neighborhood are destined to decline."

Thus, there are reasons to believe that even at the neighborhood level professional sports fail to boost the economy. Whether the team contributes meaningfully to the local economy depends on the nature of that economy and its ability to minimize the disruption caused by peak stadium traffic. This requires careful planning and a professional sports team willing to be a good citizen. However, the political power most professional sports teams currently wield forces neighborhood businesses and residents to shoulder a disproportionate share of the risks and inconvenience associated with the influx of fans on game day.

The costs to a region or city of hosting a professional sports team include more than the initial outlays for landing the team and building a stadium. Most obviously, there is the additional police protection and clean-up costs in the stadium environs, which mysteriously on occasion have been excluded from the cost-benefit analysis for hosting a team. But, there also are ongoing stadium costs that include operation and maintenance. Fearful of financial innovation that will render their stadium economically obsolete, major league teams now include in their memoranda of understanding with cities clauses that guarantee stadium renovations to ensure their stadium will maintain a designated rank within the league in terms of revenue generation.

## PUTTING IT ALL TOGETHER

**In light of the insignificant or at best minimal economic benefits that accrue from major league teams, and costs that may well be understated, are there grounds for Hampton Roads to pursue a professional sports team? The answer is, "Not if it is being done for economic reasons." Most major league teams are poor financial investments for cities and regions (though not necessarily for the astute owner who is able to pry substantial subsidies from the public).** Even a city such as Baltimore would be better off to invest its funds in activities other than major league sports, if it is interested in a competitive rate of return.

Of course, sport has substantial social and cultural significance in the United States and throughout the world. The Orioles and the Ravens uplift the spirits of Baltimoreans and presumably infuse many of region's residents with pride. Indeed, when all is said and done, the primary benefits to Hampton Roads and any other community that is considering hosting a professional sports team would be psychological in nature. **A community establishes an identity, for better or worse, in part through the existence and performance of its sports teams. Sports help define a community's place in the social hierarchy. A professional sports team is something around which members of a community find common ground and coalesce. It provides a topic of conversation around the coffee machine and the dinner table. These intangibles are worth something, though it is not abundantly clear they are worth more than superior K-12 schools, or reduced crime, or whatever. And, as we have seen, these intangibles do not lead to higher city or regional incomes.**

We conclude this section with a simple thought that may be comforting to those who wish to bring a major league franchise to the region. The Hampton Roads MSA has a population of approximately 1.55 million. In the analysis above, we estimated that the public sector in Hampton Roads likely would contribute approximately $330 million to field an MLB team. Then, each citizen (sports fan or not) would pay $212.90 to host an MLB team. If the team were to stay in Hampton Roads for 20 years, then each citizen would pay only $21.29 per year to attract and retain the team in the region. It is plausible that many people would be willing to support a professional sports team if they were informed it would cost them only $21.29 per year to do so. It appears many people believe the pride and prestige associated with major league status are worth even more than that. Thus, even though the net economic benefits from major league sports teams are minimal or zero, and most major league franchise owners enrich themselves at the expense of the cities and regions hosting their teams, many citizens might nonetheless believe major league sports are a good deal.

## PROFESSIONAL ATHLETIC MONOPOLIES: A FINAL POINT

Professional sports leagues are unregulated cartels that function as monopolies. Monopolies, of course, exist in other sectors of the economy (for example, public utilities, parking and public schools). Frequently, governments ordain or otherwise support these monopolies. Governments do so either because the perceived benefits of allowing a monopoly to exist appear to outweigh the perceived costs, or because of political reasons.

**An important reason why cities and regions get taken to the metaphoric economic cleaners so often by professional sports teams is that the sports leagues exercise a great deal of monopoly power. Most citizens object to the exercise of monopoly power by cartels such as OPEC, which raises the prices they pay for gasoline, and some complain when Microsoft makes it difficult for them to purchase the computer software they prefer. Somehow, though, cities and regions seem to overcome their anti-monopoly qualms when they deal with professional sports teams, with the net effect being they actually promote public policies that facilitate the monopoly power of the leagues and teams. Needless to say, the leagues and team owners are quite thankful for such attitudes.** It's a scenario that clearly favors the leagues and owners, but one that perhaps is not in the best interests of Hampton Roads.

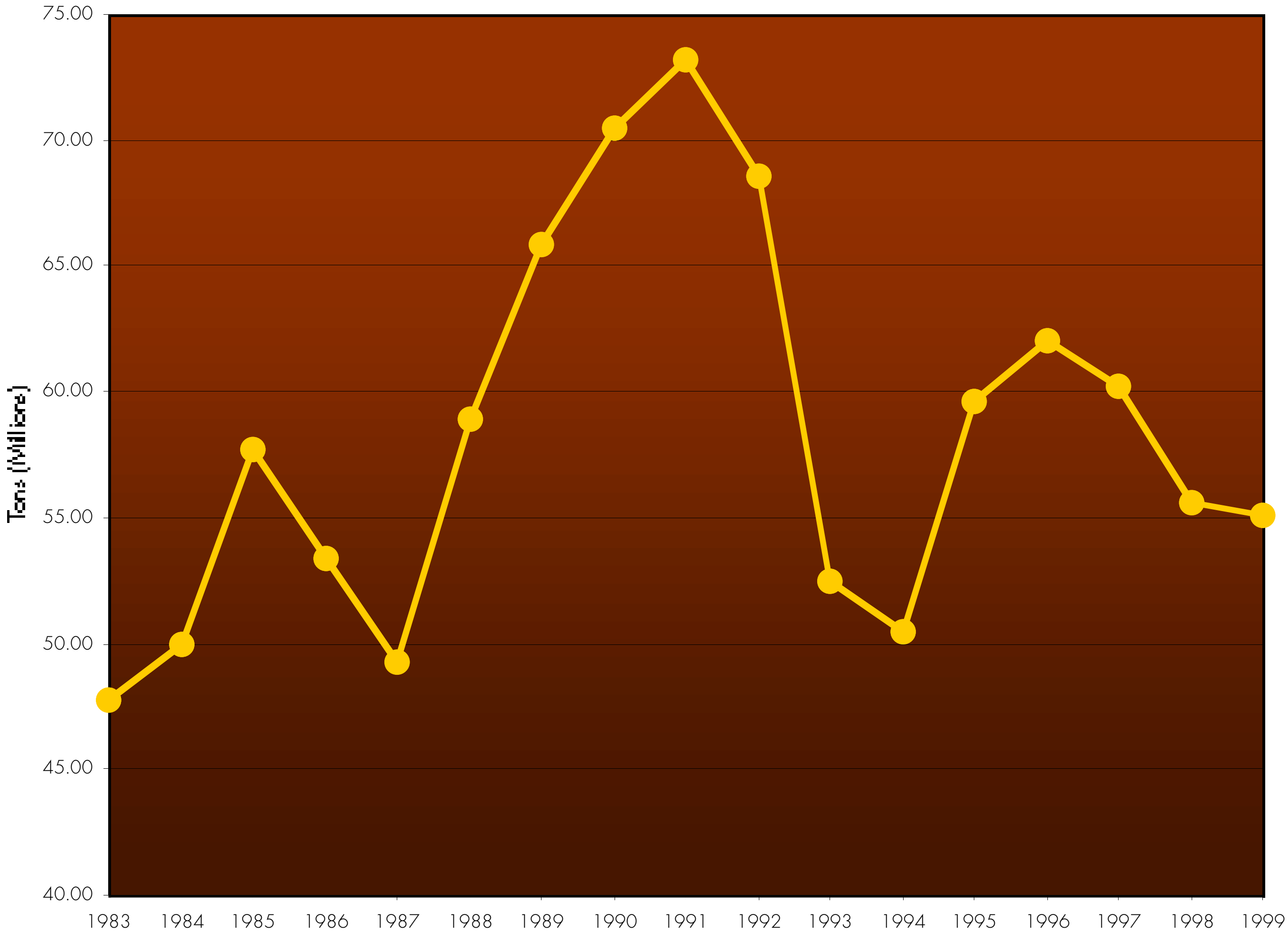

# THE PORT OF HAMPTON ROADS

# The Decline of Coal and the Rise of Deep-Draft Ships: The Future of the Port

The Port of Hampton Roads is no small fry. It is, in fact, among the largest cargo ports in the United States. Based on the 1999 tonnage statistics of the American Association of Port Authorities, Hampton Roads, with 55.1 million short tons of cargo, ranked 10th in the country behind Long Beach, Calif. Further, in 1998, the latest year for which world tonnage data are available, Hampton Roads ranked 33rd in the world, ahead of such major ports as London, Amsterdam and Genoa.

**Despite its relative importance in the world's transportation network and its huge importance to Hampton Roads, the Port, as seen in Graph 1, has experienced a downward trend in total tonnage since reaching a peak in 1991.** The cargo level handled by the Port in 1999 was roughly similar to that of 1985. Judged strictly on the basis of tonnage, then, it would seem that the Port is a contracting sector of the Hampton Roads economy and therefore a declining contributor to the economic development of the community. Just the opposite is true, however. When we measure growth in jobs and income due to the Port, a very different picture appears. Port-related employment, which can be defined as the sum of those jobs associated with the movement of cargo, plus jobs associated with firms using the Port, increased at an impressive rate, approaching 5 percent per

**GRAPH 1**
**TOTAL CARGO TONNAGE SHIPPED THROUGH THE PORT OF HAMPTON ROADS**
**1983 - 1999**

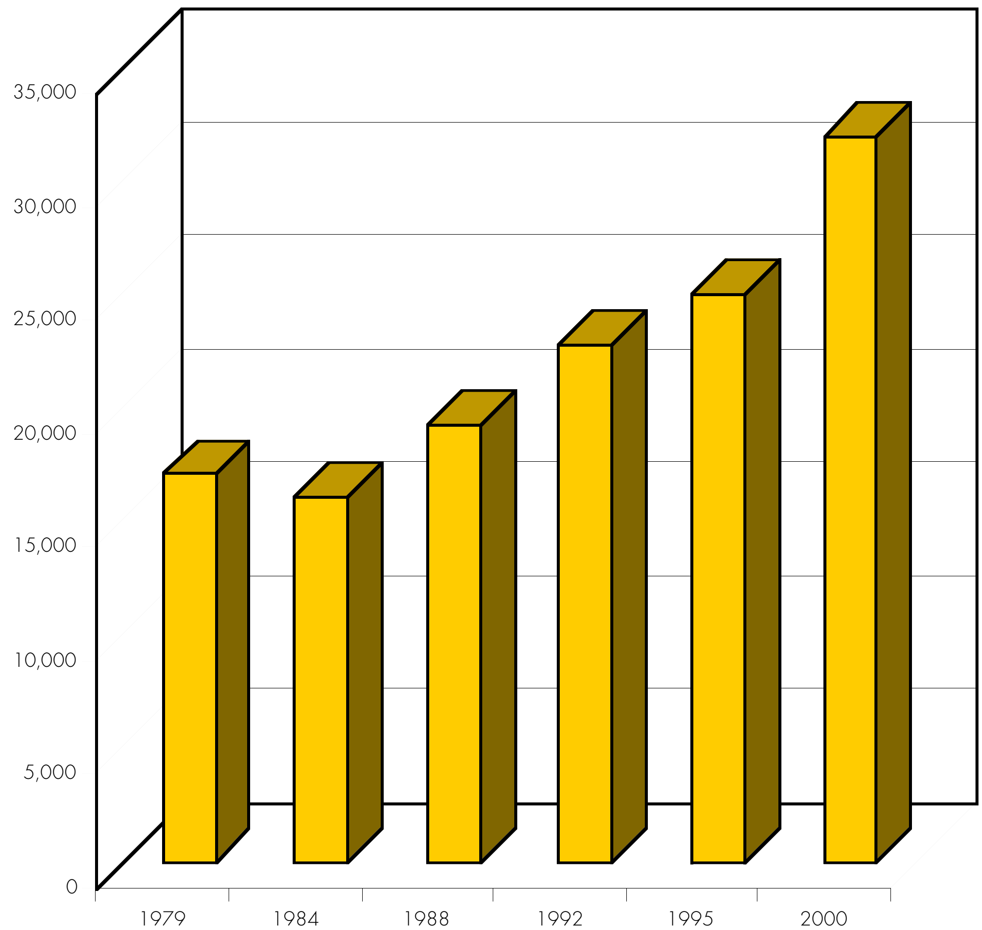



**Sources: Bureau of the Census, American Association of Port Authorities and Virginia Port Authority**

year from 1988 to 2000. As displayed in Graph 2, although the number of Port-related jobs grew slowly from 1979 to 1988, nearly 13,000 Port-related jobs were created in Hampton Roads from 1988 to 2000. **Viewed in this light, the Port exerted a dynamic, expansionary influence on the Hampton Roads economy over the past decade.**

How do we explain the apparent contradiction between declining Port tonnage and rising Port-related employment? Will the Port continue to grow in terms of employment? Is the Port an economic development tool for the larger community? Can government play a role in assisting Port development? Does the Port only affect the economies of those cities within Hampton Roads in which Port facilities are located? The keys to answering these questions lie in understanding the changing cargo mix between general and bulk cargo, the major cargo types arriving at the Port and in the basic economics of the shipping industry. That is the focus of this chapter.

**GRAPH 2**
**PORT-RELATED EMPLOYMENT IN HAMPTON ROADS**
**1979-2000**




**Source: Old Dominion University Forecasting Project**

# General Cargo

The Port handles two major types of cargo. One is general cargo, 95 percent of which arrives in containers, and the other is bulk cargo, which arrives in the holds of ships. General cargo might include items ranging from television sets to clothing. The major bulk cargo item is coal.

## EMPLOYMENT AND TONNAGE

With the exception of a very small operation at Lambert's Point, the facilities used for unloading container vessels in Hampton Roads are owned by the Commonwealth of Virginia, and are located in Portsmouth, elsewhere in Norfolk and in Newport News. According to 1999 data from the American Association of Port Authorities, Hampton Roads ranks 34th in the world in container shipping and, as shown in Table 1, eighth in the United States behind Charleston, S.C.

**TABLE 1**

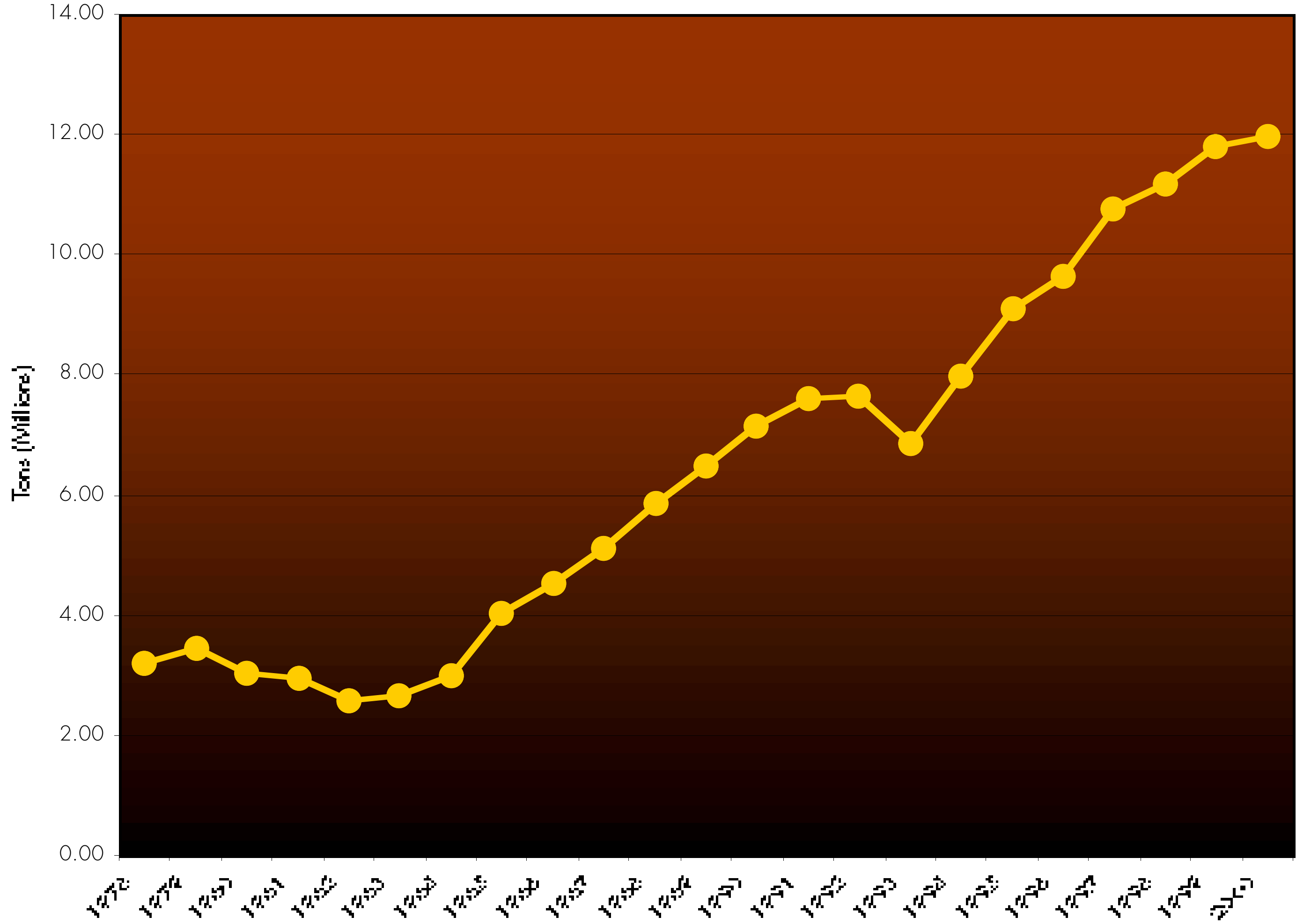
**U.S. Port Ranking**

| Port | Containers (1,000's) 1999 |
|---|---|
| Long Beach | 4408 |
| Los Angeles | 3829 |
| New York / New Jersey | 2829 |
| San Juan | 2085 |
| Oakland | 1664 |
| Seattle | 1490 |
| Charleston | 1483 |
| Hampton Roads | 1307 |
| Tacoma | 1271 |
| Houston | 1001 |
| Savannah | 793 |
| Miami | 778 |
| Jacksonville | 772 |
| Port Everglades | 716 |
| Baltimore | 498 |

General cargo tonnage arriving at the Port since 1978 is displayed in Graph 3. Unlike total Port tonnage, which includes both general and bulk cargo, general cargo tonnage has risen fairly steadily over time. Its volume in 2000 was nearly six times that of 1979. Over the same time span, the Old Dominion University Economic Forecasting Project estimates that Hampton Roads employment directly related to general cargo facilities rose steadily from 10,600 jobs in 1979 to 27,500 jobs in 2000. **In the case of general cargo, both tonnage and employment have been steadily increasing at the Port. Further, given general cargo's proportional dominance of the employment data and rising cargo tonnage, general cargo has been the source of overall employment growth in Port-related jobs and is not the source of the decline in overall tonnage.**

This drop is due solely to declining bulk cargo shipments. The drop in bulk cargo, however, has had a minimal effect on overall Port-related employment, because general cargo job creation has more than offset the decline in year-to-year employment in bulk cargo movement. The reason for this is that general cargo is much more labor-intensive than bulk cargo in both its movement and its ability to attract other industries to the region. In 2000, general cargo, on average, created a job in Hampton Roads for every 435 tons of cargo shipped through the Port, while roughly 9,000 tons of bulk cargo were required to create a job in Hampton Roads. It takes many hands to deal with general cargo, but relatively few hands to deal with bulk cargo such as coal.

**GRAPH 3**
**HAMPTON ROADS GENERAL CARGO**
**1978 - 2000**




**Source: Virginia Port Authority**

Given the significant growth in jobs connected to the Port's general cargo traffic, it is worthwhile to examine more closely precisely where and how this is occurring. Employment related to the Port's cargo operations can be subdivided into two categories: (1) jobs dedicated to cargo movement and (2) jobs resulting from firm location decisions. Cargo movement employment is concentrated in occupations such as stevedores, tugboat crews, truck drivers and ship service workers. However, still other Port employment results from firms that decide to locate or expand in Hampton Roads because of the direct access they obtain to import and/or export cargo arriving/departing through the Port. Examples of this type of employment include import- and export-related jobs generated by firms such as Siemens, Canon, Lillian Vernon and Dollar Tree.

General cargo tonnage has almost quadrupled over the past 20 years. Nonetheless, as Table 2 indicates, employment in general cargo movement has risen only about 22 percent, from 7,300 in 1979 to slightly less than 8,900 in 2000. A major reason for the relatively slow employment growth relative to cargo tonnage is the increase in efficiency or productivity in the movement of container cargo at the Port. Table 3 shows that stevedore productivity per hour tripled between 1980 and 2000. This is a remarkable increase in labor productivity and reflects in particular the huge investments the Port and firms connected to the Port have made in equipment that makes each worker far more efficient than before.

**TABLE 2**

**Hampton Roads General Cargo Employment**

| Year | General Cargo Movement Employment | Firm Location Employment | Total General Cargo Related Employment |
|---|---|---|---|
| 1979 | 7315 | 3307 | 10622 |
| 1984 | 5570 | 3399 | 8969 |
| 1988 | 6085 | 6623 | 12708 |
| 1992 | 7434 | 9295 | 16729 |
| 1995 | 7927 | 11244 | 19171 |
| 2000 | 8877 | 18677 | 27554 |

**Source: Old Dominion University Economic Forecasting Project**

Since employment in the movement of cargo has not produced large gains over the past two decades, this means the lion's share of Port employment growth in Hampton Roads has come from firms that locate or expand within the region because of their access to container facilities. As Table 2 illustrates, this kind of employment rose from about 3,300 in 1979 to just over 18,600 in 2000, roughly a six-fold increase over the period. If the Port is a growth engine, then this is the major source of that growth. The firms generating these jobs are engaged primarily in light manufacturing and product distribution.

**TABLE 3**

**Stevedoring Productivity in Hampton Roads**

| Year | Tons per Worker per Hour |
|---|---|
| 1980 | 1.15 |
| 1988 | 2.52 |
| 2000 | 3.54 |

**Source: Old Dominion University Economic Forecasting Project**

Since 1995, product distribution and warehouse facilities for such firms as Wal-Mart, Sysco and Dollar Tree have been instrumental in the growth of import cargo tonnage. However, exports from Hampton Roads have grown as well. Table 4 shows that in 1999 about 3.4 percent of the Gross Regional Product (GRP) was exported to other countries. Many people find this surprisingly low, because both Virginia as a state and the United States as a whole are more heavily involved in export activity. **The good news is that during the past decade, the growth in merchandise exports from Hampton Roads far outstripped that of both Virginia and the United States. Thus, we have the anomaly that most individuals inside Hampton Roads think of the region as being very heavily involved in export trade. The truth is somewhat different. Hampton Roads exports a smaller proportion of its GRP than the typical region in the country, though its export traffic is expanding rapidly.**

Although employment growth in the cargo movement firms has been relatively small, it is vitally important to the economic health and future of the region because the slow growth reflects the rising efficiency in cargo movement in Hampton Roads. This rising efficiency confers cost savings on shippers and is one of the reasons export traffic is growing so rapidly. The Port of Hampton Roads is an efficient operation. The cost savings realized are central to the ability to attract both distribution and light manufacturing industries to the region. This is one of the reasons why the Port has assumed the role of the mid-Atlantic load center.

**TABLE 4**

**Merchandise Exports for Hampton Roads, Virginia and the U.S. (Selected Data)**

| | Gross Product 1999 (Billions $) | Merchandise Exports, 1999 (Billions $) | Exports as a Percent of Gross Product | Percent Change 1993-99 |
|---|---|---|---|---|
| Hampton Roads | 41.70 | 1.40 | 3.40% | 105.30% |
| Virginia | 246.80 | 10.70 | 4.30% | 32.10% |
| U.S. | 9299.20 | 696.00 | 7.50% | 49.60% |

**Hampton Roads export receiving countries: Canada, Mexico, France, Germany, UK, Brazil, Netherlands, Japan, Australia, South Korea**

**Sources: U.S. Department of Commerce and the Old Dominion University Forecasting Project**

## THE MID-ATLANTIC LOAD CENTER

The relatively large general cargo tonnage increase at the Port has created a "marketing critical mass" and agglomeration economies which have helped to make Hampton Roads the nation's mid-Atlantic load center for container shipping lines. Load center container ports are analogous to hub airports in that shipping lines designate a port to which cargo shipment is directed. The effect is bi-directional. The concentration of cargo at the Port of Hampton Roads has allowed for more frequent and more pre-scheduled vessel arrivals that serve to reduce shipping costs and uncertainty. And, the more cargo the Port handles, the more efficient it has the opportunity to become.

In addition to the economic and marketing advantages created by the large general cargo flow through the Port, the accessibility of the Port has been critical to its development as a load center. The Port has excellent rail communications via Norfolk Southern and CSX railroads with mid-Atlantic and midwestern shippers, and possesses economic road links to the interstate highway system. But, most important, the Port of Hampton Roads is the deepest accessible natural port on the East Coast. **The channel depth into and out of the Hampton Roads harbor is naturally deep and, with appropriate dredging and care, enables the Port to handle ships that other ports must reject unless they spend hundreds of millions of dollars to make themselves accessible. The deep-water nature of the Port has been critical to its growth and will become even more important in the future as shipping lines attempt to take advantage of the economies of scale offered by larger and deeper draft container vessels.**

The evolution of the Port into the mid-Atlantic load center, over ports such as Baltimore and Charleston, has created its own challenges. The Port's current container facilities are approaching their physical capacity. With the addition of the Phase I and Phase II piers at Norfolk International Terminal, the existing Commonwealth-owned port facilities apparently will have reached their maximum expansion capability. How this capacity challenge is met is one of the crucial issues for the future economic viability of the Port of Hampton Roads. Port capacity is not a glamorous issue that appears on the radar screen of most of the region's citizens, and it is of even less concern to Virginians as a whole, especially legislators who reside outside Hampton Roads. Nonetheless, it is an issue that is critical to the regional economy.

## THE FUTURE OF THE MID-ATLANTIC LOAD CENTER

Although container traffic at all East Coast container ports is expected to increase in the future, the current leading load center ports of New York/New Jersey, Charleston and Hampton Roads are expected to handle an increasing share of container traffic. However, continued expansion of general cargo tonnage at the Port will depend on the following key issues:

- Growth of international trade
- Expansion of current facility capacity
- Channel and turning basin depths
- Rail and highway access to the Port.

With respect to the growth of international trade, waterborne container trade in the United States is expected to increase substantially over the next three years. The U.S. Industry & Trade Outlook 2000, published by the DRI-WEFA economic consulting organization, anticipates growth of import and export container trade to rise by an average of 7 percent per year, and 5 percent per year, respectively, through 2004. A recently commissioned study by the Virginia Port Authority forecasts a container cargo average growth of 4.3 percent per year over the next 30 years. If these predictions prove to be accurate, then container traffic at the Port would quadruple over the next 30 years. This is not pie in the sky, for these estimates are consistent with a number of other studies that project strong yearly growth in American and Hampton Roads container commerce over the foreseeable future. **In short, the chances are good that, despite occasional cyclical downturns, the long-term international trade market will remain strong. The question is: Will the region seize the initiative and take advantage of this burgeoning market?**

**If the projected trade levels do come to pass, then the Port will begin to approach its physical limit to move containers around 2010. Thus, to take advantage of the future international trade market and its potential to create jobs and income in the region, the physical capacity of the Port will have to be increased substantially.** Currently, the Virginia Port Authority has plans to develop Craney Island into an entirely new container facility that would roughly double current and planned capacity at the existing facilities. The timely development of the Craney Island facility is dependent upon citizen reactions, satisfying environmental requirements and (of course) Commonwealth financial support. One potential event that could significantly ease the Port's looming capacity problem is the near-term development of a privately funded container facility by Maersk Sealand in Portsmouth. Eventually, the Maersk Sealand facility could expand the Port's capacity by more than 75 percent. This project also could enhance the company's ability to better serve its regional customers, especially distribution warehouses.

Channel depth is a critical issue to the growth of container ports throughout the world. The reason is that shipping lines stand to benefit from the significant unit cost reductions achievable from the scale economies created by larger and deeper draft container ships. The Port of Hampton Roads, with an inbound channel depth of 45 feet and an outbound depth of 50 feet, currently is the deepest accessible port on the East Coast. Still, the Regina Maersk, the largest container ship ever to call at Hampton Roads, draws 47.5 feet of water fully loaded and is, therefore, unable to enter the port at full capacity. Further, the number of such large container ships worldwide is rising. For example, Orient Overseas Container Lines has placed an order for six ships that are 20 percent larger than the Regina Maersk. And, the China Shipping Group has announced plans to build container vessels 40 percent larger than the Regina Maersk! To accommodate this next generation of vessels, the Port will need deeper channels. The Virginia General Assembly has allocated an initial $17.7 million for a 55-foot channel dredging project; however, several hundred million dollars will be required to complete the dredging of the channel and the turning basin area. At this point, it is unclear what the extent of the federal government's financial participation will be in the project, although traditionally it has exhibited at least some interest in channel depth because of the presence of Naval Base Norfolk. What is clear is that state and local governments, along with the private sector, will have to provide significantly greater financial support to harbor dredging than in the past if the Port is to take advantage of this basic economic force which drives shipping costs. Economies of scale are driving shipyards to build much larger ships and it remains to be seen whether Hampton Roads will be one of the international ports capable of serving such ships.

The question of intermodal transfer of ship cargoes to rail cars or trucks is complicated. The most successful ports boast cost-effective land transport, whether by rail or highway. Shippers who might utilize a port either to import or export are interested in the total package price. This includes whatever rail or highway transportation is necessary. The overall intermodal price and quality combination is essential to the viability of the Port of Hampton Roads. About 75 percent of containers shipped through Hampton Roads arrive via trucks. Highway congestion into Hampton Roads is increasing, especially at the "choke points" caused by water barriers and tunnels, and the delays caused by this congestion add time, and subsequent cost, to container shipment. The expected growth in container traffic obviously will contribute further to this congestion. Since most of the planned container facility expansion will take place at Craney Island and at the new Maersk Sealand project site, both of which are on the south side of the James River, significant improvements in highway access to port facilities will be necessary if the Peninsula is not to become isolated. The proposed "third crossing" would assist in this regard. Further, turning either Route 58 or Route 10 into access-limited four-lane highways connected to Interstate 95 would dramatically improve traffic flow into the southern part of Hampton Roads. An important advantage of these routes south of the James River is they are not constrained by long bridge crossings.

Recently, container traffic at the Port has been adversely affected by the difficulty of integrating Conrail into the operations of Norfolk Southern and CSX. Scheduling problems with some midwestern shippers has caused the diversion of containers through Canada to the port of Halifax. It appears that many of the merger problems have been overcome; however, the jury is still out on this matter. Memories of the problems shippers have encountered over the past year or two may have latent effects that could diminish future container shipments, especially from midwestern firms.

**In summary, the future of the mid-Atlantic load center is particularly dependent on advanced planning and cooperation between the private and public sectors. Such planning needs to be sharply focused on the Port's infrastructure requirements that include facility capacity expansion, channel deepening and highway access.**

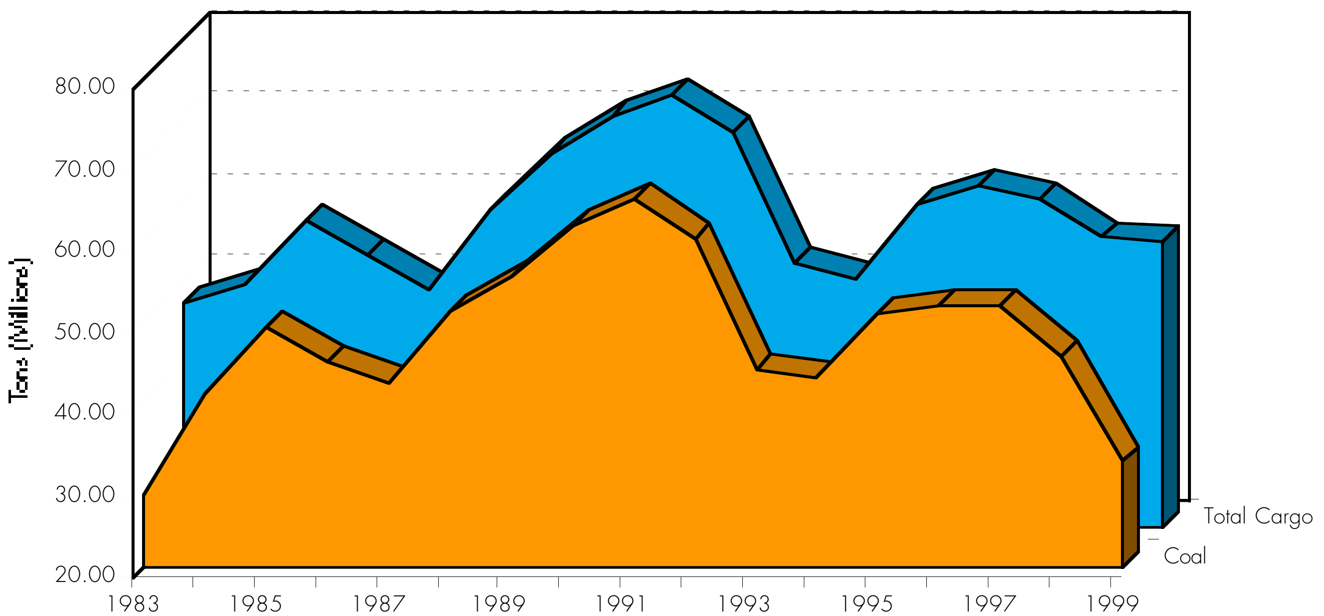
# Bulk Cargo

Despite its much smaller impact on regional employment, bulk cargo still created an estimated 4,500 jobs in Hampton Roads in 2000. This was approximately 14 percent of all employment related to the Port. At the same time, bulk cargo represented an estimated 78 percent of the Port's tonnage. For the last 20 years, coal has accounted for more than 90 percent of the yearly bulk cargo shipped through the Port, with petroleum, grain and cement constituting most of the remainder.

**In 2000, Hampton Roads was the largest coal-exporting port in the United States, accounting for more than 40 percent of total American coal exports. In fact, Hampton Roads is among the largest coal-exporting ports in the entire world.** It is a "natural" when it comes to coal exports. Hampton Roads holds three important advantages over all other American ports. First, it is located close to the Pocahontas coalfields in western Virginia, southern West Virginia and eastern Kentucky. These fields contain some of the highest quality coal in the world which, until the advent of recent technological advances in steel production, conferred near monopoly power on those producing it. Second, coal is shipped to the Port of Hampton Roads only by rail. The rail lines that connect the Port with the Pocahontas fields run downhill, significantly reducing fuel costs, which are a major overland component of shipping costs. Third, Hampton Roads has the deepest channel on the East Coast. These are impressive advantages. Still, many colliers calling at the Port cannot be fully loaded because the Hampton Roads shipping channels are not deep enough for them to transit with a full load. Channel depth, then, is an important factor in the bulk cargo arena as well with respect to container cargo.

Coal shipments vary considerably from year to year, as Graph 4 indicates. Because of coal's domination of Port tonnage data, it is clear that variations in coal tonnage drive the level of and changes in the Port's bulk cargo tonnage as well as its total cargo tonnage. Nonetheless, as previously noted, bulk cargoes have not had strong effects upon regional employment. **The decade-long decline in coal tonnage has been more than offset by the large increase in much more labor-intensive general cargo. Still, given the number of regional jobs dependent on the movement of bulk cargo, it is legitimate to ask why coal tonnage volumes in the Port vary so much from year to year.**

**GRAPH 4**
**HAMPTON ROADS TOTAL CARGO AND COAL TONNAGE**
**1983 - 1999**

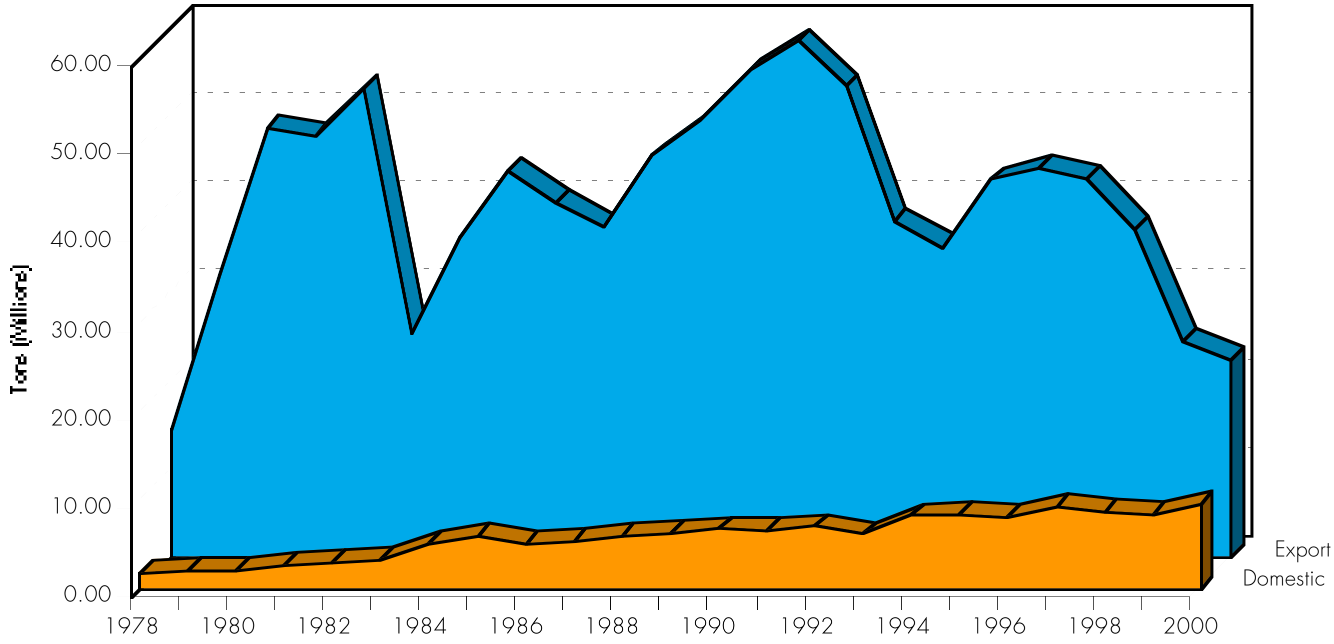



**Sources: Bureau of the Census, American Association of Port Authorities and the Virginia Port Authority**

## VARIATIONS IN COAL SHIPMENTS: SELLING COAL IN THE UNITED STATES

Coal shipped through Hampton Roads either is exported, or is sent to other parts of the United States for consumption in electric power plants. The New England states are particularly large domestic customers. As can be seen in Graph 5, the decline in coal export tonnage moving through Hampton Roads since 1991 is almost solely due to a decline in the amount of coal being mined. By contrast, the trend in domestic coal shipments has been consistently upward. Indeed, domestic coal shipments are approximately five times larger than they were in 1979. Obviously, domestic coal business is not the reason why coal shipments through Hampton Roads have declined so much since 1991.

**GRAPH 5**
**EXPORT AND DOMESTIC COAL SHIPPED THROUGH HAMPTON ROADS**
**1978 - 2000**




**Sources: Bureau of the Census, American Association of Port Authorities and the Virginia Port Authority**

## THE VARIATION IN COAL SHIPMENTS: EXPORT COAL

Both metallurgical coal, which is used in steel production, and steam coal, which is used in the production of electricity, are exported through Hampton Roads. As demonstrated in Graph 5, since reaching its peak in 1991, export coal tonnage has fluctuated from year to year, but has experienced a downward trend over the decade. This fluctuation in export coal tonnage is the major reason behind the Port's flagging total cargo tonnage during this period. And, this negative trend has had adverse effects upon other Hampton Roads firms, notably Norfolk Southern, which traditionally has been heavily involved in bringing coal to the Port of Hampton Roads. There is simply less business for Norfolk Southern than there used to be.

The economics of exporting coal actually tends to be somewhat complicated, primarily because of the many different heat-producing and purity grades of coal. It is not as simple a business as it might first seem. There are three major reasons for the downward trend in coal exports Hampton Roads has experienced over the past 10 years. First, the continually rising strength of the dollar, as measured against the Federal Reserve's broad index of U.S. major trading partners, has been a major disadvantage to coal-exporting firms. Since 1991, the value of the dollar has risen by almost 74 percent. Since 1997, this dollar appreciation has been particularly pronounced with respect to Hampton Roads' major coal export competitors in Indonesia, South Africa, Poland, Australia and Columbia. For example, between 1997 and 2000 the dollar appreciated by 66 percent and 34 percent against the South African rand and the Australian dollar, respectively. Further, several of these countries, notably Indonesia, have suffered from political upheavals and internal instability, and no longer purchase as much coal as in the past.

Second, since 1997, the rapid spread of new steel-making technology, especially in Europe, which can utilize much lower quality coal, has eroded the strong relative advantage of coal from the Pocahontas coal seam exported through the Port. The substitution of lower quality (and lower priced) Australian coal for that shipped through Hampton Roads has also caused the closing of a number of metallurgical coal mines in the Pocahontas fields.

Third, the recent adaptation of long-wall mining and other new production technology to the mining of Australian coal has significantly reduced its production costs and subsequently the relative price of Australian coal, even taking into account the depreciation of the Australian dollar relative to the American dollar. According to the U.S. Department of Energy, this large relative price reduction has caused a reduction in the amount of coal shipped through Hampton Roads, as well as other American ports. In particular, the Port's former Japanese, Korean and Brazilian customers now purchase much more coal from Australia.

In the absence of major labor strikes, such as those experienced in South Africa and Poland in the early 1980s, or a steep decline in the dollar's value, it is seems unlikely that coal exports from the Port of Hampton Roads will attain levels experienced in the early 1990s. To be sure, rising natural gas and oil prices will help coal exports at the Port in 2001, as will reductions in coal inventories in the spot markets for coal. Unfortunately, however, these increases likely will be small compared to those experienced in the last 20 years. Further, the long-term view is not especially favorable. China's commitment to increased coal exports, the Kyoto protocol and the climate action plans of many European countries pose potentially serious challenges to Hampton Roads coal exports. According to the Department of Energy, environmental plans adopted by European nations "pointing toward a stabilization or reduction in carbon dioxide emissions by the year 2010, are relying partly on a reduction in coal use to meet their goals. If implemented, they could negatively impact both current and future markets for U.S. steam coal exports."

# The Impact of the Ports on Individual Cities in Hampton Roads

Table 5 shows the cities in which people whose jobs are related to the Port work. Norfolk, with nearly 13,000 jobs, leads the region's cities in jobs related to the Port, followed by Newport News with close to 6,000 jobs.

Table 6 reports the cities in which people with jobs related to the Port reside. In addition, Table 6 displays the estimated taxes and total payroll generated within each of the major Hampton Roads cities. Commuting workers obviously dramatically rearrange the economic impact of the Port among the region's cities as compared to that of the work site. **The majority of Port employees work in Norfolk, but that is not necessarily where they live. To the surprise of some, Virginia Beach is the regional city that leads in jobs, payroll and taxes generated by Port activity in Hampton Roads.** Newport News, similarly, is a major beneficiary. Another benefactor of Port activity without a large presence of on-site employment is the City of Hampton. Hampton's case is particularly interesting since it does not have a large presence of on-site employment.

**TABLE 5**

**Port-Related Employment by City of Work Site**

| City | Employment |
|---|---|
| Chesapeake | 4150.73 |
| Hampton | 352.88 |
| Norfolk | 12969.11 |
| Newport News | 5886.79 |
| Portsmouth | 2015.76 |
| Virginia Beach | 3277.39 |
| **Subtotal** | **28652.65** |
| Other Cities | 3401.31 |
| **Total** | **32053.96** |

**Source: Old Dominion University Economic Forecasting Project**

An important lesson to be drawn from Tables 5 and 6 is the recognition of the high degree of economic interaction between Hampton Roads cities insofar as the Port is concerned. The Port affects all cities in the region. In fact, when one is considering any employer in Hampton Roads, the fact that the employer is located in a particular city does not mean that city will derive all the economic benefits generated by that employer. This clearly applies to the Port, which is mostly located in Norfolk, but whose economic benefits are widely dispersed among the cities of

**TABLE 6**

**Port-Related Employment, Payroll and Taxes by City of Residence**

| City of Residence | Total Jobs | Total Payroll (Millions $) | Total Taxes (Millions $) |
|---|---|---|---|
| Chesapeake | 4408.01 | 181.16 | 10.86 |
| Hampton | 1736.06 | 57.83 | 3.42 |
| Norfolk | 3860.40 | 115.07 | 6.96 |
| Newport News | 7056.36 | 209.60 | 12.63 |
| Portsmouth | 1797.43 | 52.05 | 3.07 |
| Virginia Beach | 7810.50 | 312.99 | 18.77 |
| Subtotal | 26668.75 | 928.69 | 55.70 |
| Other Cities | 5385.21 | 161.69 | 9.68 |
| Total | 32053.96 | 1090.38 | 65.38 |

**Source: Old Dominion University Economic Forecasting Project**

Hampton Roads. Table 7 underscores this point. A most important implication of the data presented in Table 7 is that economic development, as seen from the perspective of the Port, is a unifying regional issue. Employment brought to a particular city by the Port benefits the entire region. **Thus, when the City of Norfolk in particular seeks compensation from the Commonwealth for the large amount of tax-free property within its boundaries (the Port being but one example), this is an issue all of the cities in Hampton Roads should understand and support. Norfolk may have the most Port jobs, but it does not reap the most economic benefits from the Port (Virginia Beach does).** Yet, it is Norfolk and not Virginia Beach that finds itself unable to reap significant tax benefits from the largely tax-exempt facilities of the Port of Hampton Roads.

**TABLE 7**

**Distribution of Port-Related Employees by Work Site and City of Residence**

| | | | Work Site | | | | | |
|---|---|---|---|---|---|---|---|---|
| Residence | Chesapeake | Hampton | Norfolk | Newport News | Portsmouth | Virginia Beach | Other Cities | Total |
| Chesapeake | 2139.68 | 2.36 | 1429.21 | 81.43 | 421.33 | 214.79 | 119.20 | 4408.01 |
| Hampton | 16.52 | 198.27 | 276.16 | 1097.58 | 68.45 | 16.52 | 62.55 | 1736.06 |
| Norfolk | 351.70 | 7.08 | 5892.69 | 136.90 | 329.27 | 292.69 | 46.03 | 7056.36 |
| Newport News | 16.52 | 74.35 | 264.36 | 3206.58 | 97.96 | 14.16 | 186.47 | 3860.40 |
| Portsmouth | 393.00 | 1.18 | 604.26 | 71.99 | 572.39 | 49.57 | 105.04 | 1797.43 |
| Virginia Beach | 935.89 | 9.44 | 3744.74 | 141.62 | 299.77 | 2583.44 | 95.60 | 7810.50 |
| Subtotal | 3853.32 | 292.69 | 12211.43 | 4736.10 | 1789.17 | 3171.17 | 614.88 | 26668.75 |
| Other Cities | 297.41 | 60.19 | 757.68 | 1150.69 | 226.60 | 106.22 | 2786.43 | 5385.21 |
| Total | 4150.73 | 352.88 | 12969.11 | 5886.79 | 2015.76 | 3277.39 | 3401.31 | 32053.96 |

**Source: Old Dominion University Economic Forecasting Project**

# Lessons

Among the most important things to consider when examining the future of the Port of Hampton Roads are:

- Total tonnage handled by the Port peaked in 1991 and has trended downward since then. However, for a variety of reasons, the economic impact of the Port has increased significantly during the same time period.
- Total employment in Hampton Roads due to the Port increased about 5 percent per year during the 1990s. This employment growth occurred primarily among firms doing import and export business and those that serve the Port.
- Container tonnage handled in the Port is expanding rapidly, while bulk tonnage (primarily coal) is declining. It does not seem likely these trends are going to be reversed in the foreseeable future.
- The productivity of Port personnel, such as stevedores, has increased dramatically over the past two decades and is profoundly influenced by the quality of the equipment they utilize.
- Tremendous economies of scale are causing international shipbuilding firms to construct much larger, deep-draft ships. The newest and largest of these ships cannot enter the Port of Hampton Roads, and hence dredging the Port to provide such ships with clearance is a must. But, it will be very expensive.
- The competitiveness of the Port of Hampton Roads also depends critically upon the quality of intermodal transportation – railroads and highways. Improvements such as the "third crossing" are essential if the Port is to remain competitive.
- Not surprisingly, most Port employees work in the City of Norfolk. However, the City of Virginia Beach gains more economic benefit from the Port than any other Hampton Roads city. Norfolk is second and Newport News is third.
- The Port is a regional asset that affects all of the cities and counties in the region.


MAERSK

# OPINIONS IN BLACK AND WHITE

# Seeing Things Through Different Lenses: The Opinions of Blacks and Whites

"We're the same, but we're different." This seeming oxymoron may best describe the situation in which African Americans and other residents of Hampton Roads find themselves in 2001. For example, within Hampton Roads, African Americans and White Americans are equally likely to have graduated from college and equally likely to work full time when employed. However, White Americans earn more and are more satisfied with economic conditions. Both groups regard the quality of their schools, crime and drugs as extremely important concerns. However, their attitudes are very different on the need for affirmative action and on the quality of the performance of their police department.

This chapter focuses on African Americans in Hampton Roads – their economic, social and political circumstances, but especially their attitudes. To make the analysis more meaningful, wherever possible, African Americans in Hampton Roads are contrasted with Whites in the region. This generates the "We're the same, but we're different" description. **African Americans in Hampton Roads share many common attributes and attitudes with Whites, but these two groups are not identical. This is most visibly true in their politics and their views on the issues of the day. This underscores why it is risky to talk about "what the public thinks" about a particular issue in Hampton Roads. In fact, because the region's population is so diverse, there are many public opinions.** The final result of an election or a poll may well be a single number or an average (for example, 34.8 percent of the citizens of Hampton Roads believe African Americans and Whites have the same amount of political power). However, such an average often disguises significant underlying differences in the attitudes of particular segments of the population. In the case at hand, only 16.2 percent of African Americans believe the aforementioned statement regarding political power, while 54.3 percent of White Americans do. Further, it is wise to note there is considerable diversity among African Americans in achievements and points of view. They are no more homogeneous as a group than most other "hyphenated" Americans.

## Some Perspective

In 1968, The National Advisory Commission on Civil Disorders generated a report (the "Kerner Report") that starkly contended, "Our nation is moving toward two societies, one black, one white – separate and unequal." This conclusion was hotly debated at the time, but continues to be cited, especially when significant economic and social differences between African Americans and Whites are identified. For example, the unemployment rate of African Americans generally has remained twice as high as that for other Americans. On the other hand, sometimes startling progress has been made in other arenas. An illustration is the political participation of African Americans in state politics. In 1968, there were no African Americans in Virginia's House of Delegates or Senate. Today, there are 15. And, in 1989, Virginia elected its first African American governor, L. Douglas Wilder, who generously referred to himself as a "Son of Virginia," even though in reality he had been forced to leave the Commonwealth decades before in order to earn his law degree.

**The relevant point is this: As we survey and attempt to explain the attitudes of African Americans in Hampton Roads, it would be irresponsible to ignore Virginia's centuries-long history of segregation and the immense baggage created by America's sometimes torturously slow progress toward equal treatment of all its citizens. It would similarly be foolish to deny the remarkable progress that has been made since the Kerner Report in 1968. These things influence what we see and hear today and provide context.** That said, our interest in this examination is to depict the status and attitudes of African Americans in Hampton Roads today as they actually are. As a society, we will make more rapid progress toward "what ought to be" when we know more precisely "what actually is."

# The Basis For This Chapter

This chapter is based on an extensive public-opinion survey performed by Old Dominion University's Institute for the Study of Race and Ethnicity and the University's Social Science Research Center. The findings reported here are based on telephone interviews with a random sample of 1,062 African American and White residents in Hampton Roads (African Americans, n = 543; Whites, n = 519). If individuals were contacted who did not identify themselves as either African Americans or Whites, they were not included in the survey. Thus, Asian Americans, Latinos and American Indians are not included unless they deliberately chose to falsify their ethnic background. "African American" here is used synonymously with "Black American," even though in truth they are not completely synonymous.

Sixteen jurisdictions within Hampton Roads were surveyed: the counties of Accomack, Gloucester, Isle of Wight, James City, Mathews, Northampton and York; and the cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg. Quota sampling was employed to ensure an adequate sample size and appropriate distribution of the sample across high- and low-minority census tracts. The African American population was over-sampled to ensure a sample size that would enable within-group comparisons. Hampton Roads' population was stratified by city, and respondents were called with the aim of achieving the stipulated quota.

Survey participants were contacted between May 20 and June 15, 2001. The sampling results have a margin of error of plus or minus 4.2 percentage points at a 95 percent confidence level. That is, if another sample of the same size were repeated under the same conditions, 95 percent of the time the deviation from the results reported would be no more than 4.2 percentage points in either direction.

The survey focused on the following questions:

How do African Americans perceive the quality of their lives (defined in political, economic and social terms) within the city or county in which they reside in Hampton Roads?

How do African Americans in the region perceive themselves relative to the system of governance in their city or county, and to what extent is there a sense of empowerment in economic as well as political terms?

Are there differences in the behavior and perceptions of African Americans and Whites regarding quality of life and political participation?

**At least two features of this study underscore its importance. First, this project apparently is the first of its magnitude to be conducted in Hampton Roads. Its concentrated focus on issues pertaining to race, quality of life and political participation is substantially different from previous studies of the region, none of which focused on differences in the perceptions of African American and White residents in Hampton Roads. Further, the sample is large enough to make meaningful inferences regarding the dynamics of race, class and gender within the African American community.**

**Second, this project provides baseline data needed for ongoing research to monitor perceptions of the quality of life in Hampton Roads.** Data from the survey will facilitate in-depth, longitudinal studies of the implications of race and ethnicity for quality of life and political participation. Future research might, for example, concentrate on the effects of class on African American perceptions of quality of life, political participation, and attitudes regarding discrimination and equal opportunity. Moreover, the methodology and the results of this descriptive study will provide an essential empirical context for future research.

# Key Findings

On a range of issues, the proportion of African American and White respondents rating each issue as "very important" or "important" was similar. This was the case with the following issues: jobs, schools, crime, drugs, taxation and environment. However, there are some areas where the two groups diverged. For example, the largest differences in ratings of importance assigned by African American and White respondents were on perceptions of (percentage difference is shown in parentheses):

the validity of affirmative action (24); HIV/AIDS (19); police brutality (19); recreation facilities (14); welfare (12); and housing (11).

With respect to perceptions of job opportunities, cost of living and earnings in wages, African American respondents were much less likely than their White counterparts to rate the economic conditions in these categories as "very good" or "good." And, of the African American respondents, only 48.4 percent report owning their homes, compared with 70.7 percent for Whites.

Seventy-two percent of all respondents indicated that they own a personal computer. Of the African Americans surveyed, 64.3 percent indicated that they own a personal computer, compared with 80.8 percent of Whites.

Seventy-four percent of all respondents indicated that they use the Internet. Sixty-nine percent of the African Americans responded this way, compared with 80 percent of the White respondents.

Even though the fact that the Million Man March of 1995 and the Million Woman March of 1996 did not grab the attention of White America, 97 percent of African American respondents reported they agreed with the principle of the marches.

Of the national African American leaders, Jesse Jackson (21.9 percent), Colin Powell (7.9 percent) and Kweise Mfume (6.6 percent) are the three who the largest proportions of African Americans said best represented their views and opinions. However, respondents' choices regarding leadership showed the range of ideological diversity present among African Americans.

The National Association for the Advancement of Colored People was identified by the largest proportion (20.8 percent) of African American respondents as the organization that best represents their political views. The NAACP was followed by churches (14 percent). Nearly 20 percent of the African American respondents reported that "none" of the organizations in their city or county best represents their political views.

While 68 percent of the White respondents indicated the location of the airport is "very good" or "good," only 50.3 percent of African American respondents concurred. As far as airport services are concerned, the Black-White gap widens, with 35.2 percent of African Americans and 50.1 percent of Whites rating them "very good" or "good."

Levels of satisfaction with public transportation were not high, with a bare majority (51.2 percent) reporting they were "very satisfied" or "satisfied." Low satisfaction with public transportation was coupled with respondents' strong endorsement of a light rail system. Overall, 70.2 percent responded favorably to the idea of their city or county supporting light rail in Hampton Roads.

African American respondents (75.8 percent) were far more likely than Whites (26.7 percent) to cast their ballot in support of Al Gore in the November 2000 presidential election. One percent of Black and White respondents reported that they cast their ballots for Ralph Nader. Approximately 76 percent of all respondents indicated that they voted in this election.

With the exception of Newport News, in no major city in the region do African American levels of satisfaction with their city's police department equal or exceed levels of satisfaction among White respondents. By race, a more than 20 percentage-point difference exists between the satisfaction levels reported in the cities of Chesapeake, Norfolk and Portsmouth.

Regarding discrimination, 25.3 percent of all respondents "strongly agree" or "agree" with the statement, "Discrimination against Blacks is not a problem in my city or county." However, of the African American respondents, 12.2 percent "strongly agree" or "agree" with the statement, compared with 39.1 percent of Whites.

White respondents tend to perceive that African Americans have greater economic and political power than Blacks believe to be true. For example, a smaller proportion of White respondents (40 percent) compared to Blacks (60 percent) believe that the economic position of Blacks is worse than for Whites. Survey results reveal further that Black respondents (16.2 percent) were substantially less likely than Whites (54.3 percent) to "strongly agree" or "agree" that, "Blacks and Whites have an equal amount of power in my city or county."

Does the federal government owe reparations to African Americans? Fifty percent of African American respondents "agreed," compared with 9.8 percent of Whites. Similarly, in response to the statement, "Black people are owed reparations by private corporations," 49.5 percent of African Americans "strongly agreed" or "agreed," compared with 15 percent of White respondents.

# Who's In The Survey Sample

A total of 1,062 African American and White residents in Hampton Roads (Blacks, n = 543; Whites, n = 519) were included in the survey. Table 1 shows the distribution of African American and White respondents across the identified jurisdictions of Hampton Roads for the study sample and the actual population. For analytical purposes, the African American population was over-sampled. As illustrated in the table, the subsamples across jurisdictions closely match those in the actual population of Hampton Roads.

**TABLE 1**

**Race Distribution for Sample and Actual Population Across Municipalities as Part of the Entire Hampton Roads Area**

| Municipality | Study Sample | | Actual Population | |
|---|---|---|---|---|
| | Percent of Blacks | Percent of Whites | Percent of Blacks | Percent of Whites |
| Accomack County | 1.50 | 2.30 | 2.41 | 2.44 |
| Gloucester County | 0.60 | 2.10 | 0.71 | 3.03 |
| Isle of Wight County | 1.50 | 1.90 | 1.61 | 2.12 |
| James City County | 0.70 | 3.10 | 1.38 | 3.97 |
| Mathews County | 0.00 | 0.40 | 0.21 | 0.81 |
| Northampton County | 0.70 | 1.00 | 1.12 | 0.70 |
| York County | 1.30 | 3.70 | 1.50 | 4.53 |
| Chesapeake City | 15.80 | 12.50 | 11.32 | 13.38 |
| Hampton City | 13.10 | 9.20 | 13.04 | 7.29 |
| Newport News City | 16.20 | 11.20 | 14.03 | 9.68 |
| Norfolk City | 21.0 | 14.80 | 20.60 | 11.39 |
| Poquoson City | 0.00 | 0.20 | 0.02 | 1.12 |
| Portsmouth City | 9.00 | 6.70 | 10.14 | 4.63 |
| Suffolk City | 5.70 | 4.00 | 5.52 | 3.44 |
| Virginia Beach City | 12.50 | 26.6 | 16.06 | 30.51 |
| Williamsburg City | 0.40 | 0.20 | 0.32 | 0.96 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 |

**Source: The Social Science Research Center and The Institute for the Study of Race and Ethnicity at Old Dominion University 2001 Survey of Race, Quality of Life and Political Participation in Hampton Roads. All subsequent tables and graphs are derived from "The Survey."**

# Some Characteristics Of Those Surveyed

With respect to education, which is regarded as a key determinant of quality of life and political participation, African American and White respondents are closely matched in terms of the proportions of these groups that hold a college degree (23.6 percent and 24.7 percent, respectively). About one in three of the African American (35.2 percent) and White (30.4 percent) respondents said they have obtained "some college." Among the Black respondents, 10.9 percent held graduate or professional degrees, compared with 18.5 percent for Whites. Only 5.2 percent and 3.3 percent, respectively, of the African Americans and Whites reported having less than a high school diploma.

**Employment and occupation are also important factors influencing citizen well-being and the communities within which they reside (see Table 2). Seventy-five percent of all African Americans reported being employed at some level as opposed to almost 71.7 percent of the Whites. Of the respondents who said they are employed, 87.1 percent of African Americans reported being employed on a full-time basis, compared with 86.3 percent of Whites.** Of those who reported that they were unemployed, 42.1 percent and 53.4 percent, respectively, of the African Americans and Whites reported they were unemployed due to retirement. At the professional/managerial level, 29.5 percent of the African Americans surveyed reported holding such positions, compared with 40.2 percent of White respondents. At the same time, African Americans hold a larger proportion of the lower-level technician/managerial (24.1 percent) and clerical positions (17.1 percent) than Whites, who, respectively, hold 14.3 percent and almost 10.8 percent of the positions in these occupational classes.

**TABLE 2**

**Race and Profession**

| Profession | Percent of All Blacks in Sample | Percent of Whites in Sample | Total Sample |
|---|---|---|---|
| Professional/managerial | 29.50 | 40.20 | 34.60 |
| Lower-level technician/managerial | 24.10 | 14.30 | 19.50 |
| Clerical sales | 17.10 | 10.80 | 14.10 |
| Homemaker | 0.50 | 1.60 | 1.00 |
| Blue collar | 11.00 | 11.90 | 11.40 |
| Household service | 6.30 | 4.90 | 5.60 |
| Student, retired, other | 1.20 | 6.50 | 3.70 |
| Military | 8.30 | 9.20 | 8.70 |
| Refused to answer | 2.00 | 0.80 | 1.40 |
| TOTAL | 100.0 | 100.0 | 100.0 |

## INCOME

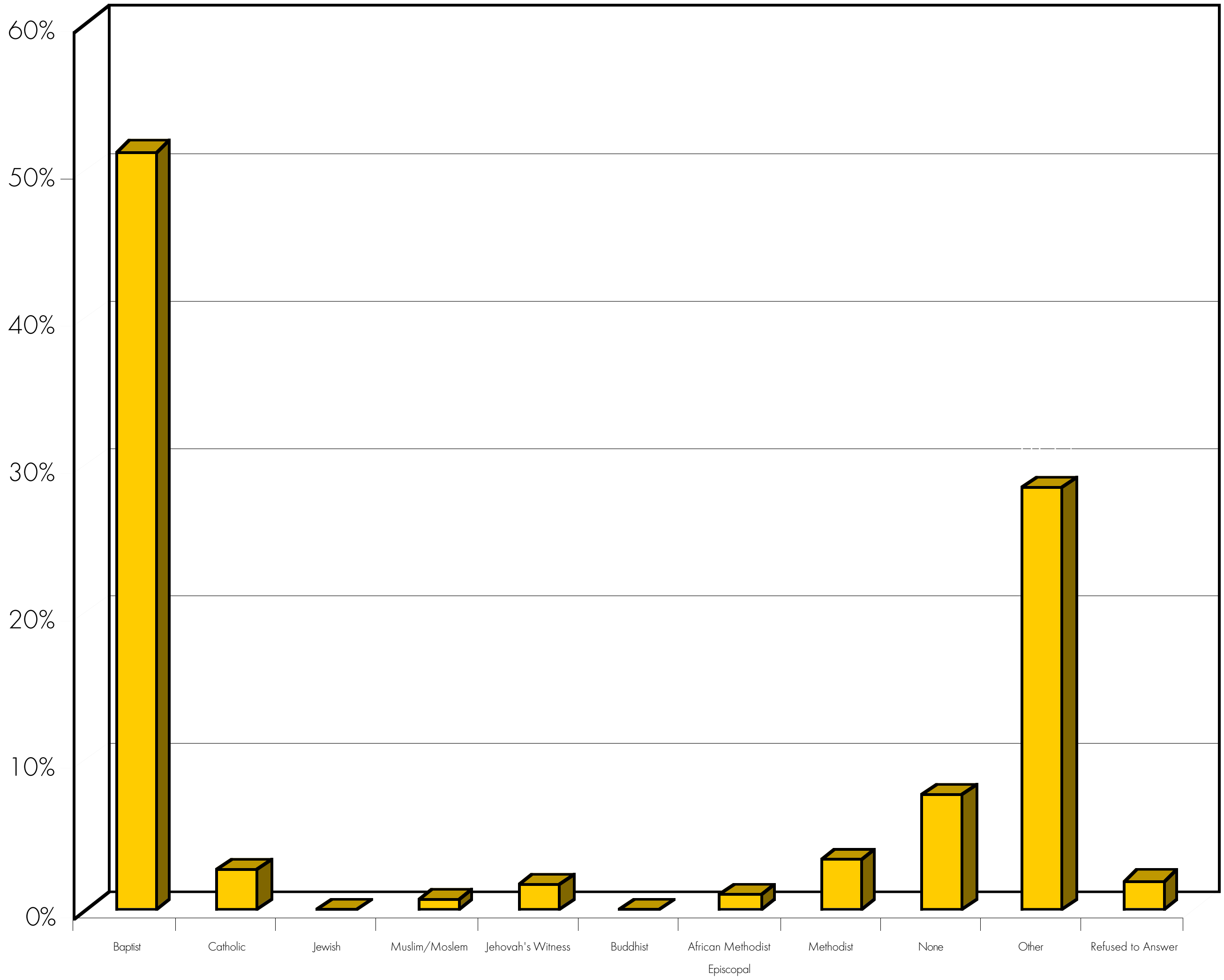
Concerning the range of individual income, 30.2 percent of the African American respondents reported earning less than $25,000 annually, compared with 21.3 percent of Whites. The representation of the two groups was more comparable in the $25,001 to $50,000 income range, with 46.6 percent of Blacks and 47.7 percent of Whites reporting individual incomes in this range. In the $50,001 to $75,000 income range, 12.9 percent of African Americans and 16.7 percent of Whites responded that this reflected their annual earnings. Relatively small proportions of African Americans (5.6 percent) and Whites (8.4 percent) reported individual incomes in excess of $75,000 per year (see Table 3).

**TABLE 3**

**Race and Income**

| Individual Income | Percent of All Blacks in Sample | Percent of All Whites in Sample | Total Sample |
|---|---|---|---|
| Less than $25,000 | 30.20 | 21.30 | 26.00 |
| $25,001 - $50,000 | 46.60 | 47.70 | 47.10 |
| $50,001 - $75,000 | 12.90 | 16.70 | 14.70 |
| $75,001 - $100,000 | 3.90 | 6.20 | 5.00 |
| More than $100,000 | 1.70 | 2.20 | 1.90 |
| Don't know | 1.00 | 0.80 | 0.90 |

**GRAPH 1A**
**AFRICAN AMERICANS' RELIGIOUS AFFILIATIONS**

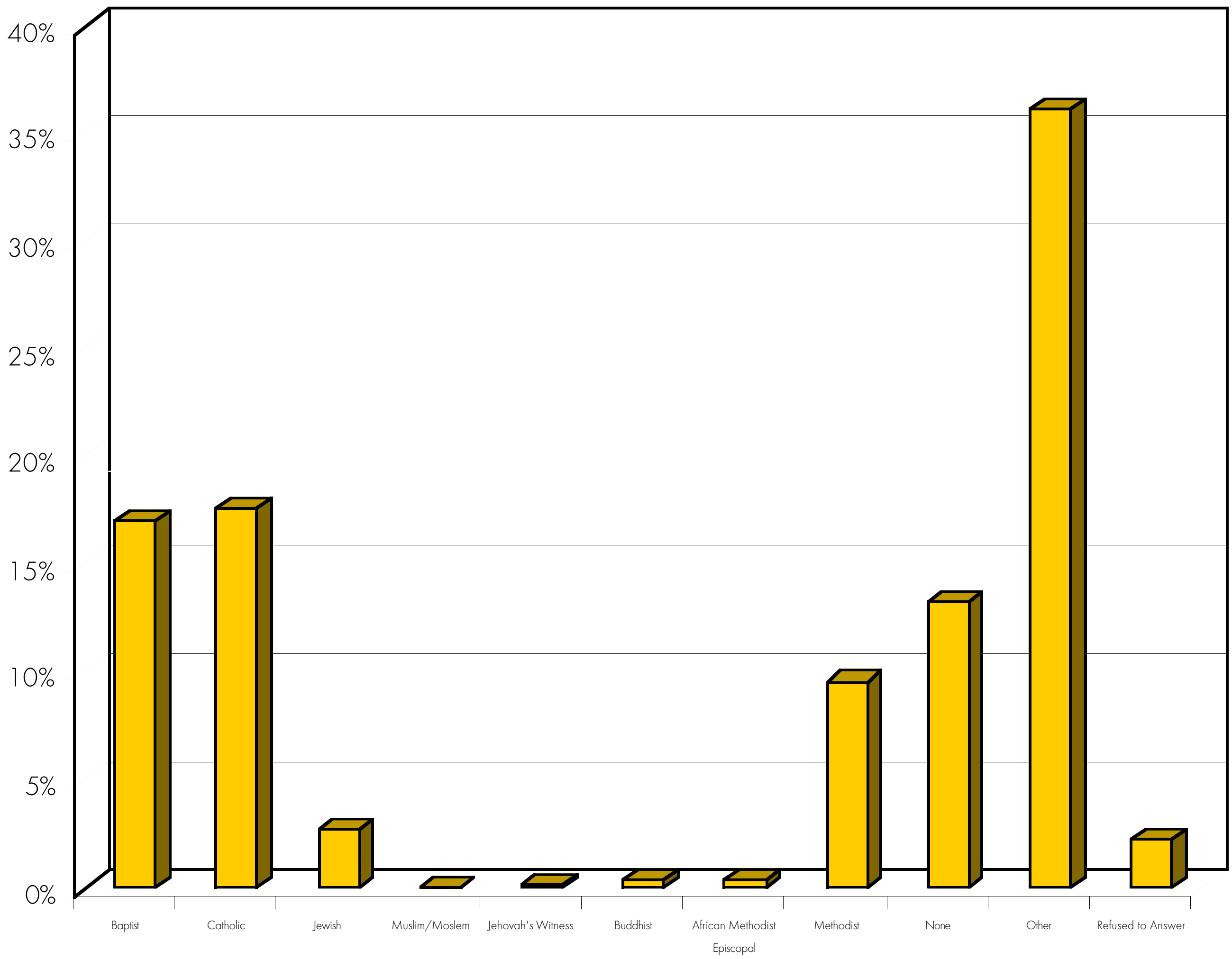



**Source: The Survey**

## RELIGION

Regarding religion, African American respondents were affiliated as follows: Baptist (51.4 percent); Other, including especially small and sometimes nondenominational churches (28.7 percent); None (7.9 percent); Methodist (3.5 percent); Catholic (2.8 percent); Jehovah's Witness (1.8 percent); African Methodist Episcopal (1.1 percent); and Muslim/Moslem (.7 percent). Two percent of the Black respondents refused to answer (see Graph 1A).

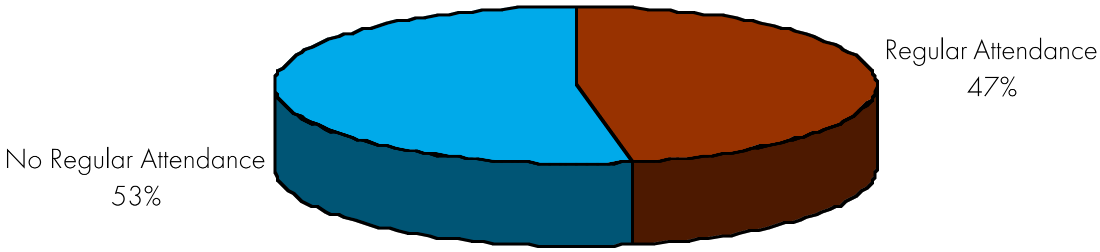
## GRAPH 1B
## WHITES' RELIGIOUS AFFILIATIONS




**Source: The Survey**

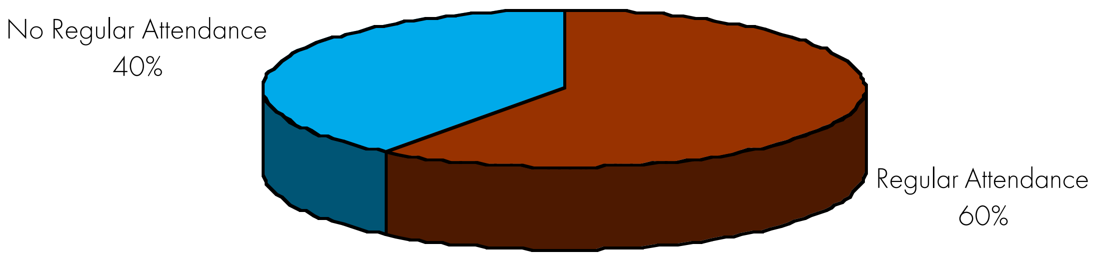
Religious affiliation among White respondents was as follows: Other, including such denominations as Presbyterians, Lutherans, Episcopalians and "nondenominationals" (36.2 percent); Baptist (17.1 percent); Catholic (17.7 percent); None (13.3 percent); Methodist (9.6 percent); Jewish (2.7 percent); 0.4 percent each for Buddhist and African Methodist Episcopal; and Jehovah's Witness (.2 percent). It is apparent that the religious preferences of White Americans are more widely distributed than are those of African Americans. Of the White respondents, 2.3 percent refused to answer (see Graphs 1A and 1B).

**GRAPH 2A**
**AFRICAN AMERICANS' RELIGIOUS ATTENDANCE**




**Source: The Survey**

**GRAPH 2B**
**WHITES' RELIGIOUS ATTENDANCE**




**Source: The Survey**

Fifty-three percent of African Americans reported attending a religious service every week, compared with 39.5 percent of the White respondents. **Religious practice apparently plays a larger and more influential role in the African American community than elsewhere in Hampton Roads. The traditionally dominating role of many African American church pastors in guiding and influencing their flocks, and the key political roles many African American churches play in elections, are both causes and effects of this. African Americans look to their churches for many things in addition to spiritual guidance, and their higher rates of attendance reflect this.**

## MARITAL STATUS

Finally, most survey participants (51.9 percent) reported being married, with a higher proportion of Whites (59 percent) indicating they were married, compared with 45.1 percent of African Americans. Further, a particularly large proportion of Black respondents (36.1 percent) reported they were single and never married. Only 23.9 percent of White respondents indicated the same.

Economic factors may be the root of these differences. Objectively, a greater proportion of African Americans may not earn an income they regard as sufficient to undertake marriage. And, as some analysts contend, it is possible that governmental economic (dis)incentives associated with marriage discourage some from taking this step.

# Quality Of Life And Economic Conditions

A principal focus of the survey was to assess individual perceptions of quality of life and economic conditions in Hampton Roads. For purposes of comparison, some items were drawn from the 1996 survey "Black Political Attitudes in Atlanta." The limitations of comparing Hampton Roads with the city of Atlanta are acknowledged; however, the results do not differ to a large degree.

In this section are the results that show the level of importance assigned by respondents to a range of issues pertinent to quality of life and general well-being.

## HOUSING

Table 4 summarizes respondents' ratings of the importance of issues that affect the general quality of life of citizens. Generally, a high proportion of respondents rated all of the issues presented as "very important" or "important." However, inspection of the ratings of African American and White respondents reveals some important differences. For example, 97 percent of the African American respondents rated housing as "very important" or "important" compared with 85.9 percent of the White respondents. A very high proportion of the Black respondents (98 percent in the 1996 Atlanta survey) also indicated that housing was an important issue. **The greater importance attached to housing by African Americans perhaps reflects the much lower proportion of Blacks who are homeowners and the occasional hassles African Americans encounter when they attempt to obtain financing for a home, or deal with a realtor or potential neighbors.**

## RECREATION FACILITIES AND WELFARE PROGRAMS

A significant difference existed in ratings of the importance of recreation facilities (a 13.3 percentage-point difference) assigned by African Americans and Whites. Lacking nearby recreation, and concerned about issues of crime and drugs, many African Americans may be especially sensitive to the availability of good parks, well-kept and supervised playgrounds, and gymnasium facilities.

## WELFARE PROGRAMS

African Americans regard welfare programs as of greater importance than do Whites, by a margin of 12.1 percent. Stereotypes aside, it remains true that a larger proportion of African Americans utilize the welfare system than Whites and hence one might expect their greater interest in it. Further, Whites may have a greater degree of comfort with, and disinterest in, a social support system they only read about and do not expect to encounter.

## AFFIRMATIVE ACTION

**It is in the realm of affirmative action, however, that respondents' ratings reflected the greatest percentage-point difference (24.2). This finding is indicative of the current ongoing debate among racial and ethnic groups (and sometimes along gender lines) concerning the constitutionality of affirmative action.** Despite the sizable difference in the ratings of Black and White respondents on the importance of affirmative action, more than two out of three (69.4 percent) of the White respondents indicated that affirmative action is "very important " or "important." However, 93.6 percent of African American respondents identified affirmative action as "very important" or "important."

Whites tend to be supportive of affirmative action policies that benefit all those deemed needy, regardless of race, and tend to disapprove of affirmative action policies designed to benefit all African Americans, regardless of their circumstances. For example, Whites tend to support college scholarship programs aimed at students with financial need, even when the majority of recipients are African American. They tend not to favor similar programs that support only African American students, regardless of financial need. This distinction is an important one and undoubtedly will be the focus of considerable debate in Hampton Roads and nationally over the next few years.

TABLE 4

Percentage of Respondents Rating Issues as Very Important or Important

| Issues | Percent African American | Percent White | Total |
|---|---|---|---|
| Jobs | 99.4 | 96.5 | 98.1 |
| School | 99.2 | 98.7 | 81.7 |
| Crime | 98.2 | 97.7 | 98.0 |
| Drugs | 97.1 | 95.9 | 96.5 |
| Housing | 97.0 | 85.9 | 91.6 |
| HIV/AIDS | 96.5 | 76.9 | 83.7 |
| Taxation | 96.1 | 92.1 | 86.1 |
| Police Brutality | 95.6 | 76.3 | 86.1 |
| Teen Pregnancy | 95.1 | 86.5 | 90.8 |
| Environment | 94.2 | 93.7 | 93.9 |
| Affirmative Action | 93.6 | 69.4 | 81.7 |
| Welfare | 92.1 | 80.0 | 86.2 |
| Recreation Facilities | 90.2 | 76.9 | 83.7 |

## HIV/AIDS

A large difference (almost 20 percentage points) exists in the proportions of Black and White respondents rating the issue of HIV/AIDS as "very important" or "important." While 96.5 percent of African American respondents indicated that HIV/AIDS is a "very important" or "important" issue, only 76.9 percent of the White respondents concurred. The figure for African Americans is consistent with findings reported in the 1996 Atlanta study, which revealed that 98 percent of African American respondents viewed HIV/AIDS as an issue of importance. HIV/IDS may be a stealthy issue in the White community, stereotypically consigned to gay and lesbian relationships, but this is not so in the African American community.

## THE POLICE AND POLICE BEHAVIOR

**Moreover, on the issue of police brutality in Hampton Roads, a difference of more than 19 percentage points exists between the proportions of African Americans (95.6 percent) and Whites (76.3 percent) rating this issue as "important" or "very important."** Consistent with findings for African Americans in Hampton Roads, the Atlanta study revealed that 96 percent of the Black respondents viewed the issue of police brutality as important. Differences in the rating of police are more starkly revealed when satisfaction levels are examined on the basis of the cities with the largest populations in Hampton Roads. Evidence from other metropolitan areas suggests the typical White person does not have nearly as many negative encounters (self defined) with police as do African Americans. To African Americans, the police are less often friends and helpers and more often adversaries, particularly if phenomena such as "Driving While Black" are taken into consideration.

Table 5 reports by race the proportion of survey respondents that indicated they are “very satisfied” or “satisfied” with the police department in their city.

As Table 5 indicates, with the exception of Newport News, in no major city in the region did results show African American satisfaction with their city’s police department being equal to or in excess of the satisfaction levels of White respondents. By race, more than 20 percentage-point differences exist between the satisfaction level reported in the cities of Chesapeake, Norfolk and Portsmouth. Norfolk African Americans are the least satisfied with their police department, perhaps reflecting recent incidents involving African Americans.

**TABLE 5**

**Percent of Respondents Reporting That They Are “Very Satisfied” or “Satisfied” With Their City’s Police Department**

| Issues | Percent African American | Percent White | Total |
|---|---|---|---|
| Norfolk | 57.9 | 85.7 | 69.1 |
| Portsmouth | 61.2 | 88.6 | 72.6 |
| Chesapeake | 65.1 | 91.3 | 76.8 |
| Virginia Beach | 69.1 | 83.3 | 78.7 |
| Suffolk | 70.9 | 85.7 | 76.9 |
| Newport News | 71.6 | 62.0 | 76.7 |
| Hampton | 77.4 | 89.6 | 82.3 |

## MUNICIPAL AND REGIONAL SERVICES

"Quality of life" encompasses an individual's reasonable sense of comfort, social stability and expectations within the context of his or her existence in a political world. For example, citizens expect city and county governments to provide certain basic services and to maintain infrastructure. Accordingly, Hampton Roads respondents were asked to either rate the quality or indicate the extent of their satisfaction with a variety of local and regional services. Respondents were also asked to rate economic conditions in their local communities and the region.

Table 6 reports the percentages of respondents stating they are "very satisfied" or "satisfied" with various municipal services and public infrastructure. The public housing category reflected the lowest percentage (40 percent) of respondents indicating they are "very satisfied" or "satisfied." Only 36 percent of African Americans expressed satisfaction with public housing, compared with 44.4 percent for Whites. Nearly all citizens, African American and White, are rather satisfied with their libraries and their sanitation/garbage collection services.

Once again, African Americans reported higher levels of dissatisfaction with their city and county police forces than did Whites. Whites' satisfaction with their police departments rivaled the high levels they reported for their libraries.

**TABLE 6**

**Percentage of Respondents Reporting That They Are "Very Satisfied" or "Satisfied" With City and County Services and Public Infrastructure**

| Service/Public Infrastructure | Percent African American | Percent White | Total |
|---|---|---|---|
| Libraries | 86.2 | 87 | 1 86.7 |
| Sanitation/Garbage Collection | 84.5 | 86.3 | 85.4 |
| Parks and Recreation | 76.1 | 83.6 | 79.8 |
| Post-secondary Education | 71.1 | 76.1 | 73.6 |
| Police Department | 67.9 | 85.9 | 76.7 |
| Sheriff's Department | 67.1 | 78.8 | 72.8 |
| Health Department | 62.8 | 63.8 | 63.3 |
| Public Schools | 61.0 | 55.4 | 58.3 |
| Streets and Highways | 59.9 | 61.5 | 60.6 |
| Public Housing | 36.0 | 44.4 | 40.0 |
| Public Transportation | 54.5 | 47.8 | 51.2 |

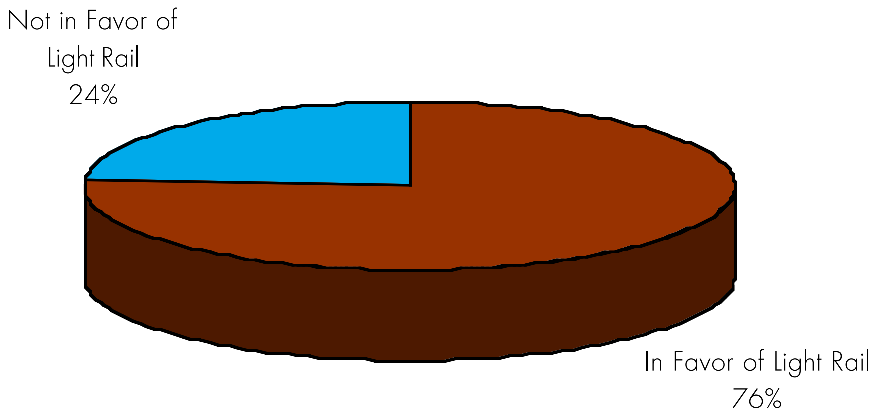
## THE PUBLIC TRANSPORTATION QUESTION AND LIGHT RAIL

Levels of satisfaction with public transportation reported by all respondents (see Table 6) were relatively low, with only a bare majority (51.2 percent) reporting they were "very satisfied" or "satisfied." Other ratings include those for public housing and public transportation, followed by streets and highways (60.6 percent), public schools (58.3 percent) and health department (63.3 percent).

**Citizen disquiet with public transportation in Hampton Roads was underlined by a surprisingly strong endorsement of a local light rail system. Overall, 70.2 percent of those surveyed responded favorably.** Of the African Americans surveyed, 76.1 percent responded favorably to the establishment of light rail, compared with 64 percent of Whites (see Graphs 3A and 3B). The words "surprisingly strong endorsement" are used here because elected officials, particularly in Virginia Beach, have opposed light rail on the grounds that a majority of their citizens are not in favor of it. It must be that these individuals have been listening to a vocal minority rather than to the large, and perhaps less demonstrative, majority of citizens who apparently favor light rail.

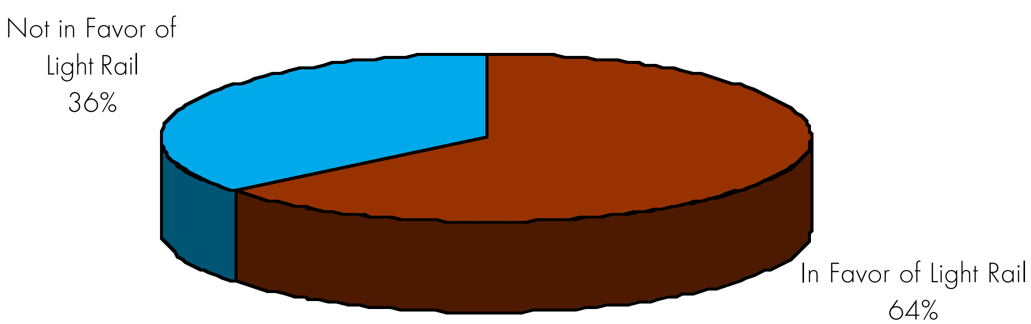
The light rail finding evokes memories of last year's State of the Region report, which found a small majority of Hampton Roads citizens were in favor of a merger of cities within the region. Several elected officials reported being dumbfounded by that result, as they had heard only from individuals who opposed merger. This year's light rail finding underscores the importance of elected officials casting their nets widely when they attempt to divine public opinion. Experience suggests some elected officials may be overly sensitive to those who either are boisterous or have special interests at stake and perhaps back up that interest with a check. Determining the will of the public is never an easy task; however, the substantial surveys undertaken the past two years as a part of the State of the Region report indicate there is a degree of disconnect between the public and some elected officials.

**GRAPH 3A**
**AFRICAN AMERICANS' OPINIONS OF LIGHT RAIL TRANSPORTATION**




**Source: The Survey**

**GRAPH 3B**
**WHITES' OPINION OF LIGHT RAIL TRANSPORTATION**




**Source: The Survey**

## AIRPORT LOCATION AND SERVICES

Table 7 shows the ratings of key regional facilities and economic conditions. While 68 percent of White respondents indicated that airport location is "very good" or "good," only 50.3 percent of African American respondents concurred. With respect to airport services, the Black-White gap is even wider, with only 35.2 percent of African Americans and 50.1 percent of Whites rating services "very good" or "good."

## WAGES, JOBS AND ECONOMIC CONDITIONS

Differences exist in the proportions of African Americans and Whites who rate job opportunities (29.4 percent and 55.1 percent, respectively), cost of living (27.5 percent vs. 44.9 percent) and earnings in wages (14.3 percent vs. 27.5 percent) as "good" or "very good." In general, perhaps because they are, on average, better off economically, Whites express more satisfaction with job opportunities in Hampton Roads and with their wages.

Even so, consistent with last year's State of the Region report, a significant number of Hampton Roads residents are not thrilled with their economic situation. This disenchantment probably reflects the region's lower than average rates of population and income growth. In fact, Hampton Roads trails Richmond, Northern Virginia and the entire Commonwealth in terms of most measures of economic health. In addition, it is worth noting that during the decade of the 1990s, Virginia trailed both the entire United States and nine of 16 Southern states in terms of the growth of its real, inflation-adjusted gross state product. Neither Hampton Roads nor Virginia has been a boom area. This directly affects economic welfare. Slow economic growth means fewer available jobs and less rapidly growing wages. Hence, even though the cost of living in Hampton Roads is demonstrably lower than it is in regions such as Northern Virginia, and Hampton Roads per capita income is 98 percent of the national average when cost of living differences are considered, the typical Hampton Roads resident seems unimpressed. He/she is often full of discontent insofar as economic conditions are concerned.

Sizable proportions of African Americans (73.3 percent) and Whites (78.6 percent) "strongly agree" or "agree" with the statement, "I enjoy my job." The finding that a relatively high proportion of African American respondents (50.9 percent), in comparison with White respondents (29.3 percent), "disagree" or "disagree strongly" with the statement, "The money that I earn in my job is sufficient for my needs," corroborates the results presented in Table 7.

**TABLE 7**

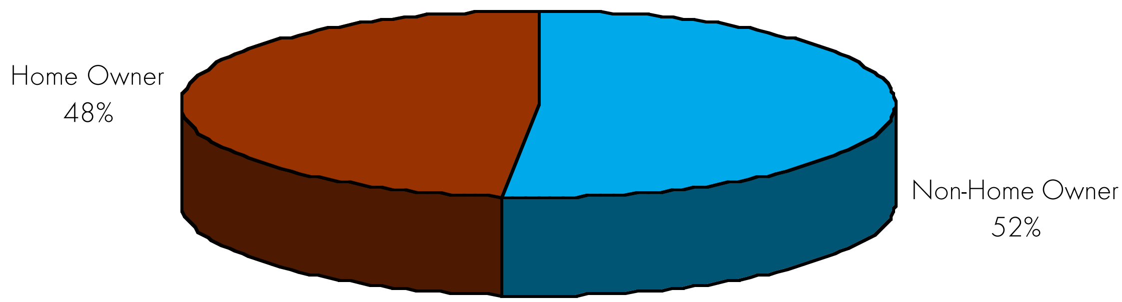
**Percentage of Respondents Rating Regional Infrastructure and Economic Conditions as "Very Good" or "Good"**

| Infrastructure/Economic Conditions | Percent African American | Percent White | Total |
|---|---|---|---|
| Airport Location | 50.3 | 68.0 | 59.0 |
| Airport Services | 35.2 | 50.1 | 42.4 |
| Job Opportunities | 29.4 | 55.1 | 42.0 |
| Cost of Living | 27.5 | 44.9 | 35.9 |
| Earning in Wages | 14.3 | 27.5 | 20.8 |

## HOME OWNERSHIP

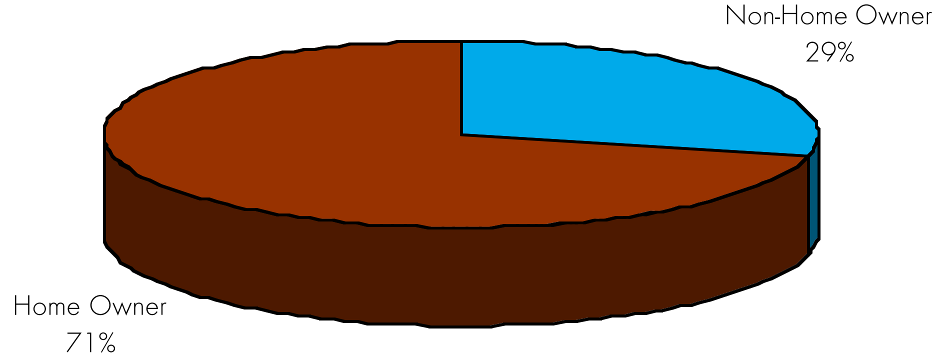
Homeownership, a hallmark of the American dream, has been a more elusive goal for African Americans than for Whites. Of the African American respondents, only 48.4 percent reported owning their homes, compared with 70.7 percent of Whites (see Graphs 4A and 4B). What is not clear is whether the causes of this large gap are due primarily to income and asset differences between African Americans and Whites, or whether housing and financial markets retain some of the discriminatory characteristics they clearly exhibited in previous years. This is a subject worthy of additional exploration, given the size of the disparity between the home ownership rates of the two groups.

**GRAPH 4A**
**AFRICAN AMERICANS' HOME OWNERSHIP STATUS**




**Source: The Survey**

**GRAPH 4B**
**WHITES' HOME OWNERSHIP STATUS**




**Source: The Survey**

### OVERALL LEVELS OF SATISFACTION WITH THEIR LIVES

The indicators of quality of life and economic conditions presented in Tables 5, 6 and 7 show a divergence in the economic realities perceived by African Americans and Whites in Hampton Roads. **The existence of race- and gender-based economic and social inequality in America notwithstanding, when asked, "In general, how satisfied are you with your life as a whole?", the overwhelming majority (92.5 percent) of respondents reported they were "very satisfied" or "satisfied." Of the African American respondents, 89.2 percent reported they were "very satisfied" or "satisfied" with their lives, compared with 95.9 percent of Whites.** Further, the relatively high proportion of respondents (83.8 percent) that indicated their health is "good," "very good" or "excellent," indeed might be linked to the relatively high degree of satisfaction they have with their lives.

### TECHNOLOGY OPPORTUNITY AND THE DIGITAL DIVIDE

The recent surge in computer and Internet usage has not touched all segments of society equally. Racial and ethnic differences exist in computer ownership and computer and Internet usage. Seventy-two percent of all respondents indicated they own a personal computer. Of all African Americans surveyed, 64.3 percent indicated they own a personal computer, compared with 80.8 percent of Whites.

Concerning Internet usage, 74 percent of all respondents said they use the Internet. Sixty-nine percent of the African Americans responded this way, compared with 80 percent of Whites. While home (84.4 percent) is the principal place where respondents use the Internet, African Americans are somewhat less likely (78.1 percent) than Whites (90.1 percent) to have such access.

National data suggest that observed differences between ethnic groups in terms of computer and Internet usage are based primarily upon income levels and technological readiness. That is, African Americans and Whites of comparable incomes, education levels and ages tend to exhibit similar rates of computer and Internet usage. Nonetheless, given the key role computers and the Internet play in society, and ethnic differences in incomes and education, access will continue to be a critical policy question at nearly all levels of society. It remains to be seen whether computer and Internet access will come to be regarded in the same fashion as telephone access.

## Ideology And Political Participation

The survey revealed interesting racial differences with respect to ideology and political participation. Survey results also uncovered some important revelations about the internal dynamics of the African American community. To assess ideology and political participation, several questions were asked regarding party identification, political philosophy, and registration and voting. To delve more deeply into the ideological terrain of African Americans, respondents in this group were asked questions regarding their support of the principles of the Million Man March and the Million Woman March, and their agreement with the views of national Black leaders and organizations.

### LIBERAL, CONSERVATIVE OR MODERATE?

Respondents were asked the following question: "Politically speaking, do you consider yourself a liberal, moderate or a conservative?" **While the proportion of African Americans who label themselves "liberal" is greater than it is for Whites (29.3 percent vs. 20.6 percent), Whites (36.8 percent) were somewhat more likely than Blacks (30 percent) to regard themselves as "moderate." In general, African Americans in Hampton Roads reside on the left side of the political spectrum and are politically more liberal than Whites.**

### PARTY IDENTIFICATION

Party identification is a key indicator of political ideology. In contrast to Whites (24.7 percent), a far greater proportion of African Americans (65.7 percent) reported that they consider themselves to be Democrats. Identification with the Republican Party among Whites (38.9 percent) dwarfed the 5.3 percent of African Americans who reported that they consider themselves Republicans. Of course, it often has been observed that some African Americans are closet Republicans. They vote for

Republican candidates, but do not wish to say so, as such a confession might subject them to ridicule. Witness several Virginia elections during the 1990s in which Republican candidates garnered 15 to 20 percent of the African American vote. Thus, "there may be more Republicans in the weeds," as one commentator put it, but they are not likely to disclose that fact in a telephone survey.

The proportion of survey respondents who consider themselves Independent differs substantially between African Americans and Whites in Hampton Roads. Of the Whites surveyed, 25.8 percent consider themselves to be Independent, compared with only15.5 percent of African American respondents. The typical White person more often considers himself to "be in play" politically and takes the attitude that candidates must compete for his vote. African Americans, on the other hand, tend more often to vote straight tickets, in this case Democratic, and are not seen by most candidates as being "swing votes." Whether this is good or bad for African Americans is a subject for debate. African American loyalty to the Democratic Party since the time of President Franklin Delano Roosevelt has evolved into positions of clout and influence in the Democratic Party, both nationally and locally. However, in a state such as Virginia, where Republicans have triumphed in nearly every recent election, this may have disadvantaged African Americans. In general, Blacks do not sit on the innermost councils of the Commonwealth's political power brokers, whose memberships are largely Republican and White. Query whether a more independent approach and a "you can't take our vote for granted" attitude on the part of African Americans would generate better results.

## PRESIDENTIAL VOTING BEHAVIOR

Survey results revealed a wide chasm in the voting behavior of African Americans and Whites in the November 2000 presidential election. African Americans (75.8 percent) were far more likely than Whites (26.7 percent) to vote for Al Gore. Indeed, given post-election polls, the 75.8 percent African American proportion seems a gross underestimate. President George W. Bush apparently won only about 10 percent of the African American vote in Virginia. The survey may have elicited an after-the-fact "I voted for the winner" reaction from some African Americans, or mirror an understandable reluctance on the part of respondents to tell anyone how they voted. A paltry 1 percent of all respondents reported that they cast their ballot for Ralph Nader.

## THE MILLION MAN AND MILLION WOMAN MARCHES

Agreement with the principles of the Million Man March and the Million Woman March was assessed. While these events did not arouse much interest outside of the African American community, they espoused beliefs widely known and agreed to among a large proportion of the African American population. Nationally, accounts of the level of participation in the marches ranged from about 400,000 to almost 1.5 million. Significantly, virtual unanimity is reflected among African American respondents in this study, with 97 percent reporting that they agreed with the principles of the Million Man March and the Million Woman March.

The views of respondents toward the leaders that purportedly represent them at the national and local levels also were assessed. This indicator of ideology is useful for discerning within-group differences. The following questions were asked:

Which national Black leader best represents your views and opinions?

Who do you believe is the most politically influential living Black person in America today?

**The range of ideological diversity among African Americans in Hampton Roads is reflected in respondents' identification of the national Black leader who best represents their views and opinions.** The large proportion of respondents who indicated that they "don't know" (33.7 percent) could indicate that there is no one currently expressing their views, in which case we may be on the cusp of a majority change in African American opinion. Or, this result might represent a lack of knowledge about African American political leadership. Still another possibility is African Americans simply think it doesn't make any difference whom their leaders are. A final possibility is the respondents were reluctant to identify their "heroes" to the interviewers.

Table 8 records these responses. The top responses were the Rev. Jesse Jackson (21.9 percent); Secretary of State Colin Powell (7.9 percent); NAACP leader Kweise Mfume (6.6 percent); Minister Louis Farrakhan (3.1 percent); the Rev. Martin Luther King III (2.9 percent); the Rev. Al Sharpton (2.6 percent); U.S. Congresswoman Maxine Waters (1.3 percent). In addition to Powell, other African Americans not aligned with the Democratic Party were identified as being representative of the views and opinions of some African American respondents. These individuals included Supreme Court Judge Clarence Thomas (0.6 percent), presidential adviser Condoleezza Rice (0.4 percent) and U.S. Representative J.C. Watts (0.2 percent). These rather puny numbers suggest the Republican Party has some distance to travel before a large proportion of African Americans visibly align themselves with conservative African American leaders. African Americans may think conservatively on many issues, and secretly vote for Republican candidates in an election, but most continue to be reluctant to identify themselves publicly with the Republican Party.

Among African American respondents, 25.4 percent and 22.3 percent, respectively, identified Jesse Jackson and Colin Powell as the two most politically influential African Americans in the United States. A somewhat smaller proportion of Whites identified Jackson (21.8 percent) as the most politically influential African American, but a substantially larger proportion endorsed Powell (39.3 percent) as the most politically influential African American in America today. He may be, even though his influence probably is not as large among African Americans as it is among Whites. Sizable proportions of African American respondents identified Farrakhan (5.3 percent), Mfume (5 percent) and Sharpton (2.2 percent) as being most influential. Significant proportions of White respondents also identified Farrakhan (5.3 percent) and Thomas (1.5 percent) as the most politically influential Black leader in America. White Americans apparently believe Minister Farrakhan is more influential among African Americans than African Americans themselves do.

**TABLE 8**

**Black Leader Who Best Represents African Americans' Views**

| **Political Leader** | **Percent of Sample** |
|---|---|
| Minister Louis Farrakhan | 3.1 |
| Rev. Jesse Jackson | 21.9 |
| Rev. Martin Luther King III | 2.9 |
| Rev. Joseph Lowery | 0.0 |
| Kweise Mfume | 6.6 |
| Sec. Colin Powell | 7.9 |
| Hugh Price | 0.2 |
| Condoleezza Rice | 0.4 |
| Randall Robinson | 0.0 |
| Rev. Al Sharpton | 2.6 |
| Rep. Maxine Waters | 1.3 |
| Rep. J.C. Watts | 0.2 |
| Justice Clarence Thomas | 0.6 |
| Other | 16.8 |
| Don't know | 33.7 |
| Refused to answer | 1.8 |
| TOTAL | 100.00 |

## THIS ORGANIZATION REPRESENTS MY POINT OF VIEW

Respondents were asked which national organization best represents their point of view. The National Association for the Advancement of Colored People was identified by the largest proportion (20.8 percent) of African American respondents as the one group that best represents their political views. The NAACP was followed by the "Church" (14 percent) and "other community-based organizations" (11 percent) as best representing the political views of respondents (see Table 9). While 19.9 percent of the respondents reported that "none" of the organizations in their city or county best represents their political views, 30 percent indicated that they "don't know" which organization best represents their views. It is possible that the large proportion reporting "none" may be indicative of the occurrence of ideological realignment among African Americans. Alternatively, this may only represent a degree of boredom with things political. These findings may be important for the conduct of national, state and local political campaigns in Hampton Roads.

However, when asked, "What do you believe is the most politically influential Black organization in America today?", 75.3 percent of African American respondents identified the NAACP. Interestingly, this finding contrasts with results showing that Kweisi Mfume, NAACP president and CEO, was viewed by only 5 percent of the African American respondents as the most politically influential Black person in America. Mfume, a former U.S. congressman from Maryland, has only served in the position a few years and has not had enough time to build the reputation that previous incumbents of his position, such as Roy Wilkins, did so skillfully over many years.

**TABLE 9**

**Organization that Best Represents African Americans' Political Views**

| **Organization** | **Percent of Sample** |
|---|---|
| NAACP | 20.8 |
| Urban League | 1.3 |
| Church | 14.0 |
| Nation of Islam | 0.7 |
| New Black Panther Party | 0.4 |
| Other community-based organizations | 11.0 |
| Southern Christian Leadership Conferences | 0.4 |
| None | 19.90 |
| Don't know | 30.4 |
| Refused to answer | 1.1 |
| TOTAL | 100.00 |

## I'M A MEMBER OF THIS ORGANIZATION

African American respondents reported holding formal membership in the following organizations: Church (58.2 percent), NAACP (16.6 percent) and Urban League (4.1 percent). The latter two membership percentages no doubt will come as news to these organizations. The Urban League of Hampton Roads, as an example, in its best years has had only several hundred actual members – not the 20,000 this survey result implies. Perhaps the empathy many African Americans have for such organizations is mistakenly confused with membership. Nearly 12 percent reported holding membership in "other community-based organizations" (11.8 percent). It is notable also that 29.3 percent of those surveyed did not hold any formal organizational memberships. This may be the African American variant of "bowling alone."

## VOTING BEHAVIOR AND POLITICAL PARTICIPATION

Although arguably challenged in the November 2000 presidential election, one of the hallmarks of the American system of governance is the one person, one vote system. **Among Hampton Roads respondents, an extraordinarily high proportion (90 percent) reported that they were registered to vote. Of the African Americans surveyed, 87.5 percent said they were registered, compared to 91.9 percent of Whites. Once again, these proportions are at variance with actual facts, for the actual percentage of eligible Hampton Roads voters who are registered is much lower.** Respondents may not wish to admit they are not registered to vote, or that they do not vote, even though that is the truth. Among the respondents not currently registered, 44.1 percent of African Americans and 50 percent of Whites revealed that they had been registered to vote at some point in the past.

Voting in elections and working for a political campaign provide strong indications of political participation. Approximately 76 percent of all survey respondents indicated that they had voted in the last presidential election. Seventy-one percent of African Americans responded this way, compared with 81 percent of Whites. Both of these percentages exceed what actually was true.

Regarding their participation in a political campaign, only 16.6 percent of African Americans reported having done so at some point, compared with 25.4 percent of Whites.

## PERCEPTIONS OF THE BLACK SITUATION

The disjunction between African American and White perceptions of the American social reality presents a significant barrier to the public-policy effort to eradicate social inequality. It is commonly agreed that success in using political processes to eliminate Black inequality would be more likely if a biracial consensus existed on the nature and cause of the Black predicament and, further, there were agreement on appropriate policies to do so. No such consensus exists, as the survey results demonstrate.

Table 10 shows the proportion of respondents who "strongly agree" or "agree" with several statements relating to African Americans. **As the table shows, 25.3 percent of all respondents "strongly agree" or "agree" with the statement, "Discrimination against Blacks is not a problem in my city or county." However, when analyzed by race, the results reveal a significant gap between the perceptions of Blacks and Whites. Of the African American respondents, only 12.2 percent "strongly agreed" or "agreed" with the statement, compared with 39.1 percent of Whites.** This is an important difference, for perceptions of the prevalence of discrimination against African Americans, women and others have obvious implications for one's support of affirmative action and other programs working to eradicate social inequalities.

The African American reparations movement has a long history dating back to the post-Reconstruction era. In recent years, the movement appears to have gained additional attention and a bit of momentum. When a prominent White politician such as Chicago's Mayor Daley endorses a resolution supporting the idea that reparations should be paid to African Americans, then one knows the topic has become discussable even though it is a political "dead letter" at this point.

Broadly speaking, African Americans and Whites perceive different realities with respect to economic achievement. For example, 60 percent and 40 percent of African Americans and Whites, respectively, believe that the economic position of

**TABLE 10**

**Perceptions of the African American Predicament: Percentage of Respondents Who Strongly Agree or Agree**

| Statement | Percent African American | Percent White | Total |
|---|---|---|---|
| Discrimination against Black people is not a problem in my city/county. | 12.2 | 39.1 | 25.3 |
| Black people are owed reparations by the government. | 50.0 | 9.8 | 30.4 |
| Black people are owed reparations by private corporations. | 49.5 | 15.0 | 32.7 |

Blacks is worse than that of Whites. Hence, while some Whites support the notion that reparations are owed by the government and private corporations, there are far more African Americans in Hampton Roads who support this idea, presumably because they attribute the lack of economic success of African Americans to slavery and historic discrimination. With respect to whether reparations are owed by the government, 30.4 percent of all respondents "agreed" or "strongly agreed." However, while 50 percent of African American respondents "agreed" or "strongly agreed" that the government owes reparations to African Americans, only 9.8 percent of Whites concurred. The results concerning corporations parallel those for government. In response to the statement, "Black people are owed reparations by private corporations," 49.5 percent of African Americans "strongly agreed" or "agreed," compared with 15 percent of the White respondents. To place these numbers in context, the 1996 survey of Black political attitudes in Atlanta revealed that 50 percent of the respondents agreed with the idea that the government owes Black people reparations.

## SENSE OF EMPOWERMENT

The sense of political empowerment citizens possess is a vital part of the fabric of the American political enterprise. Empowerment boils down to the feeling that one's opinions, presence and votes make a difference. Not only does empowerment affect individual political behavior, but it also has important implications for the stability of the political system and its capacity for conflict mediation or resolution. Citizens who feel a sense of empowerment are more likely, for example, to participate in the political process and to resolve differences and conflicts with others within the framework of the system. Table 11 summarizes the responses of survey participants to a number of statements addressing various dimensions of empowerment.

The differences between African Americans and Whites depicted in Table 11 are striking in that Whites believe African Americans have more power and influence than African Americans believe they have. By way of illustration, survey results show African Americans (16.2 percent) are substantially less likely than Whites (54.3 percent) to "strongly agree" or "agree" with the statement, "Blacks and Whites have an equal amount of power in my city/county." Similar proportions of African Americans (24.1 percent) and Whites (54.5 percent) either "strongly agreed" or "agreed" with the statement, "Government leaders in my city/county are especially sensitive to the needs of Blacks."

**TABLE 11**

**Percentage of Respondents Strongly Agreeing or Agreeing With Statements Regarding Race and Sense of Empowerment**

| Statement | Percent African American | Percent White | Total |
|---|---|---|---|
| Black elected officials in my city/county sell out to Whites. | 26.9 | * | * |
| Blacks and Whites have an equal amount of power in my city/county. | 16.2 | 54.3 | 34.8 |
| Government leaders are especially sensitive to the needs of Black people. | 24.1 | 54.5 | 39.0 |
| Black elected officials in my city/county do not have power to change things for Black people. | 38.5 | 25.0 | 27.0 |
| My city/county government is run for the benefit of all the people. | 45.8 | 70.7 | 58.0 |
| People like me don't have a lot to say about what government does. | 46.6 | 41.4 | 44.0 |
| Local government is run largely by a few big interests. | 69.8 | 53.3 | 61.8 |
| Black politicians represent the interests of White citizens. | * | 62.4 | * |
| Black elected officials can change things for Black people if they want to. | 63.5 | 72.0 | 66.7 |

*** Only the group responding to the survey item is reflected in the results.**

These general attitudes always are portrayed by respondents who "strongly agreed" or "agreed" that, "Black elected officials in my city/county do not have the power to change things for Blacks in my city or county." Of the African American respondents, 38.5 percent "strongly agreed" or "agreed" with this statement, compared with 25 percent of Whites. On the other hand, large proportions of the African American sample (63.5 percent) and the White sample (72 percent) "strongly agreed" or "agreed" with the view, "Blacks elected to office in my city/county can change things for Black people if they want to." Against that, however, about one in four African American respondents (26.9 percent) believed that, "The Black elected officials in my city/county sell out to the White power structure." By contrast, the 1996 Atlanta survey revealed that 58 percent of the African American respondents believed that Black elected officials sell out to the White power structure.

It is worth noting that Atlanta has elected African American political leaders (for example, the mayor) for a longer period of time than any city or county in Hampton Roads. Perhaps African Americans in Atlanta have suffered from some disillusionment over the behavior of their elected African American leaders, or the leaders have found it difficult to accomplish their agendas and remain in power without the support of the White power structure. Still another hypothesis is that Hampton Roads is a region of several small and medium-sized cities and semi-rural counties. Arguably, the governments in these jurisdictions could be smaller, less bureaucratic and more responsive than is the case in big-city Atlanta. In any event, African Americans in Hampton Roads are considerably more hopeful, and much less cynical, about their leaders and those leaders' ability to change things, than their counterparts in Atlanta.

Nearly 70 percent of African Americans are also more likely to "strongly agree" or "agree" than Whites (53.3 percent) with the statement, "I believe that my local government is largely run by a few big interests looking out for themselves." White respondents (70.7 percent) were more likely than their Black counterparts (45.8 percent) to concur with the statement, "I believe that the government in my city/county is run for the benefit of all the people." Sixty-five percent and 24 percent of respondents, respectively, in the 1996 Atlanta survey concurred with these statements. Once again, African Americans in Hampton Roads (as well as Whites) are more inclined to believe government operates for their benefit than is true of the Atlanta citizenry.

## CONCLUSIONS AND A FEW RECOMMENDATIONS

What have we learned? On many issues, African American and White residents of Hampton Roads see things the same. Foremost are issues such as schools, crime and jobs. Both groups are quite impressed with the provision of several public services, for example, libraries and less glamorous tasks such as garbage removal.

**But, on a range of other issues, African Americans and Whites see things quite differently. African Americans are considerably less likely than Whites to believe problems of discrimination continue to be important for African Americans and more likely to be dissatisfied with their economic condition. Consequently, African Americans are much more supportive of affirmative action principles, and almost five times as many Blacks as Whites believe government and corporations should pay financial reparations to African Americans.** To some extent, these findings reflect the reality that African Americans earn lower incomes than Whites in Hampton Roads and are less likely to own their own homes. African Americans are also much more likely than Whites to regard HIV/AIDS as an important problem. And, religion appears to play a larger role in the lives of Hampton Roads' African Americans than its does in the lives of Whites, at least as measured by their frequency of church attendance and the influence the church has in their lives.

Relative to Whites, African Americans typically are much less satisfied with their police departments. The gap between the two groups is especially large in Norfolk, but virtually nonexistent in Newport News. Whether the different perceptions African Americans have of their police departments are based upon real or imagined differences in treatment, there is no doubt many African Americans feel these differences intensely.

Among public services, public housing is given low grades by both African Americans and Whites. Regional transportation also receives its share of criticism. Public officials would do well to heed what was perhaps the survey's most surprising result – namely, that approximately 70 percent of the citizens of Hampton Roads support the development of a light rail system for the region. This strong endorsement does not square well with the opposition of some elected officials to such a development. These officials often cite public opinion as the basis for their opposition.

Both African Americans and Whites in Hampton Roads are less cynical about their elected officials and their governments than the citizens of Atlanta, which we have used as a comparison. Many African Americans believe their elected officials and their governments can improve the lives of the typical African American. This is an agreeable and fortuitous finding for the region.

Not surprisingly, we found that African American churches have maintained their traditionally strong roles in the Black community. African Americans continue to utilize their churches for many purposes, in addition to religious nourishment. Consequently, African American pastors are influential molders of public opinion and oftentimes function as political leaders. Those who seek to understand African Americans must first understand Black churches.

Among African American leaders nationally, the Rev. Jesse Jackson continues to hold great influence. Where predominantly African American organizations are concerned, the NAACP is the most influential. However, almost one of every three African Americans indicated either they did not know or, alternatively, that none of these individuals or organizations best represented their views. It is possible this "I don't know or don't care" response represents nothing more than a degree of anomie or boredom; it also is possible that we find ourselves on the cusp of major shifts in African American opinion.

The relatively low level of home ownership among African Americans (48.4 percent vs. 70.7 percent for Whites) suggests the need for a close examination of all aspects of housing markets in Hampton Roads. Are so many African Americans not home-owners because of income and asset deficiencies, or are there procedural and discriminatory barriers to their home ownership? Given the importance of home ownership to community stability, this is a topic that should not be ignored.

This survey confirmed the strong support of African Americans for the Democratic Party. There is much dispute whether this causes African Americans to have more clout and political influence, or instead to "sell their votes for cheap and be taken for granted." Whites, on the other hand, while definitely leaning toward Republicanism, seem much less committed to party politics. A much larger proportion of Whites regard themselves as political independents. Many political observers believe this is the best strategy because it forces candidates to court Whites in Hampton Roads in every election. Whatever the truth here, the differences out-lined between African Americans and Whites in the political arena were among the strongest found in any area of the survey.

**Finally, these survey results for Hampton Roads are consistent with those reported for the Atlanta region in 1996 and for the nation as a whole in the July 11, 2001, edition of The Washington Post. Once local issues are taken into account, African Americans in Hampton Roads live in much the same worlds as their counterparts in Atlanta and nationally. The Post concluded, "Whether out of hostility, indifference or simple lack of knowledge, large numbers of White Americans incorrectly believe Blacks are as well off as Whites in terms of their jobs, incomes schooling and health care." Yet, reality is otherwise.**

Whites in Hampton Roads tend to overemphasize the progress African Americans have made economically, politically and socially. Believing African Americans to live and operate in circumstances roughly equivalent to those of Whites, the typical White person concludes that "a level playing field" (that is, an absence of affirmative action and preferences) is the best societal policy. This is particularly true for policies that apply to all African Americans, regardless of their status. Whites tend to be more supportive of preferences that focus on specific individuals who exhibit need, whatever their race, rather than policies that assist all African Americans, regardless of their circumstances. This view of the world has gained more currency in recent years and may in fact prevail on the U.S. Supreme Court. If so, we shall have many more opportunities to debate its relevance.

# Notes Of Appreciation

Special thanks are due Old Dominion University's Institute for the Study of Race and Ethnicity, directed by Michael L. Clemons, and Old Dominion's Social Science Research Center, directed by Jeffrey Y. Harlow. The institute and the center carried out the public-opinion survey that was the basis for this chapter. Drs. Clemons and Harlow were instrumental in analyzing the data from the survey and in delineating what the results mean.

We also express our thanks to the Center for Political Studies and Analysis at Clark Atlanta University in Atlanta, Ga., for gener-ously providing Drs. Clemons and Harlow with unfettered access to its survey instrument and a summary of item results from its 1996 Survey of Black Political Attitudes in Atlanta. The Atlanta study included 1,112 cases and collected data on 123 variables.

# POPULATION AND POLITICS

# Population And Politics: Virginia Legislative Redistricting And The Decline Of Political Power

The salient fact about this year's Virginia legislative redistricting, insofar as Hampton Roads is concerned, is it confirmed the recent decline in the political power of the region. For a variety of reasons, including lower than average regional population growth and the retirement or defeat of senior regional legislators, Hampton Roads' political power has been on the wane. The region will move from a situation in which 27 legislators had their districts wholly or partially in Hampton Roads to one next year when only 23 legislators will claim some portion of Hampton Roads in their district. One can sugarcoat this result in various ways, but it is undeniable that the region's political clout in the legislative halls of Richmond has declined significantly since the mid-1990s.

## The Redistricting Process

Hampton Roads' representation in the General Assembly has been affected over the years by changing population trends and shifting political winds. While redistricting under current judicial standards is primarily about equalization of legislative districts based on population, experiences of the Hampton Roads region show that politics continues to influence the drawing of district lines.

The Virginia constitution requires that the General Assembly reapportion the Commonwealth every 10 years into electoral districts that "shall be composed of contiguous and compact territory and shall be so constituted as to give, as nearly as practicable, representation in proportion to the population of the district." A number of court decisions have made it clear that the principle of "one man-one vote" is to be followed and that only a *de minimis* deviation in population equality is to be permitted.

Since the constitutionally established upper limits on the number of members of the House of Delegates (100) and the Senate (40) were reached long ago, redistricting in recent decades has consisted of moving district boundaries to reflect shifts in population. State legislative district boundaries are drawn to meet court-imposed standards of equal population and of access of minorities to the political system. In contrast to historical custom, district lines now are drawn irrespective of local jurisdictional boundaries.

The General Assembly approved new state legislative district lines in April 2001. Redistricting took place through the normal legislative process, although a special session was convened specifically for that purpose. Bills describing the new legislative districts were drafted by special subcommittees of the House and Senate Privileges and Elections Committees. Public hearings were held around the state, and the bills were heard in committee and on the floor in each house. Amendments were adopted to correct technical problems and to reflect changes desired by the majority party. Each house accepted the other's work, and the bills were signed by the governor. Maps of the old districts and the newly drawn ones are shown in Figures 1 and 2 for the House of Delegates and Figures 3 and 4 for the Senate.

The redistricting plan received approval from the U.S. Department of Justice in early June 2001, as required under the Voting Rights Act, but is the subject of a lawsuit challenging its constitutionality. Only minor changes, if any, are likely to result from these reviews.

**FIGURE 1**
**The Old 1990 House of Delegates Districts in Hampton Roads**

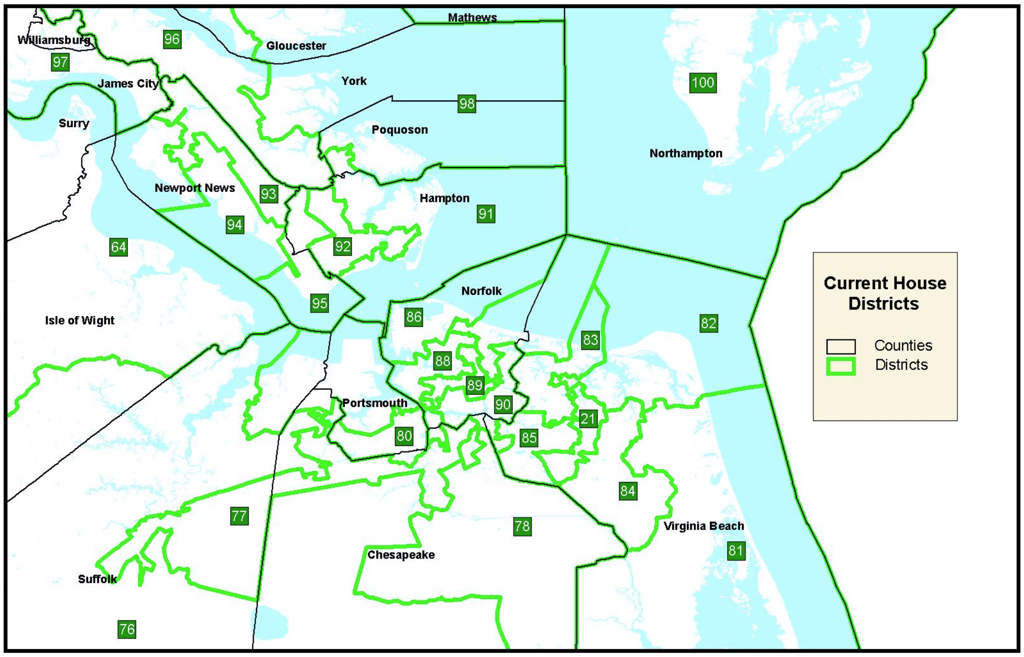



**FIGURE 2**
**The New 2001 House of Delegates Districts in Hampton Roads**

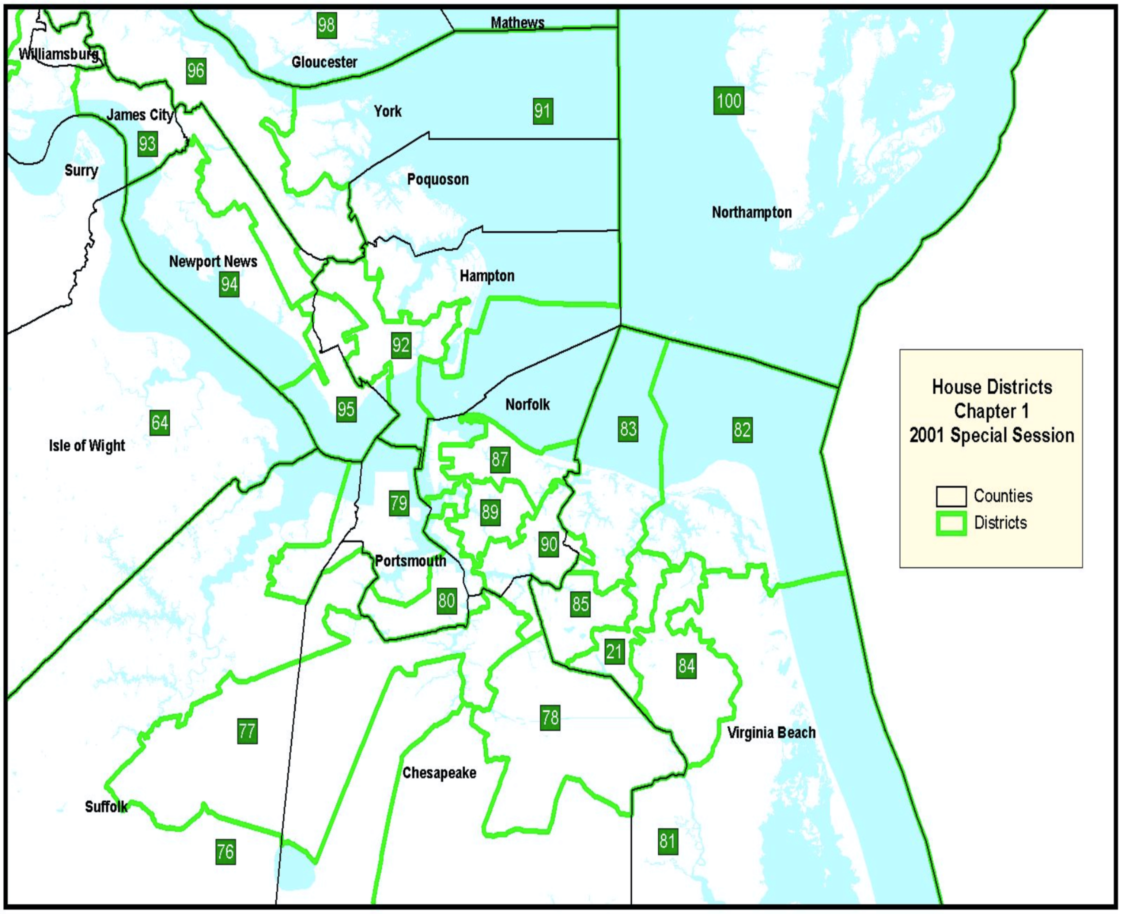


**FIGURE 3**
**The Old 1990 Senate Districts in Hampton Roads**

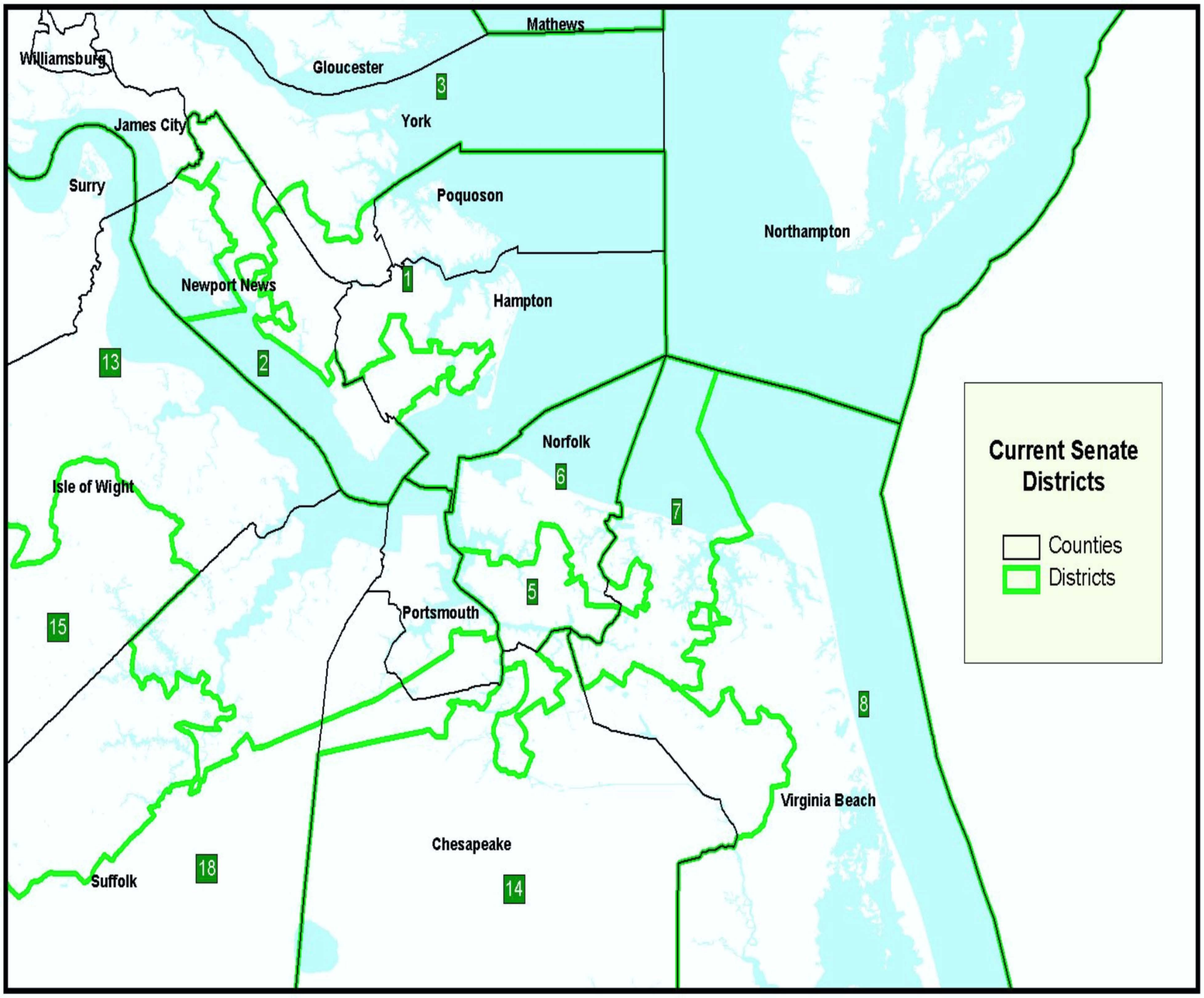


**FIGURE 4**
**The New 2001 Senate Districts in Hampton Roads**

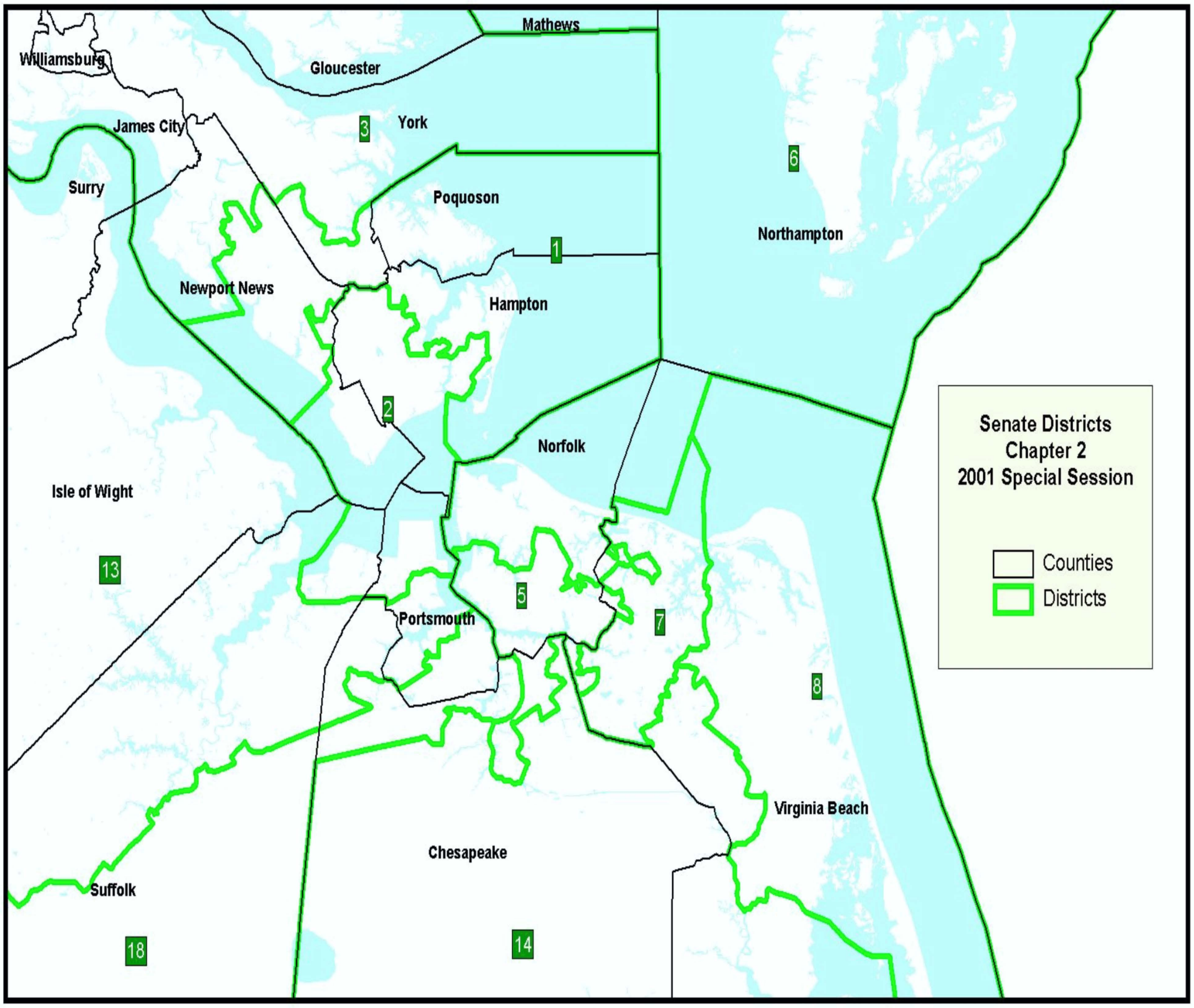


FIGURE 5

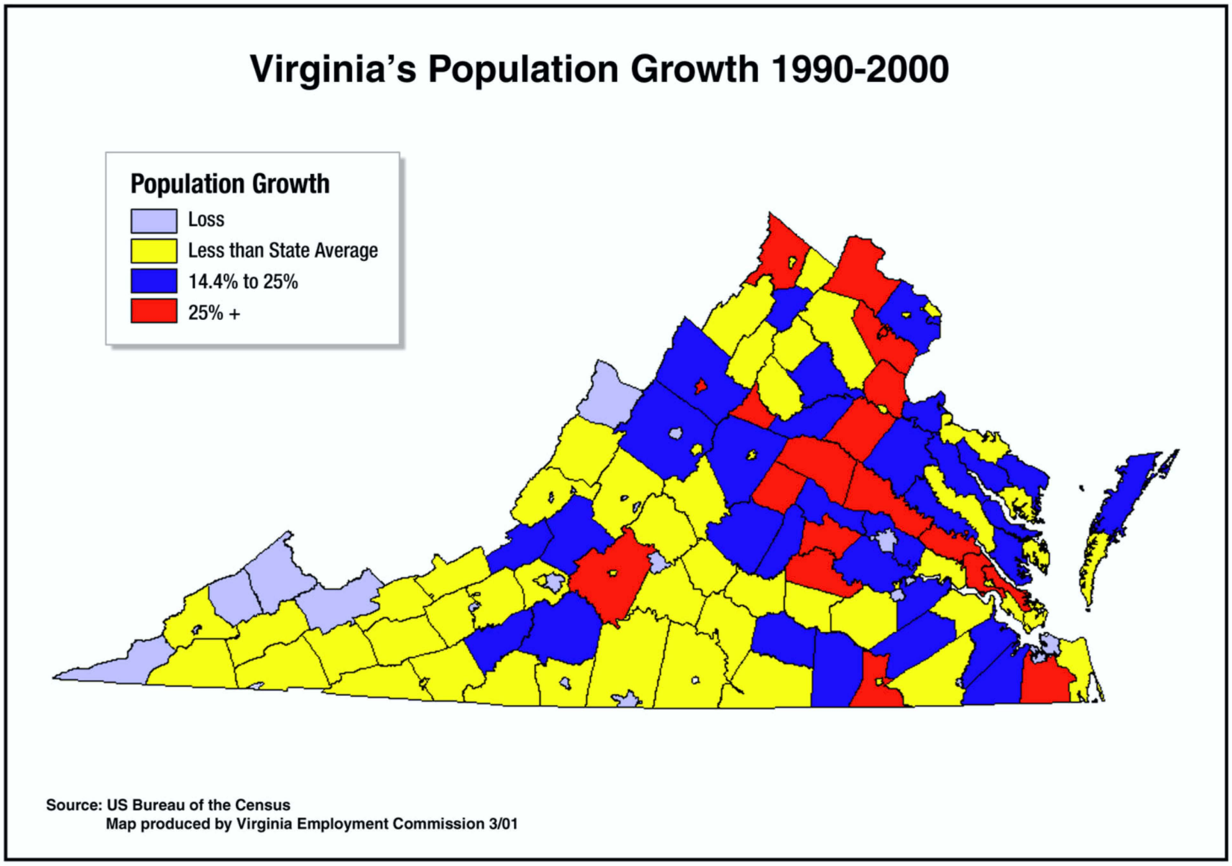
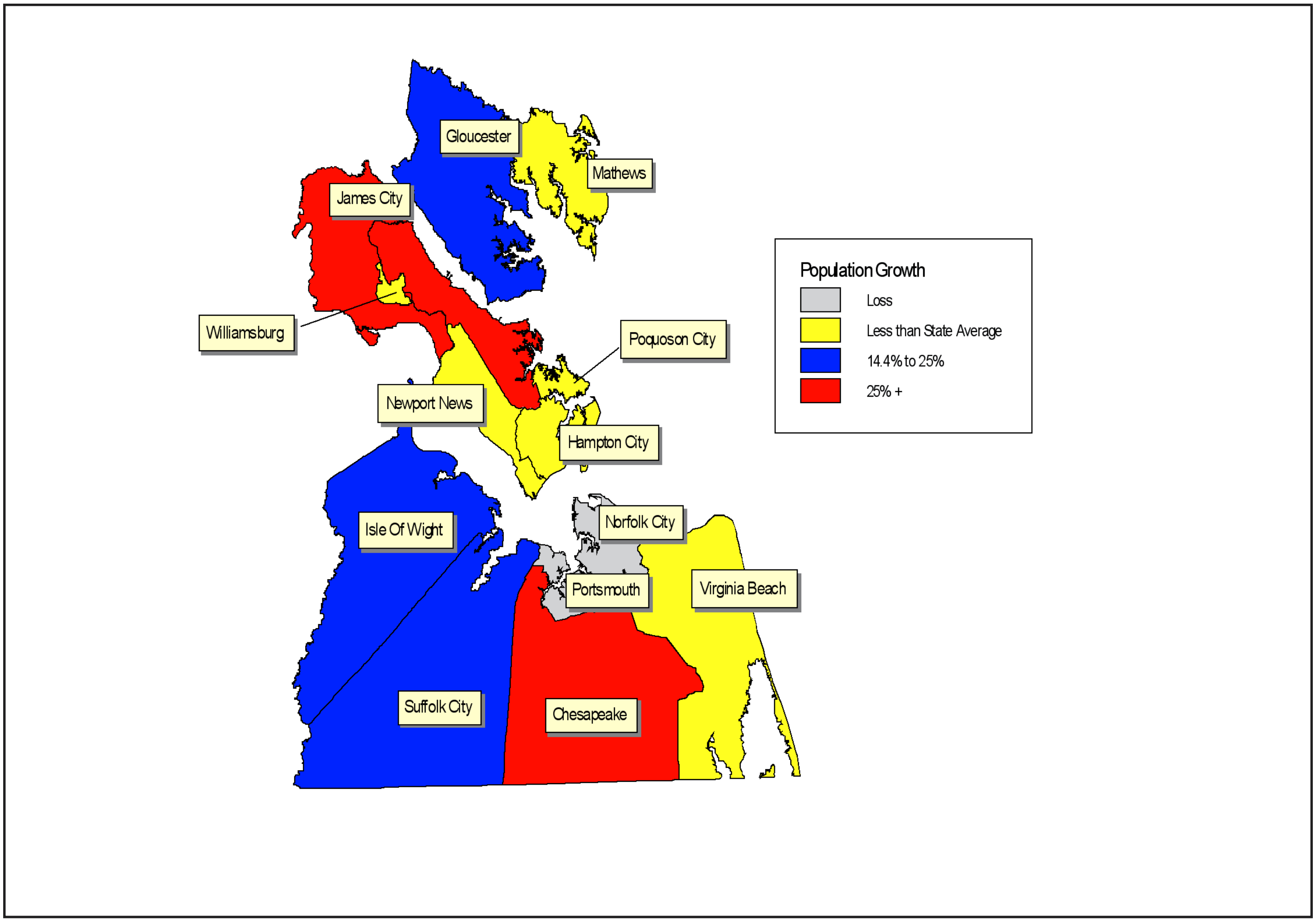

Virginia's Population Growth 1990-2000
Population Growth
Loss
Less than State Average
14.4% to 25%
25% +
Source: US Bureau of the Census
Map produced by Virginia Employment Commission 3/01

**FIGURE 6**
**A Closer Look at Population Growth in Hampton Roads**




Population changes drive legislative redistricting. Figure 5 depicts population growth in Virginia between 1990 and 2000. It is apparent that except for several university towns and a few larger cities such as Lynchburg and Chesapeake, significant population growth in the Commonwealth occurred primarily in Richmond and Northern Virginia. As Figure 6 demonstrates, within Hampton Roads, James City County recorded an impressive rate of growth in population. Suffolk, along with Accomack, Isle of Wight and York counties, also recorded healthy growth rates. Norfolk, Portsmouth and Franklin lost population during the decade. Williamsburg, Newport News, Hampton and Virginia Beach grew during the decade, but at less than the Commonwealth average. Table 1 provides specifics. The region's population continues to be sensitive to U.S. Department of Defense spending.

Taking everything into account, population growth in Hampton Roads was modest. Table 2 demonstrates that Hampton Roads grew about half as fast as the Richmond metropolitan area and only about a quarter as fast as Northern Virginia.

**Hampton Roads usually has been considered part of the "golden crescent" of economic growth and prosperity, running from Northern Virginia down the I-95 corridor to Richmond and east to Hampton Roads. However, measured by population changes in the past decade in the three metropolitan statistical areas that are in the crescent, Hampton Roads did not share the golden gleam of growth of the other regions. Figure 7 demonstrates this fact visually. Since the Reagan defense buildup of the 1980s, Hampton Roads' population growth has trailed that of Richmond and Northern Virginia by substantial margins.**

**TABLE 1**

**Population Changes Inside Hampton Roads, 1900-2000**

| Locality | 1990 Population | 2000 Population | 1990-2000 Change | Percentage Change |
|---|---|---|---|---|
| **Cities** | | | | |
| Chesapeake | 151,982 | 199,184 | 47,202 | 31.06% |
| Franklin | 8,392 | 8,346 | -46 | -0.55% |
| Hampton | 133,773 | 146,437 | 12,664 | 9.47% |
| Newport News | 171,477 | 180,150 | 8,673 | 5.06% |
| Norfolk | 261,250 | 234,403 | -26,847 | -10.28% |
| Poquoson | 11,005 | 11,566 | 561 | 5.10% |
| Portsmouth | 103,910 | 100,565 | -3,345 | -3.22% |
| Suffolk | 52,143 | 63,677 | 11,534 | 22.12% |
| Virginia Beach | 393,089 | 425,257 | 32,168 | 8.18% |
| Williamsburg | 11,600 | 11,998 | 398 | 3.43% |
| **Counties** | | | | |
| Accomack | 31,703 | 38,305 | 6,602 | 20.82% |
| Isle of Wight | 25,053 | 29,728 | 4,675 | 18.66% |
| Northampton | 13,061 | 13,093 | 32 | 0.25% |
| Surry | 6,145 | 6,829 | 684 | 11.13% |
| York | 42,434 | 56,297 | 13,863 | 32.67% |
| **Totals** | 1,417,017 | 1,525,835 | 108,818 | 7.68% |
| **State** | | | | |
| Virginia | 6,189,197 | 7,078,515 | 889,318 | 14.37% |

FIGURE 7

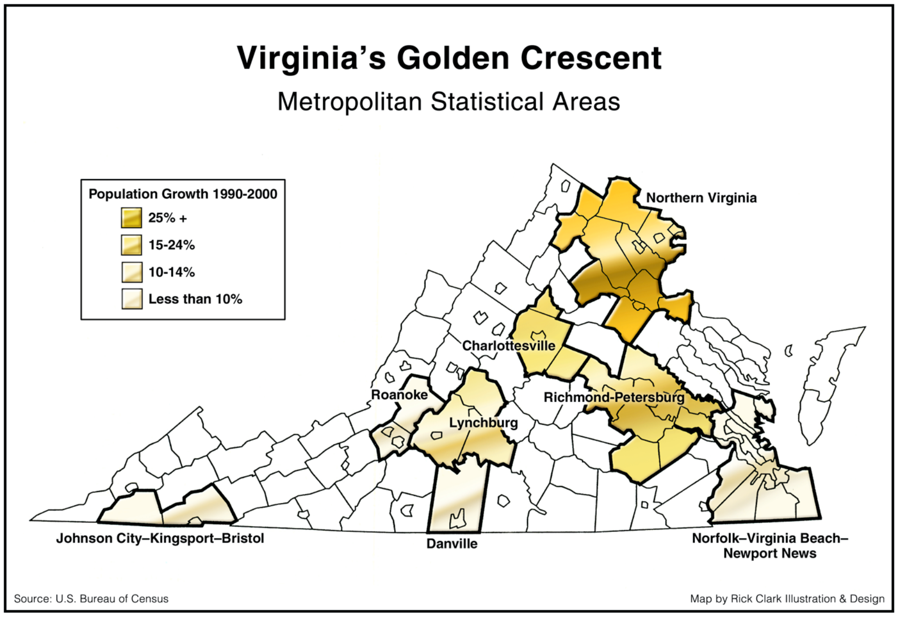



**TABLE 2**

**MSA Population Growth, 1990-2000**

| Metropolitan Statistical Areas | 1990 Population | 2000 Population | 1990-2000 Change | Percentage Change |
|---|---|---|---|---|
| **Norfolk** | 1,430,974 | 1,551,351 | 120,377 | 8.41% |
| **Richmond** | 865,640 | 996,512 | 130,872 | 15.12% |
| **Northern Virginia** | 1,732,437 | 2,167,757 | 435,320 | 25.13% |

**Source: U.S. Bureau of Census**

# The Mechanics Of The Redistricting Process

Population losses and the slow growth of the region impacted the number of people living in each legislative district. According to the 2000 Census numbers, House of Delegate districts in whole or in part in Hampton Roads showed the highest regional deviations in the state for under-population from the reapportionment standard population of 70,785 people per district. The same was true of Senate districts, deviating from the ideal population of 176,963; the greatest amount of deviation for under-population was in Hampton Roads.

**TABLE 3**

**Legislative Districts in Whole or in Part in Hampton Roads - 2000**
**(Before Redistricting)**

| Delegate Districts (Ideal District Population 70,785) | | | |
|---|---|---|---|
| District | Population | Deviation | Percent Deviation |
| 21 | 67,070 | -3,715 | -5.2 |
| 64 | 71,068 | 283 | 0.4 |
| 75 | 65,717 | -5,068 | -7.2 |
| 76 | 74,724 | 3,939 | 5.6 |
| 77 | 67,258 | -3,527 | -5.0 |
| 78 | 91,663 | 20,878 | 29.5 |
| 79 | 71,380 | 595 | 0.8 |
| 80 | 51,524 | -19,261 | -27.2 |
| 81 | 63,697 | -7,088 | -10.0 |
| 82 | 64,139 | -6,646 | -9.4 |
| 83 | 67,380 | -3,405 | -4.8 |
| 84 | 79,958 | 9,173 | 13.0 |
| 85 | 64,196 | -6,589 | -9.3 |
| 86 | 45,130 | -25,655 | -36.2 |
| 87 | 49,877 | -20,908 | -29.5 |
| 88 | 57,734 | -13,051 | -18.4 |
| 89 | 55,887 | -14,898 | -21.0 |
| 90 | 58,008 | -12,777 | -19.1 |
| 91 | 64,799 | -5,986 | -8.5 |
| 92 | 60,313 | -10,472 | -14.8 |
| 93 | 74,347 | 3,562 | 5.0 |
| 94 | 64,567 | -6,218 | -8.8 |
| 95 | 61,021 | -9,764 | -13.8 |
| 96 | 78,182 | 7,397 | 10.4 |
| 97 | 80,843 | 10,058 | 14.2 |
| 98 | 72,329 | 1,544 | 2.2 |
| 100 | 68,247 | -2,538 | -3.6 |
| | | -120,137 | |

| Senate Districts (Ideal District Population 176,963) | | | |
|---|---|---|---|
| District | Population | Deviation | Percent Deviation |
| 1 | 189,763 | 12,800 | 7.2 |
| 2 | 149,888 | -27,075 | -15.3 |
| 3 | 181,082 | 4,119 | 2.3 |
| 5 | 143,643 | -33,320 | -18.8 |
| 6 | 136,556 | -40,407 | -22.8 |
| 7 | 152,111 | -24,852 | -14.0 |
| 8 | 167,639 | -9,324 | -5.3 |
| 13 | 176,293 | -670 | -0.4 |
| 14 | 220,607 | 43,644 | 24.7 |
| 15 | 170,373 | -6,590 | -3.7 |
| 18 | 159,437 | -17,526 | -9.9 |
| | | -99,201 | |

**Source: Division of Legislative Services, Virginia General Assembly**

While the under-population of the districts in Hampton Roads relates to the lack of population growth in the region, the extent of the deviation also can be attributed to the fact that the legislative districts drawn in Hampton Roads in 1991 showed the greatest negative deviation from the ideal size of the district for any region of the state (see Appendix A). **In other words, the legislative districts drawn in 1991 had as few people in them as the legislators felt was possible to meet the court standard. In fact, in 1991, Hampton Roads legislators were able to delay the full negative impact of the region's slow population growth by clever redrawing of districts. The end product was a large number of districts that were "under-populated" as much as the courts would allow – 5 percent less population than the state average.**

In contrast, in 2001 there was a deliberate attempt to stay within a 2 percent deviation of the ideal standard statewide. The change in approach to redistricting between 1991 and 2001 cost Hampton Roads some legislative representation.

As Table 4 indicates, had the House of Delegate districts in Hampton Roads been drawn in 1991 with no deviation from the ideal standard, Hampton Roads would have qualified for 22.9 delegates. Since almost all the districts were drawn permitting a 4 percent deviation of under-population, Hampton Roads ended up with 23.41 delegates, or an approximate one-half position in additional representation. In 2001, however, Hampton Roads districts were drawn very close to the ideal population, or even were "slightly over-populated" (higher than the standard), which resulted in 21.38 districts (see Table 4). Had all districts been drawn exactly to the ideal standard, Hampton Roads would have had 21.56 seats (".56 of a district" reflects the reality that one or more legislative districts within Hampton Roads overlap into areas outside of Hampton Roads).

The net loss for the region in 2001 was 2.03 delegates (23.41 minus 21.38). However, if the 2001 districts had not been over-populated slightly, the net loss would have been 1.85 (23.41 minus 21.56). Had the same population deviations from the ideal been followed in 2001 that were followed in 1991, the net loss would have been 1.35 (23.41 minus 22.06).

**TABLE 4**
**The Tale of the Population Numbers**

| | **1991** | **2001** |
|---|---|---|
| House District Population Standard | 61, 874 | 70,785 |
| Hampton Roads Regional Population | 1,417,017 | 1,525,825 |
| House Districts With No Deviation | 22.9 | 21.56 |
| House Districts Legislated* | 23.41 | 21.38 |
| Difference | 0.51 | -0.18 |

***For House districts legislated, that part of a district partially in Hampton Roads is counted as a fractional part of the population in Hampton Roads.**

Of course, legislators do not come in fractional parts. If one assumes that a legislator who has some piece of his or her district in Hampton Roads has an interest in representing the region as much as someone whose district is fully within the region, the contrast between what happened in 1991 and 2001 is even greater. **As a result of the 1991 redistricting, 27 delegates had their districts wholly or partially within Hampton Roads. With the 2001 redistricting, that number has dropped to 23, a loss in representation of four delegates! There is no way one can sugarcoat this outcome, for it represents a very substantial loss in regional political power. When, in addition, one takes into account the ending of the legislative careers of prominent and powerful Hampton Roads legislators such as Thomas Moss, Alan Diamonstein, Stanley Walker and Hunter Andrews, the combined effect represents a blow to the political power of Hampton Roads of huge magnitude.** There has been a curious, though perhaps understandable, lack of recognition of this fact by the Hampton Roads citizenry, the regional power structure and the media. Yet, the impact of these changes upon the political power and clout of Hampton Roads has been tremendous.

While political power has many sources, the primary roots of regional legislative power in Virginia are: (1) the number of legislators a region sends to Richmond; (2) the seniority of those legislators; (3) whether they are in the majority party; and (4) the availability of funds to support political activity. With respect to No. 1, the decline in Hampton Roads representatives (wholly or partially within Hampton Roads) from 27 to 23 speaks for itself. This constitutes almost a 15 percent decline in the number of delegates.

As far as No. 2 is concerned, legislative affairs in both the House of Delegates and the Senate are highly sensitive to the seniority of individual legislators. Seniority is the primary driver of membership on choice committees, especially the "money committees" (Appropriations and Finance in the House of Delegates and Finance in the Senate) and on other key panels such as General Laws, and Corporations, Insurance and Banking in the House of Delegates, and Commerce and Labor, Courts of Justice, and Rules in the Senate. The most senior legislators nearly always occupy seats on these powerful committees and it is they who hold leadership positions. They typically are appointed as budget conferees when the House of Delegates and the Senate work to resolve their differences (if they do!) and "divide up the pie" at the end of a legislative session. **The bottom line is Hampton Roads' legislative seniority has declined precipitously in recent years and, as an example, the region did not have a legislator on the final budget conference committee in the 2001 legislative session.** Hampton Roads legislators were forced to look over the shoulders of other legislators and importune, entice and threaten them in an attempt to achieve regional goals. This is a dramatic change from the situation just a few years ago when Delegate Moss was Speaker of the House, Delegate Diamonstein was a powerful member of the Appropriations Committee as well as a final budget conferee, Sen. Walker was President Pro-Tem of the Senate and a final budget conferee, and Sen. Andrews chaired the Senate Finance Committee and was a final budget conferee.

With respect to No. 3, it is nearly always true that legislators in the party in power are able to exercise more power than legislators in the minority party because they control the agenda, have greater party representation on committees and usually attract much larger financial contributions from individuals, corporations, unions and pressure groups. For well more than a century, the Democratic Party dominated Virginia politics and hence Hampton Roads' predominantly Democratic representation was advantageous. In 2001, though, the wheel has turned and Republicans control nearly everything in sight. However, the region's core city (Norfolk) has but one Republican House member and one Republican Senate member, and both are relatively junior. Further, the sitting governor, James Gilmore, unfortunately has not been well attuned to Hampton Roads and hence the increasingly Republican cast of the region's legislative representation has not paid off in the manner one might have anticipated.

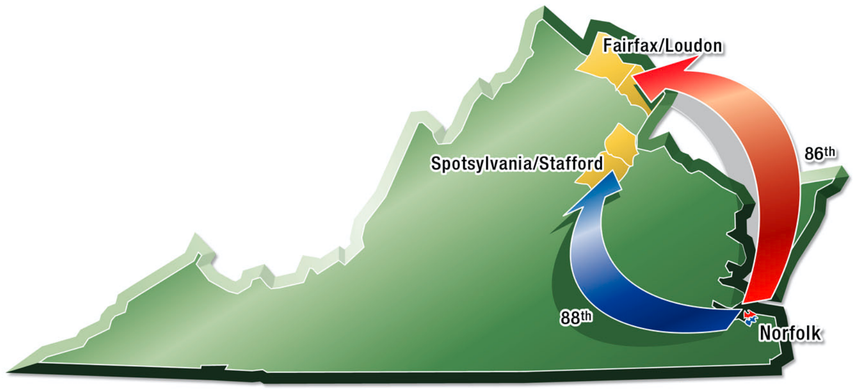
Also, cities such as Portsmouth and Hampton are represented primarily by Democrats. **Cities such as Virginia Beach and Portsmouth and the northern end of the Peninsula are represented by Republicans, but on the whole they have not served in the General Assembly for long periods of time and thus do not yet exercise the obvious power that the Moss-Diamonstein-Walker-Andrews quartet enjoyed in the days of yore. If these Republicans continue to be re-elected and accumulate seniority, and Republicans continue to be the majority party, then the long-term outlook for political power in Hampton Roads will be brighter.**

The fourth factor noted above, the availability of funds to support political activity, reflects economic power. Many large private business entities exercise considerable influence and have the potential, directly or indirectly, to provide valuable funds to support political activities. In this regard, Hampton Roads is disadvantaged relative to Richmond and Northern Virginia. Even broadly defined, Hampton Roads contains only two Fortune 500 headquarters, while Richmond and Northern Virginia together account for 10 times as many. Further, per capita income in Hampton Roads trails Richmond by almost 10 percent and Northern Virginia by nearly 20 percent. Simply put, even after accounting for cost-of-living differentials, there is less discretionary money available in Hampton Roads to support political candidates and causes.

Consequently, for most of this decade, Hampton Roads' political power will be, at least comparatively speaking, at a low ebb. Once again, this reflects a larger than recognized decline in the number of legislators from Hampton Roads, as well as a significant reduction in the seniority of Hampton Roads' legislators, the political affiliations of these legislators, and in raw economic power.

The loss of representation for the region was felt most dramatically in House Districts 86 and 88, both of which were in the City of Norfolk during the 1990s. With the 2001 redistricting, however, House District 86 is now in western Fairfax and eastern Loudoun counties, and House District 88 is now in Spotsylvania and Stafford counties. Figure 8 shows this.

**FIGURE 8**




# Some Context On The Politics Of Redistricting

For most of the past century, Virginia apportioned legislative seats based on a combination of factors that included population, but always with an emphasis on keeping local units of government (cities and counties) intact. And, as has always been the case, protection of incumbents and the power of the majority party were primary considerations. Up until the 1950s, Virginia's legislative districts were considered reasonably apportioned in comparison to other states. Even then, however, the districts would not have been able to pass the stringent court standards of today. As a general rule, legislative districts in most states deviated substantially from population, though the Commonwealth was fairer than most.

The 1960 Census saw Virginia's population increase by a strong 19.5 percent, but growth was not uniform across the state. Cities and suburbs grew much more rapidly than did the rural areas. As a result, the House legislative districts varied in population from 20,071 to 142,597, and Senate district population ranged from 51,637 to 285,194. In one analysis that assumed that a fairly apportioned district would have a value of 1.00, the seven most heavily populated counties and cities of the state had a value of .73, while the most sparsely populated areas were over-represented with a value of 1.24. The City of Hampton had a vote value of .47 and Princess Anne County (which consolidated with Virginia Beach City in 1963) and Virginia Beach had a value of .47.

The challenge faced after the 1960 Census by the overwhelmingly dominant Byrd Machine and the Democratic Party was to protect incumbents – many of whom were from districts in the rural parts of the state – but still somehow respond to urban and suburban demands for a fair redistricting. The General Assembly made a stab at doing so, but the product of its efforts in the redistricting of 1962 was not well received.

Four legislators from Arlington and Fairfax counties filed suit on April 9, 1962, and were joined on May 25 by four plaintiffs from the City of Norfolk, challenging the redistricting plan. The suit charged that the redistricting, "by failing to give representation commensurate with the population of their areas, devalued their votes and deprived them of equal protection under the Fourteenth Amendment."

On November 28, 1962, a three-judge panel declared the redistricting plan invalid. The state appealed the case to the Supreme Court. On June 15, 1964, the U.S. Supreme Court found that the redistricting failed to meet population standards for both houses of the General Assembly. Thus, Virginia and the Hampton Roads area, via the Supreme Court decision, played a part in setting the judicial standards for redistricting that continue to today.

The General Assembly in 1992 still was controlled by the Democratic Party and still faced the similarly difficult task of attempting to protect incumbents (many of whom represented primarily rural districts and some of whom were Republicans) and the majority status of the Democrats. However, historical trends did not favor the Democrats, for their majorities in both houses of the General Assembly were clearly eroding over time. In 1967, Democrats had 85 members in the House of Delegates; the balance was 14 Republicans and one Independent. In the Senate there were 34 Democrats and six Republicans. By 1991, the numbers had changed to 58 Democrats, 41 Republicans and one Independent in the House, and to 22 Democrats and 18 Republicans in the Senate (see Appendix B). The Democrats were desperate to maintain power by stopping the steady erosion of their numbers in both houses of the General Assembly. At the same time, there was recognition that this would be quite difficult, both because of the rising Republican tide and the strict judicial standards for redistricting that would have to be met.

Hampton Roads was a key region for the Democrats' 1991 attempt to hold to power. **With the high minority African American population in many of the Hampton Roads communities and the tendency of those communities to vote Democratic, the Democrats (as has been shown previously) drew the Hampton Roads legislative districts with the greatest possible deviation of under-population. While the short-term strategy saved the region some impact of the loss of population, it did not prevent the Republicans from continuing to gain strength.**

By 2001, Republicans controlled the House and Senate and the process for redistricting. The Republicans drew the Hampton Roads districts as close to the ideal size as possible in order to limit Democratic strength. It was no coincidence that District 88 eliminated in Norfolk was the legislative district of Delegate Tom Moss, former Democratic Speaker of the House of Delegates.

# Final Words

While it is undeniable that the legislative power of Hampton Roads has been reduced significantly in recent years, this is hardly an "end of the world" scenario. **The region still claims 23 legislators of a total of 140. Twenty-three legislators, if they are united by an attractive agenda and are highly motivated, still can accomplish an enormous amount of good.** This number dwarfs southwestern Virginia's representation, for example, and is larger than that of Richmond.

What has been lacking in the Hampton Roads delegation in recent years has been unity of purpose. While there is a Hampton Roads legislative caucus, its meetings usually are poorly attended – more lobbyists are present than legislators, and it is worth noting that there are separate legislative caucuses for the Peninsula, the Southside and many individual Hampton Roads cities. In addition, the Legislative Black Caucus claims some portion of the loyalty of more than one-quarter of the region's legislators. Membership in these other caucuses does not preclude legislators from uniting behind a common Hampton Roads agenda. Indeed, it always has been the case that legislators from disparate parts of the Commonwealth have united behind common interests, for example, the revenue plight of the cities, or K-12 education. Yet, few would dispute the judgment that other regions (Northern Virginia and Richmond in particular) generally have exhibited more unity of purpose in the General Assembly than Hampton Roads. The payoff has been observable on several issues, such as the distribution of transportation funding, but also in other areas, including higher education funding.

**What we end up with, then, is yet another situation where the logical regional conclusion is: "We need to get our act together." Yes, Hampton Roads' legislative clout has declined, but there is plenty left. A unified, determined regional legislative delegation remains capable of achieving an impressive number of goals for Hampton Roads.**

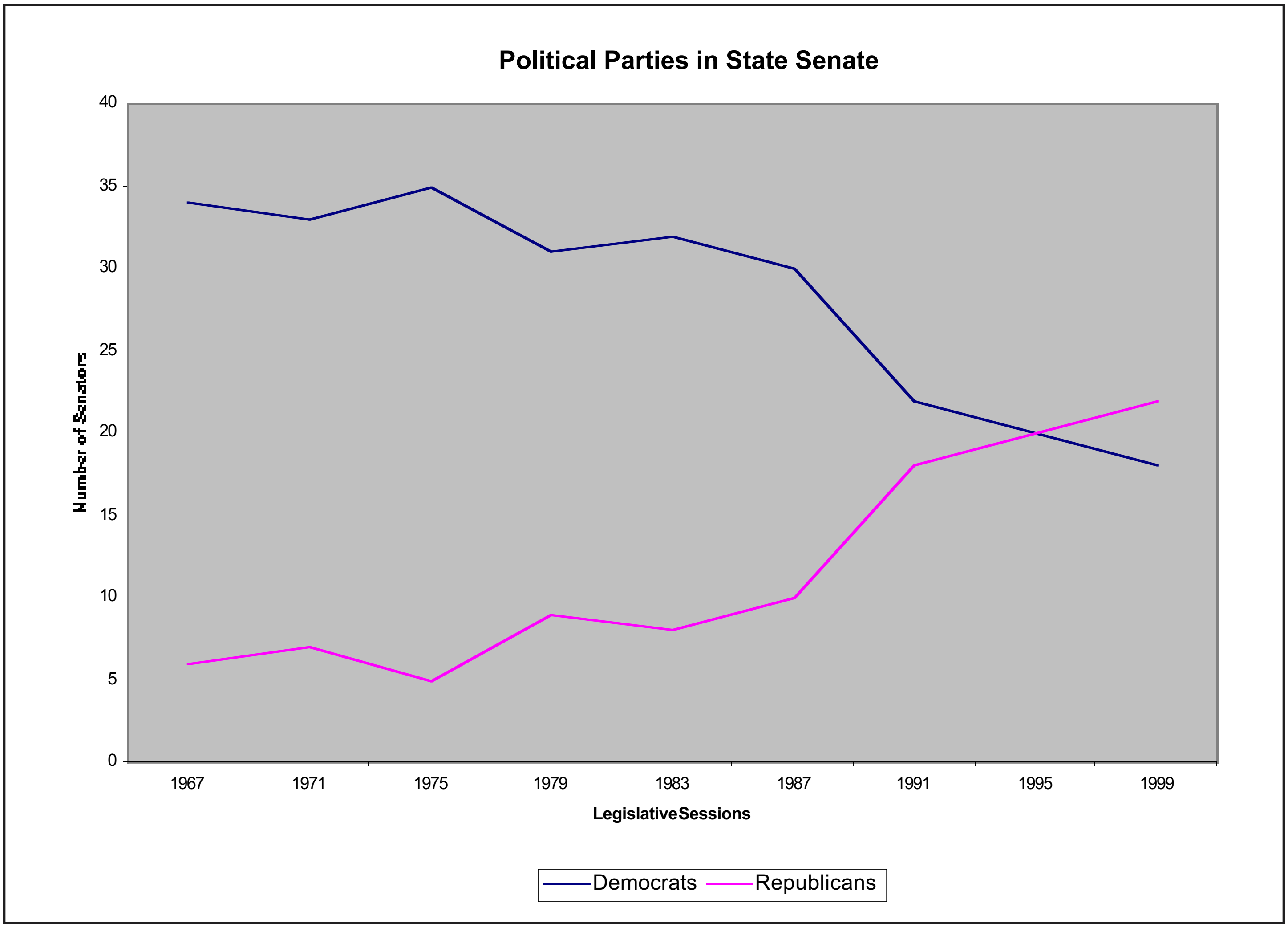
**APPENDIX A**

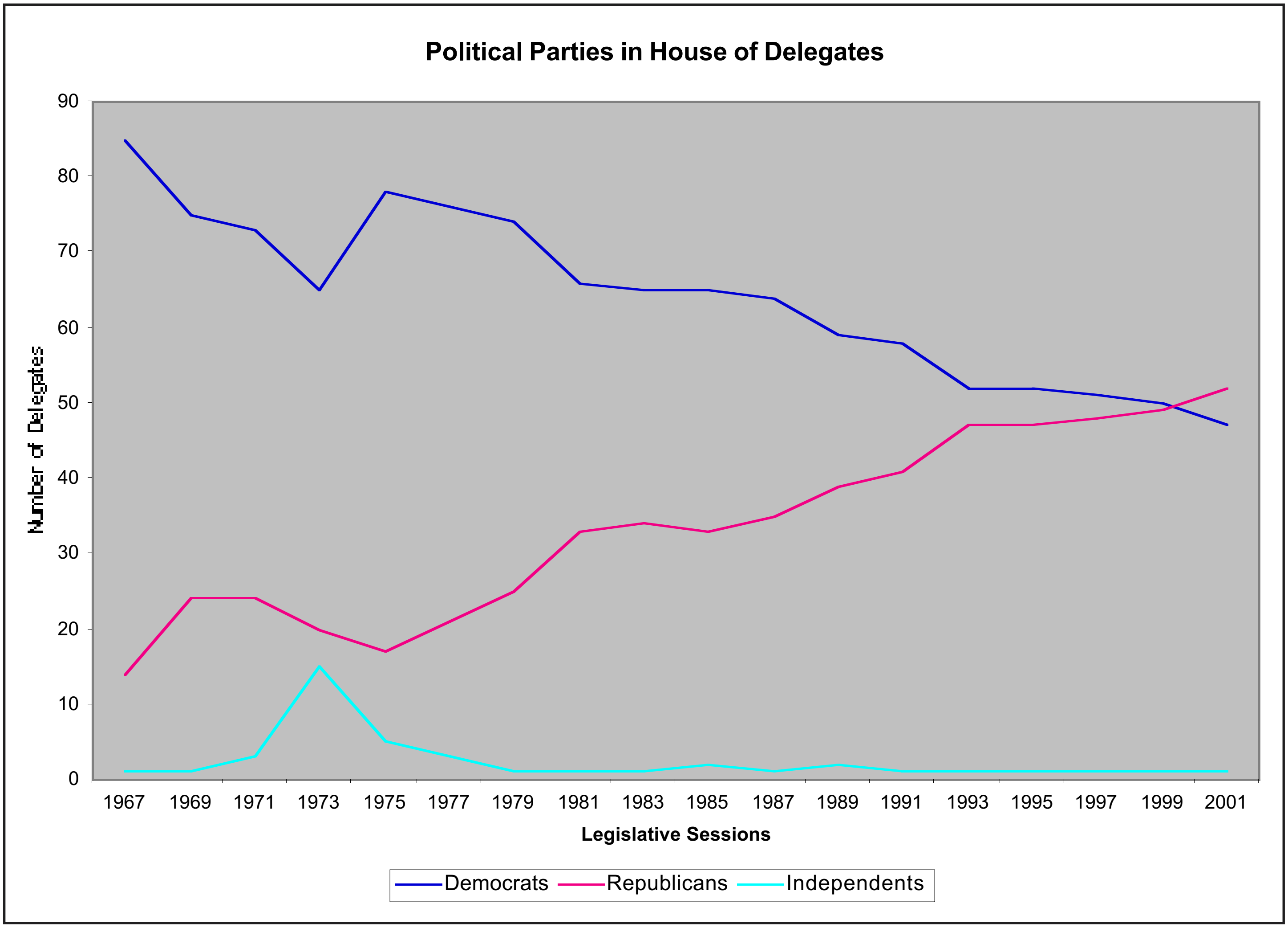
**Delegate Districts In Hampton Roads**

**1991 and 2001 Redistricting**

| Delegate Districts | Delegates | Population 1991 | Deviation | Percent Deviation | Delegates 2001 | Population | Deviation Deviation | Percent |
|---|---|---|---|---|---|---|---|---|
| 21 | 1 | 64,446 | 2,572 | 4 | 1 | 72,156 | 1,371 | 1.9 |
| 76 | 1 | 59,638 | -2,236 | -4 | 1 | 71,549 | 764 | 1 |
| 77 | 1 | 63,561 | 1,687 | 2.73 | 1 | 70,087 | -698 | -1 |
| 78 | 1 | 59,374 | -2,500 | -4.04 | 1 | 70,798 | 13 | 0 |
| 79 | 1 | 59,208 | -2,666 | -4.31 | 1 | 72,106 | 1,321 | 1.9 |
| 80 | 1 | 59,024 | -2,850 | -4.61 | 1 | 70,554 | -231 | -0.3 |
| 81 | 1 | 59,127 | -2,747 | -4.44 | 1 | 71,175 | 390 | 0.6 |
| 82 | 1 | 60,094 | -1,780 | -2.88 | 1 | 72,134 | 1,349 | 1.9 |
| 83 | 1 | 64,535 | 2,661 | 4.3 | 1 | 71,766 | 981 | 1.4 |
| 84 | 1 | 59,895 | -1,979 | -3.2 | 1 | 72,090 | 1,305 | 1.8 |
| 85 | 1 | 63,558 | 1,684 | 2.72 | 1 | 72,039 | 1,254 | 1.8 |
| 86 | 1 | 59,175 | -2,699 | -4.36 | | | | |
| 87 | 1 | 58,851 | -3,023 | -4.89 | 1 | 72,174 | 1,389 | 2 |
| 88 | 1 | 58,836 | -3,038 | -4.91 | | | | |
| 89 | 1 | 60,016 | -1,850 | -3 | 1 | 71,874 | 1,089 | 1.5 |
| 90 | 1 | 58,936 | -2,938 | -4.75 | 1 | 71,872 | 1,087 | 1.5 |
| 91 | 1 | 59,449 | -2,425 | -3.92 | 1 | 71,410 | 625 | 0.9 |
| 92 | 1 | 59,009 | -2,865 | -4.63 | 1 | 70,106 | -679 | -1 |
| 93 | 1 | 60,509 | -1,365 | -2.21 | | | | |
| 94 | 1 | 59,150 | -2,724 | -4.4 | 1 | 71,484 | 699 | 1 |
| 95 | 1 | 59,969 | -1,905 | -3.08 | 1 | 70,646 | -139 | -0.2 |
| 100 | | | | | 1 | 72,110 | 1,325 | 1.9 |
| Pt. Districts | | | | | | | | |
| 64 | 0.57 | 36,329 | 1,060 | 3 | 0.7 | 48,749 | -588 | -1.2 |
| 75 | 0.11 | 6,748 | -319 | -4.69 | 0.12 | 8,152 | 102 | -1.2 |
| 93 | | | | | 0.96 | 68,153 | -145 | -0.2 |
| 96 | 0.51 | 31,847 | 480 | 1.52 | 0.6 | 42,651 | 494 | 1.2 |
| 97 | 0.18 | 11,530 | 208 | 2.76 | | | | |
| 98 | 0.28 | 17,365 | 165 | 0.95 | | | | |
| 100 | 0.76 | 44,764 | -2,326 | -4.95 | | | | |
| | 23.41 | | | | 21.38 | | | |

**Note: For districts partially in Hampton Roads, a percentage of a delegate has been assigned to the region equal to the Hampton Roads population in the districts.**


Political Parties in State Senate
Number of Senators
40
35
30
25
20
15
10
5
0
1967
1971
1975
1979
1983
1987
1991
1995
1999
LegislativeSessions
Democrats
Republicans


Political Parties in House of Delegates
90
80
70
60
50
40
30
20
10
0
Number of Delegates
1967
1969
1971
1973
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
Legislative Sessions
Democrats
Republicans
Independents

# REGIONALISM AND THE DILLON RULE

# Regionalism And The Dillon Rule: An Interpretive Essay

The laws, practices and traditions of Virginia dominate the governmental context of Hampton Roads. World War I is a good era to begin reflection on the historical events that have shaped the modern relationship between local and state governments. It is also the time when the region began to emerge.

In the early 1920s everyone was enduring hard times. The waters of the port had frozen solid in the winter of 1917-18, a most unusual event for "the world's finest natural harbor," and by the following winter the Commonwealth was recovering from an influenza outbreak. Warwick County, now part of Newport News, was the hardest hit by the epidemic that broke out on Friday the 13th (March) at Fort Lee, near Petersburg.

Virginia's governments were also burdened. The state's education, health and prison institutions were in disarray and were being criticized as under-funded, and the road system was considered so impassable in 1921 that the Automobile Club of America urged motorists to bypass the state. The state treasury was running a deficit. Thus, it was not surprising when Virginians elected a 38-year-old "reformer" as governor in 1925 with his self-described "program of progress."

By 1930 he had convinced the General Assembly to approve a plan to simplify and overhaul Virginia's tax structures, establish the "short ballot," and streamline state government by reducing 100 agencies to 12 departments. Historian Virginius Dabney described new state appropriations for roads, education and mental hospitals as "unprecedentedly large."

Interestingly, the governor went outside Virginia to a New York City consulting group (New York Bureau of Municipal Research) for advice and development of the reorganization plan. Then he turned to a 38-member Citizens' Committee on Consolidation and Simplification in State and County Governments to advocate its merits.

Part of the package ceded to localities "property" as their main tax source and identified "income" as the state's sole domain. The reforms cost the state dollars ($4 million annually) and jobs (one state commissioner in each of 99 counties).

The youthful governor successfully fought for a 1 1-2-cent gasoline tax "to get Virginia out of the mud." He publicly confronted the Chesapeake and Potomac Telephone Co. and the nation's oil companies when they raised rates and gasoline prices.

The governor was visible with each cause. In one case he rode on a bus to 56 different towns, a 1,000-mile circuit, to stump for state constitutional changes. His central message touted the state as a whole. He held "regional" meetings with county and state officials selling his road program, urged an "end to sectionalism in Virginia" and was the first governor to mount a state-funded national advertising program for tourist and economic development.

Who was this reformist governor of the Commonwealth of Virginia? An individual not often associated with reform – Harry Flood Byrd Sr. It was a historic display of leadership.

**Byrd's notions of strong state government were enabled in part by the thinking of a non-Virginian. John Dillon, an Iowa lawyer who later became a state and federal judge, then a law professor at Columbia University, wrote a treatise on municipal corporations in 1872 that advanced the legal doctrine that states are supreme and the source of all municipal power. That doctrine – called the Dillon Rule – has been bedrock in Virginia.**

Part of Dillon's treatise reads:

> "It is a general and undisputed proposition of law that *a municipal corporation possesses and can exercise the following powers, and no others*: First, those granted in *express words*; second, those *necessarily or fairly implied* in or *incident* to the powers expressly granted; third, those *essential* to the accomplishment of the declared objects and purposes of the corporation – not simply convenient, but indispensable. Any fair, reasonable, substantial doubt concerning the existence of power is resolved by the courts against the corporation and the power is denied."

Both Dillon and Byrd expressed concern about the politics and management of cities. Dillon said the people managing cities were not "best fitted by their intelligence, business experience, capacity and moral character." City management was "too often both *unwise* and *extravagant*." Dillon believed in noblesse oblige and thought the "best fitted" could more likely be attracted to state government. Byrd favored state dominance for political reasons. He wanted progressive government through rural control of the courthouse, public purse and tax rates.

**Hampton Roads itself is an interesting case study of survival within the Virginia context of strong state control.** By 1900, its history included a notable series of up and down events. Lord Dunmore's burning of Norfolk on Jan. 1, 1776, and Jefferson's Embargo Acts of 1807, jointly depressed the region's ports and effectively prevented them from developing in tandem with the preeminent East Coast ports, New York, Philadelphia and Boston, in the early years of the Republic. Plus, there were epidemics of yellow fever in 1795 and 1855. The latter took more than 2,000 lives in three months. Occupations by federal troops during the Civil War had devastated the economy and its supporting social infrastructure. In the 1870s and 1880s, Virginia's political preference for canal technology over railroads thwarted Hampton Roads during the railroads' period of peak expansion. Thus, to use a contemporary aphorism, if it wasn't one thing, it was another. The net effect, however, was to slow the development of the region's ports until the 20th century.

World War I changed all of this. Its impact was most visible in the establishment of huge military and ship facilities, and over a period of time, the Norfolk Navy Base was to become the largest in the world. The state's largest city, Norfolk, nearly doubled its population between 1910 and 1920, to 117,000 people. According to the local Association of Commerce, the region was "a circle drawn with a radius of 30 miles from downtown Norfolk's new federal building." Within that circle Portsmouth's population was 45,000; Newport News, 34,500; South Norfolk, 7,800; Hampton, 6,300; Princess Anne County (including Virginia Beach), 16,200; and Norfolk County, 30,000.

The war efforts wrought a new form of local government that was concerned, like Bryd, with "economy and efficiency" and addressing infrastructure problems of housing, roads and utilities. The concept of the city as a large public business developed, and Norfolk voters approved the city manager form of government. Charles Ashburner, the first city manager, was very interested in the development of everything from city streets, schools and parks to public buildings and police and fire departments, as well as general beautification.

In 1922, Norfolk approved $5 million to build a grain elevator, which was followed by construction of a city market, one of the first notable results of the extension of suffrage to women. The City of Norfolk also acquired the local army base from the federal government in an effort to become part of the national port system of terminals.

Annexation was the way cities expanded boundaries under Virginia law and it usually occurred as suburbs became dense and wanted city services. As an example, in 1923, Norfolk annexed 30 square miles and 30,000 people in the areas of Ocean View, Campostella and Larchmont. The Association of Commerce described Norfolk as a city of "magnificent distances":

> "Here and there streets are opened, new houses appear, small suburbs are begun and grow slowly in numbers and importance. If the growth of the last 70 years should be duplicated through the next 70 years, Norfolk will become one continuous community from the tip of Willoughby to the extreme southern boundary of South Norfolk, and the suburbs will extend from Cape Henry to Churchland."

It's been 70 years since that vision was painted and, as we know, that's not how things actually developed. **Rather than one large city, the region is characterized by many cities and counties, each with its own government. However, the preceding bit of history provokes several questions:**

- **What is the picture of Hampton Roads governmentally in 2001?**
- **Does the notion of "region" count for anything?**
- **What impact does the Dillon Rule have today?**

# The Picture Of Government In Hampton Roads In 2001

The *governmental* picture in Hampton Roads is complex in many ways. There are nearly 100 governmental units within the region. These include six counties, 10 cities, 15 dependent school systems, and more than 60 additional governmental units or districts such as the Hampton Roads Sewer Sanitation District and the Southeastern Virginia Public Service Authority. Many of the localities have retained the names they had many years ago (for example, Hampton and Norfolk), while others have acquired new names (Chesapeake). Some have new boundary lines because of consolidations in the 1950s and 1960s, including those involving Newport News, Hampton, Virginia Beach, Chesapeake and Suffolk.

Every community has success stories about which it can boast. As examples, Virginia Beach has been cited nationally for financial management and technology; Williamsburg is considered a "national treasure"; Hampton was featured on national television for its "healthy communities" model; and Norfolk was named one of America's "most livable" cities.

But the words "city," "county" and "town" are not easy to understand in Virginia any longer because of social and political changes that have occurred since Gov. Byrd's time. One continues to see the words sprinkled throughout Virginia's laws but they are words that have distinctions often with no differences, or worse, differences with no distinctions. It starts with Virginia's independent-city system – one that is different from those in any of the other 49 states. Most states divide responsibilities and services between the two scales of government – county and city. But not Virginia.

Virginia has an "either/or" designation for people living in a specific location. You live either in a city or a county, but not both. However, not all the cities are the same. There are 40 cities and 40 different city charters. For instance, Norfolk has a so-called "strong" charter that includes several important provisions about borrowing and referenda that are different from Virginia Beach and Chesapeake's "weak charters."

While counties are independent of cities, they are not identical to cities by any means, and there are 95 of them. Some counties, like Fairfax, are based upon special state laws, which grant so-called city powers, as well as some powers that most cities don't have. But, generally, counties are lumped into three or four categories, which make them similar in many respects, but different in others (for example, their ability to tax and pass laws).

**Yet, perhaps the most complicated feature of Virginia local government is its "*towns.*" There are 188 towns, each with a separate charter. But towns, unlike cities, *are parts of counties* (similar to other states with cities and counties). Since each town charter can be different, this means towns can be very different. There are 11 towns in Hampton Roads. Those Virginians who live in a town (Smithfield is an example) have their local government functions divided between their town government and their county government. Are you a bit confused? Many other citizens are as well.**

# The Notion Of The Region Of Hampton Roads

Words from Ben Harper's song "Homeless Child" serve as backdrop for thinking about region in Virginia:

> "Nowhere here
>
> to call my home
>
> no one near
>
> to call my own
>
> all that's left
>
> is for me to roam
>
> somebody please
>
> help me hang on."

Most people agree that the geographic area from approximately Williamsburg to parts of eastern North Carolina is economically linked. Social, political and other links are less obvious and more debated. While regions have become the dominant and most meaningful structure today for organizing economic performance and are essential in solving many of our problems, Virginia public policy barely addresses "region" and offers few tools to encourage regional efforts. **To cite one example, the Virginia Area Development Act of 1968, which provided the enabling authority for planning districts, such as the Hampton Roads Regional Planning District Commission (HRPDC), does not mention the words *regional or cooperation*! Sadly, in some ways the concept of region is a fiction not recognized by the Commonwealth of Virginia. Contrast this to the explicit recognition of, and reliance upon, city-regions such as Indianapolis and Portland.**

Cities, counties and towns remain Virginia's primary structures for local government. Thus, exactly because there are no regional officials, we blame local government officials for not cooperating better – or more – but the truth is, Virginia is not organized for regional progress or performance. When the focus of the Dillon Rule is added to the state's policies of property taxation and independent status, Virginia has trapped localities, their residents and, ultimately, the entire state, in a zero-sum game.

It's hard to over-emphasize this next point. When local elected officials swear the oath of office, they accept a serious fiduciary responsibility to protect their individual municipal corporations. In practical terms this usually means: Does my community benefit immediately and can I show it beyond doubt? **No public official under the Virginia system, elected or appointed, takes an oath to support a region. Their elections and their livelihoods depend upon cities, counties and towns.**

Another reality concerns the number of elected officials who must agree for regional issues to move forward. Between cities and counties (not counting towns) there are 110 elected officials in Hampton Roads. The range of representation is dramatic – from a few thousand to more than 200,000. The mayor of Virginia Beach represents more than 400,000 people. Given the nature of the system – voluntary participation – an elected official who represents a few thousand people can match or exceed the voice of one who represents many more.

Given Virginia's preference for cooperation rather than coercion as the de facto organizing principle for regional policy, this means just one jurisdiction, either a county or city, can *veto* regional efforts. One local business leader calls voluntary regionalism "dancing with your sisters."

These thoughts are preamble to measuring and understanding regional economic progress in Hampton Roads.

Again, Harper's words:

"There is no night

and there is no day

it is all

one shade of gray

some will pass

and some will stay

is this the end

or just one more day."

# The Dillon Rule

What is most remarkable about the Dillon Rule is even though it is not mentioned once in Virginia law or policy, a fact interesting in itself, it nonetheless has been used as the standard for interpretation by state and local courts for more than 100 years. Some Dillon Rule-inspired rulings have been strict – as when the Supreme Court of Virginia in 1985 found that Arlington County could not lease property the county owned for economic development purposes. Other rulings have been broader, as when the State Supreme Court let stand in 1988 a Virginia Beach ordinance that required handgun permits.

**Though lacking the express words of policy, Virginia remains one of few Dillon Rule states. The doctrine has withstood change, in a changing world, like few other public traditions. Indeed, it hovers over all of the Commonwealth's governmental activities. It is not surprising, then, that nearly every city of any size employs one or more full-time lobbyists to represent it in Richmond during the sessions of the General Assembly. The reason is simple. Because of the Dillon Rule, the action is in Richmond, not in Arlington, Lynchburg or Newport News.**

There are practical consequences to Dillon's norm of uncertainty. While few local attorneys argue that Dillon is impossible, one city attorney says the problem is "you need a lawyer all the time and government isn't working when you need an attorney that often." Another attorney says, "Often the way around Dillon in a particular case is complicated and convoluted, and that isn't good."

It's also not clear when a court will apply the Dillon Rule to overturn a local government decision. Not tallied or known are decisions avoided by local governments because of the uncertainty and/or the time and money it takes to withstand possible challenges. Also damaging is the mindset associated with the "negative presumption" of Dillon – that localities can't do things. It handicaps local or regional thinking about public-private solutions that require speed, decision-making at the lowest levels and collaboration. The involvement of lawyers, or petitioning the General Assembly, soaks up time and resources, and is of little value. **This past year, 119 local bills in the General Assembly were introduced involving the Dillon Rule. It is estimated that these bills occupied 550 hours of various committees, subcommittees and floor time. About half the bills finally passed. This is quite an achievement for a rule that is not explicitly mentioned in state statutes!**

But, it doesn't stop there. Each session, there are bills legislators regularly introduce to take away authority from localities. House Bill 1969, involving local control of firearms, introduced Jan. 10, 2001, has Dillon overtones: "... no locality shall adopt any ordinance, resolution, motion, administrative rule or regulation governing the purchase, possession, transfer, ownership, carrying or transporting of firearms, ammunition, or components or combination thereof other than those expressly authorized by statute." Virginia's Internet bill tracking service discloses that there were 61 separate actions involving HB 1969 before it "failed to pass" the House on Feb. 24. Prior to its death, it passed both houses, went to a conference committee and passed the Senate, again, before stalling in the House on parliamentary procedure.

Local threats by legislators occur, as well. Several years ago when Virginia Beach City Council was giving serious consideration to raising real estate taxes to fund school board budget requests, two state legislators from Virginia Beach threatened to "cap" the city's tax by introducing legislation. Meanwhile, away from the eyes of the General Assembly, stories are legend about one county or city doing something that another Virginia locality was told (or had assumed) it could not do.

The primary argument in support of the Dillon Rule is that it promotes uniformity of law and practice. This is said to be an essential element of building an attractive climate for business (businesses don't want to deal with scores of different legal, regulatory and taxation schemes). Further, Dillon Rule supporters (and there are many, especially among legislators whose power is amplified by its existence) assert that it reduces undesirable competition between cities, counties and towns that otherwise might offer widely diverging "deals" to businesses that might be considering relocation. There is, however, an unstated third reason that ultimately may be more important than the other two. It is that the existence of a Dillon Rule world makes state legislators very important people – individuals who must be courted and supported financially if their support is to be won.

Whatever spin one puts on the effects of the Dillon Rule, it is undeniable that it has dominated the government in the Commonwealth and in Hampton Roads just as Gov. Byrd and Judge Dillon intended. Even so, do the historic choices of the 1920s adequately address the challenges we face today? This seems doubtful. Most observers without vested interests believe reforms in state-local relations and in the tax structure, supplemented by a new "program of progress," are needed.

# The Report Of The Commission On State And Local Tax Structure

The imbalance in the fiscal relations between the state and its local governments was documented, again, recently in the Report of the Commission on Virginia's State and Local Tax Structure for the 21st Century, chaired by Thomas R. Morris, and released in December 2000. Among its findings:

- The growth in property values (upon which most local government revenues depend) has languished when compared to the robust annual individual and business incomes taxes collected by the state.
- More than $60 billion in property values have been declared exempt from taxation and taken off the local government books as a result of state decisions.
- Major shifts have occurred in Virginia's economy, primarily in the growth in the provision of services, especially those related to information technology. For the most part, these services *are not included in the tax base.*
- The growth in interstate sales via catalogues and e-commerce also tends to escape taxation.
- The General Assembly and governors over the years have constricted the sales tax base *through a multitude of exemptions.*
- The elimination of the car tax by the state politically froze a major local revenue source for localities that was growing and producing 16 percent of their revenues in 1998.

To the escalating revenue imbalance between the state and local governments in Hampton Roads must be added the negative impact of the region's economic slowdown. For nine straight years, and 13 of the last 15 years, Hampton Roads' average wage has slipped. According to the Department of Commerce, the region's average wage is 84.6 percent of the national average. By comparison, Northern Virginia is 136.7 percent of the national average and the Richmond regional average is 101.6 percent. Hampton Roads' average is also lower than the average wage in the Roanoke and Charlottesville areas. Of course, cost-of-living differentials erase much (though not all) of the difference between Hampton Roads and other regions, especially Northern Virginia. And, as demonstrated in an accompanying chapter, the key determinant of wages and incomes in Hampton Roads is the level of military spending in the region. It now is smaller, in absolute dollars, than it was in 1985. Little wonder, then, that Hampton Roads has not been a boom region.

**The region's picture is not bright when the financial strength of individual localities is measured and compared with other localities in the rest of the state. Two more regional cities – Newport News (No. 8) and Franklin (No. 10) – recently moved into the state's "top 10"** ***mostly fiscally stressed*** **category, according to the Virginia Commission of Local Government. Norfolk remains** ***the most fiscally stressed*** **community in the Commonwealth, and Portsmouth moved from No. 5 to No. 3. Hampton fell from No. 15 to No. 12 in one year.** Five localities – Virginia Beach, Suffolk, James City County, Southampton County and Isle of Wight County – improved slightly, but three – Virginia Beach, Suffolk and Southampton County – remain classified as *above average stress.*

Property tax exemptions continue to be a special problem for Hampton Roads. More than *$20 billion* of property in Hampton Roads is tax-exempt. Seven communities – Newport News, Franklin, Hampton, Williamsburg, York County, Norfolk and Portsmouth – have 20 percent or more of their properties exempted. The two most fiscally stressed cities – Norfolk and Portsmouth – are 47 and 56 percent tax-exempt, respectively. Given the role property plays for localities, Norfolk and Portsmouth are forced to fend for themselves with one arm and one leg tied behind their backs.

Newport News joins their plight in another bizarre consequence of public policy as it relates to the Port of Hampton Roads. The port produces many jobs, but not all of these jobs are located on the waterfront. Yet, because of two additional Virginia policies: (1) counting income at *residence* rather than where the work occurs; and (2) granting *tax exemption* to the state's port facilities, Newport News (as well as the other cities) loses the market value of its state port facilities. Further, Newport News loses the value of the income generated within its city limits, which impacts the distribution of various state resources. The result? Newport News is on the top 10 list of the state's *most fiscally stressed* cities. This is punishment beyond reason. It is worth noting that the state does not care which city income is generated when it levies the state income tax. It cares not which pier in which city generated the income it taxes.

## The Economic Consequences

Disparity among neighbors injures the entire region's ability to compete economically with other regions. Often, disparity occurs naturally, unavoidably. Virginia, however, has set in motion a series of actions that has artificially disadvantaged localities, weakening the area's productive capacities. To use regulatory terminology, its impact is arbitrary and capricious.

Statistics generated by the Hampton Roads Partnership often compare Hampton Roads to the Charlotte and Raleigh regions. In 1980, the nominal per capita incomes of the three were close to each other, with Hampton Roads slightly ahead of Charlotte and Raleigh ($9,522, $9,190 and $9,506, respectively). Twenty years later, in 2000, Hampton Roads trailed *both* North Carolina regions significantly ($23,771, $28,784 and $30,394, respectively). Analysts offer numerous reasons: loss of federal jobs here, the absence of a national-class research university and issues of inferiority. The most important reason, however, is the dependence of Hampton Roads upon Department of Defense spending. In 1990, 42 percent of the economy of Hampton Roads was dependent upon military spending. As military expenditures declined in the late 1980s and 1990s, this had a very negative impact upon the region. Income growth slowed and there was a net outflow of people from the region.

**The recent federal census offers new evidence of change in the region that catches most people by surprise. When birth and death rates are taken into account, the region lost population. Hampton Roads is one of three Virginia regions with net out-migration. The other two regions are highly rural.**

The population slowdown tarnishes the marketing image of Hampton Roads. Sometimes popular notions such as the region attracting a major league sports franchise (which is explored in another chapter) seem almost ludicrous when juxtaposed with net out-migration and stagnant income growth.

Because growth is a key assumption of Virginia's philosophy of governance, there is deeper damage. The current array of taxes, fees and incentives allowed localities biases the revenue system for growth. Property taxes during construction, along with development fees and connection charges, create windfall revenues for communities when houses and other properties are being built. It's when people fill those houses in numbers that require schools and other services that costs outstrip annual property tax collections. The situation is compounded in older communities when physical, social and economic infrastructure ages and needs renewal or expansion, which is more expensive.

In an oversimplified way, the reason cities become so interested in shopping centers, convention centers, and eating or amusement centers is because they develop revenues beyond their costs and can subsidize the maintenance costs of residential populations. Could it be that Virginia governmental structure and policies have made its citizens "guests of the state" in their own homes?

## A Possible Regional "New Program Of Progress"

What might a "new program of progress" look like?

Interviews with business, government and community leaders suggest a blend of optimism and pessimism about the region's future. There is some optimism because parts of a unified regional agenda are evolving, and larger portions of the public are acknowledging the need for regional actions. More specifically, this agenda includes:

- Creation of a regional transportation authority
- Transportation projects like a third crossing and rapid transit
- Work force development

- K-12 education coordination among school systems
- City-state relationship improvement
- Reform of the tax structure.

**Generally, people are pleased with the work of the Hampton Roads Partnership (HRP), a five-year-old agency which has on its board of directors the mayors and chairs of the 16 cities and counties, plus numerous chief executive officers from the military, education, and private and community sectors. The partnership has worked hard to define and publish a strategic plan for the region. Education, work force, transportation and technology transfer have been priority subjects. HRP has also been benchmarking Hampton Roads against other progressive regions.**

However, pessimism exists about those business leaders and elected officials who are not at the table. Recent governors of the Commonwealth have shown little or no interest in issues that affect cities, counties or regions, other than to curb local taxing authorities at a time when the state's coffers have been at historic highs and local governments have struggled. Even symbolic actions, such as meeting with the Hampton Roads mayors and chairs, haven't occurred, despite invitations.

As for the General Assembly, one experienced lobbyist commented that "it's getting worse" in addressing governance problems. She says cities, counties and towns are described by many legislators as "just another special-interest group." And, it should be noted, this class of special-interest groups does not contribute funds to their re-election campaigns!

Local elected officials sometimes complain that they are not involved in the "regional meetings" attended by the mayors and chairs. This causes personal jealousies that stall or prevent discussions by governing bodies. One manager realistically noted that "it is risky" for city managers to put regional matters on council dockets.

It is also rare for neighboring city councils or boards of supervisors to meet with each other. As examples, Virginia Beach has met twice with one neighboring jurisdiction (Chesapeake) in the past 10 years. Norfolk has met once in the last 15 years with a neighbor (Portsmouth). The records are better on the Peninsula.

Perhaps the most difficult dimension involves citizens. Relatively few citizens show active interest in regional issues, which is itself a problem, and there is little or no citizen representation built into existing regional organizations.

If Hampton Roads is to find new understanding and knowledge big enough and friendly enough to address issues that have gone unaddressed for so long, it will be helpful for the region to set out principles to guide its choices of options. These might include:

- A desire for the region to function in a fashion that is open, self-organized, integrated (perhaps messy), adaptive and collaborative
- A commitment to build on assets – which are both tangible (e.g., roads, water) and intangible (sense of community and sense of place)
- Transparency and lots of "sunshine" – an absence of secret deals
- Clear rules of engagement that respect people and institutions.

# The Governor And The General Assembly

With these principles as a foundation, the agenda could be addressed to four main categories of participants: the governor, General Assembly, local elected officials and citizens.

In preparing for his work, whichever of the "Marks" is elected governor, he will find good material from blue-ribbon citizen groups already on the bookshelf. The commission that studied Virginia's constitution in 1969 urged relaxation of the Dillon Rule. The Governor's Commission on the Future of Virginia in 1984 suggested the state should redo the boundaries of local jurisdictions. And, the recent Morris Commission urged tax reform.

What is needed is a gubernatorial action plan and the personal energy and commitment to ensure its success. Elements of such a plan could include:

- Seeking expert advice
- Establishing a Citizens' Commission on Governance and Tax Reform
- Hosting and presenting a plan of action to a state summit
- Revising, focusing and selling a plan of action
- Holding regular "regional" meetings.

**The General Assembly may have the most difficult job. With the two houses still closely divided in political loyalties, this is a historic opportunity for bipartisan leadership. A detailed business review of how the General Assembly does its work is in order. The analysis could be done within the overall governance study suggested above, or the General Assembly could establish a separate study, perhaps by a national firm.**

However, legislators should design an approach that can be a model for the rest of us in how to solve problems for the future that have been particularly intractable in the past. That would take uncommon leadership and give Virginia national notice.

Such an analysis should:

- Study and overhaul the decision-making processes
- Acknowledge regional performance is a "state problem"
- De-politicize governance discussions and institutions (e.g., cities, counties, Joint Legislative Audit and Review Commission)

Local elected officials are important to regional performance. While mayors and chairs can represent localities in special ways, regional progress will take heavy lifting by all officials.

Local elected officials must:

- Come to understand the notion that regions have become the most meaningful economic units in modern America
- Support regional approaches to problems
- Meet regularly with neighboring cities, counties and towns
- Set regular time on their own agendas for regional analysis and actions.

# What Citizens Can Do

Citizenship was not a principal feature of either Gov. Byrd or John Dillon's model of governance. The governor was trying to install a political management system around troubled bureaucracies and Judge Dillon was reacting to local governments that were being bought off or sidetracked by railroad barons. Both pushed citizenship into the background and vested central power in the state, resisting the principle that local government should get its power from its own citizens. That principle is followed in most other states.

Citizenship in Virginia has made its way back into the public-purpose realm with creative involvement in diverse ways, ranging from community policing to Habitat for Humanity to teenage mentoring. However, the future may not work for all of us as well as it can if we do not broaden citizenship to include a significant regional dimension. Citizens can:

- Come to understand the notion that regions have become the most meaningful economic units in modern America
- Support regional approaches to problems

- Allocate time (e.g., Internet, television) to learn about the region and important regional issues
- Refuse to support elected officials and candidates who do not support regional approaches to problems.

# Final Thoughts

The preceding agenda may strike some as both naïve and overreaching. Yet, consider the recent book *Tipping Point,* by Malcolm Gladwell. Gladwell talks about major social changes ("social epidemics") and how they occur. As he documents, frequently they are led by the efforts of a small number of individuals, many of whom were not famous beforehand. However, these were individuals who were distinguished by their energy, commitment and connections to other individuals and groups. They were "word of mouth" communicators who were influential not necessarily because of their wealth or elected status, but rather because of the central role they played in their social and community circles. They are the people who have produced successful campaigns for better schools, safer streets, mass transit, environmental cleanups and new college campuses. The point here is not the specific content of their passions, but instead their advocacy, energy and commitment. They were "connectors" who were inspired to tell their story.

Gladwell says he wrote the book in hope of making better sense of a world that doesn't always make sense. It is hopeful – but not unreasonable – to think that a few men and women can make the difference. Can there be a "tipping point" for Hampton Roads? What the region needs now is exceptional interest and knowledge followed by passion and energy.

# BANKING CHANGES

# When The Banks Left Town: The Impact Of Banking Changes On Hampton Roads

Over the past two decades, but especially during the 1990s, banks headquartered in other states, usually North Carolina, acquired the largest freestanding, independent commercial banks headquartered in Hampton Roads. Organizations such as Bank of America, Sun Trust, First Union and Wachovia now dominate the banking scene in the region, rather than Sovran, Crestar and others that either were headquartered in Hampton Roads or in Virginia.

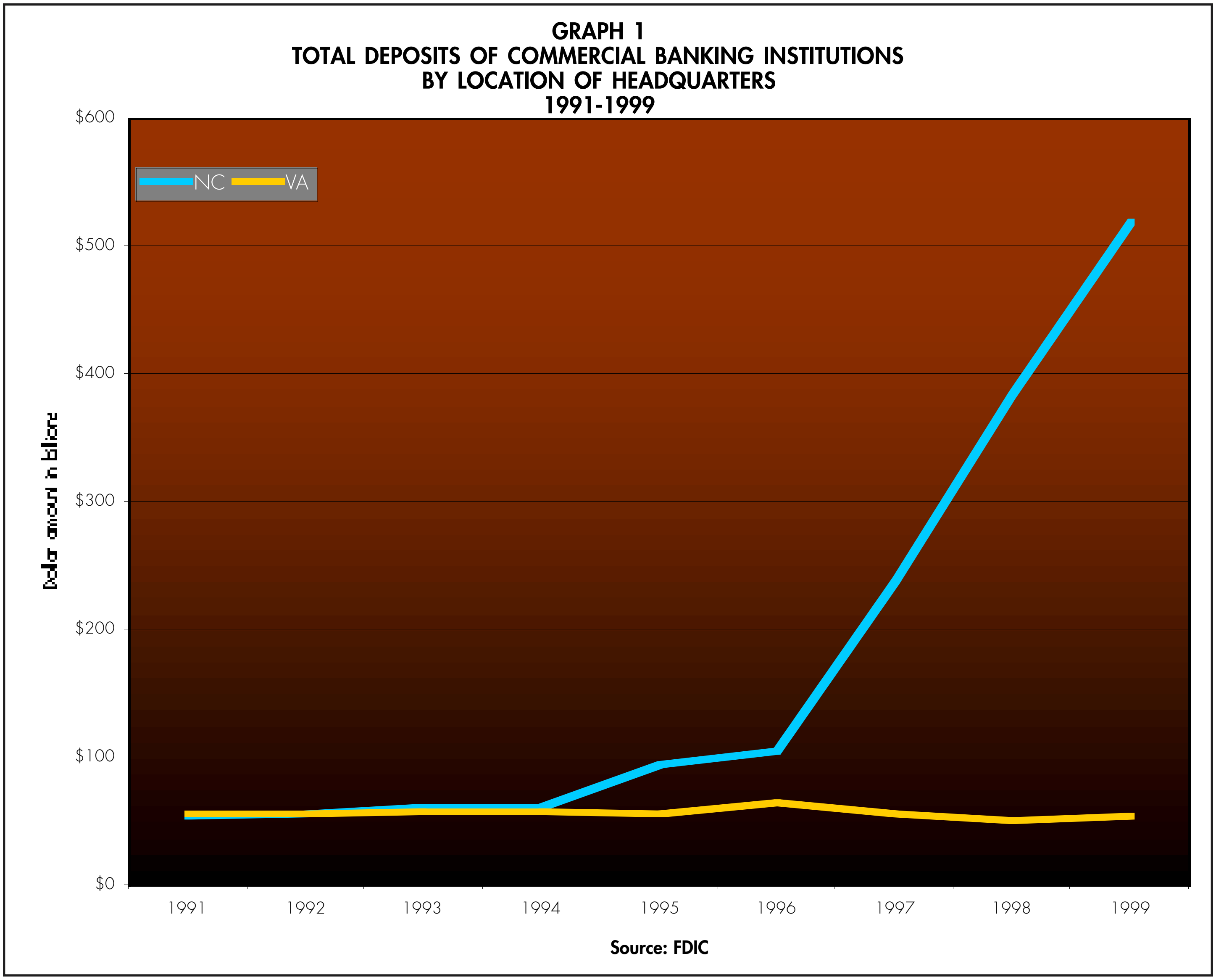
**So what? What effect has this wave of mergers and displacement of ownership had upon Hampton Roads? There are two effects – one clear and demonstrable, and the other more arguable. The effect clearly supported by the evidence is an absolute decline in banking employment in Virginia, accompanied by very modest increases in banking employment in Hampton Roads, but dramatically below what has been the case in North Carolina. Further, relatively speaking, banking wages and salaries have fallen in Virginia and Hampton Roads.**

The effect that is arguable relates to a possible decline in the quality of banking services in Virginia and Hampton Roads because of the mergers and ownership displacement. In fact, the reverse may be true.

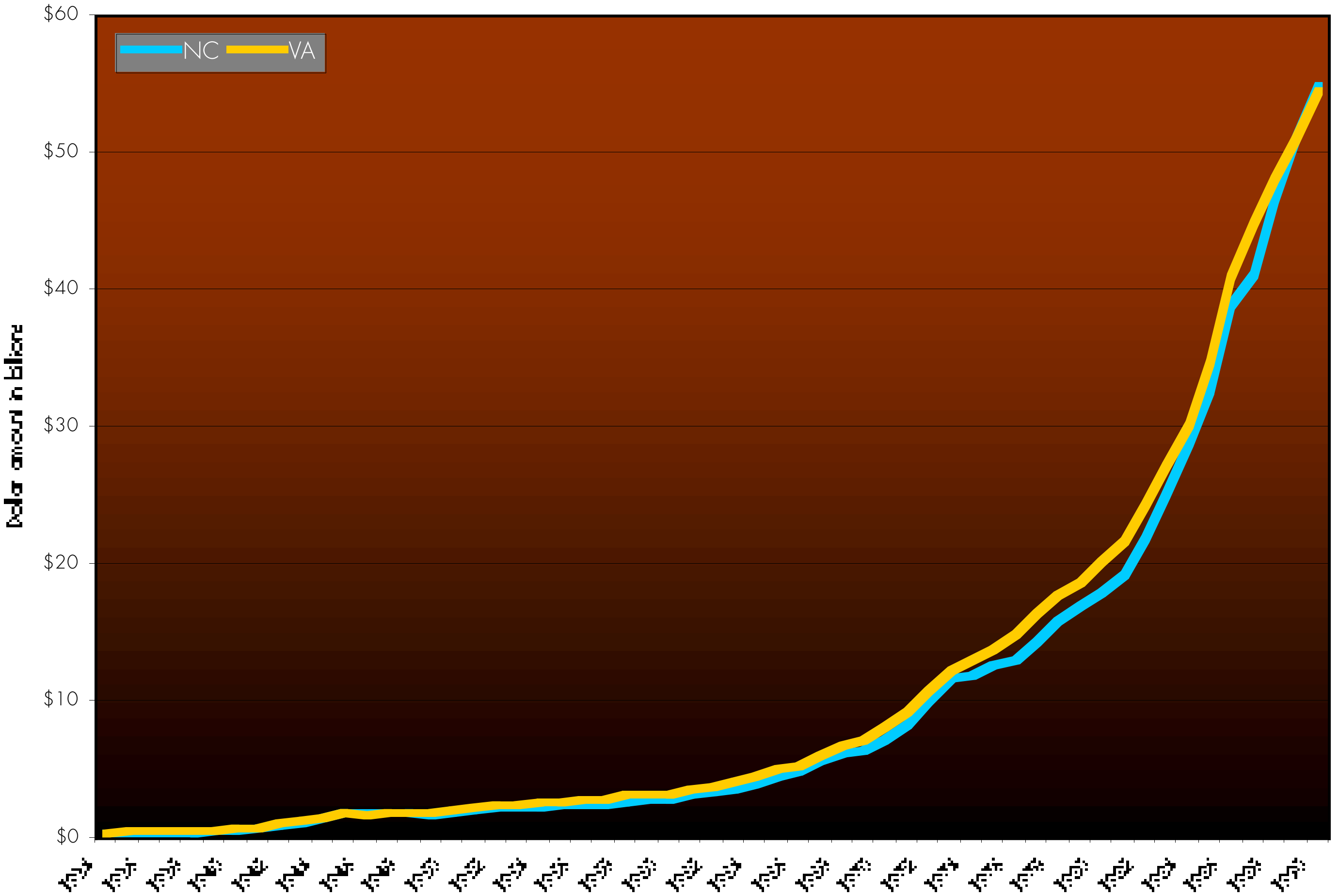
## Data On Commercial Banking In Virginia And Hampton Roads

The primary source for information on the deposits of commercial banks, as well as the number of banks and offices (branches), is the Federal Deposit Insurance Corp. (FDIC), which reports such data on June 30 each year.

An important measure of commercial banking size and the general prosperity of banking organizations is the volume of their deposits. Graph 1 displays the total deposits of commercial banking institutions by location of their headquarters, either in Virginia or North Carolina. It is evident that deposits of commercial banks headquartered in North Carolina began to increase in 1994, and that growth has accelerated since 1996. This is in sharp contrast to the situation of banks headquartered in Virginia, where total deposits have either been stagnant or declining since 1994. However, it is worth noting that this was not always the pattern. Historical data on deposits, beginning in 1934 and ending in 1990, are displayed in Graph 2. One can see that during most of this period, the total deposits of Virginia and North Carolina banks were about the same, and in many years Virginia's deposits were slightly larger.


GRAPH 1
TOTAL DEPOSITS OF COMMERCIAL BANKING INSTITUTIONS
BY LOCATION OF HEADQUARTERS
1991-1999
NC
VA
Dollar amount in billions
$600
$500
$400
$300
$200
$100
$0
1991
1992
1993
1994
1995
1996
1997
1998
1999
Source: FDIC

GRAPH 2
TOTAL DEPOSITS OF COMMERCIAL BANKING INSTITUTIONS
BY LOCATION OF HEADQUARTERS
1934 - 1990




Source: FDIC

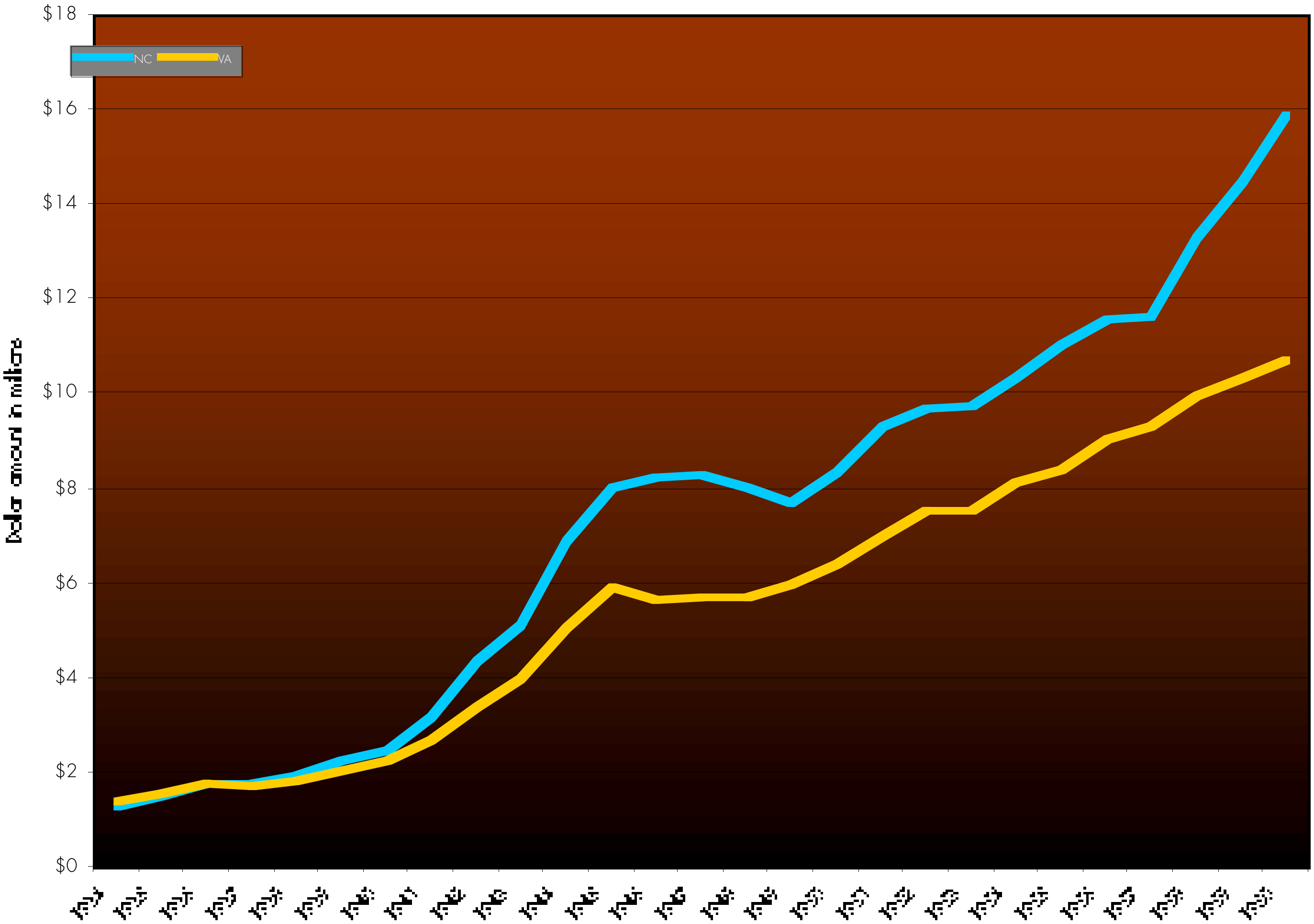
An examination of the average deposits of the banks headquartered in North Carolina and Virginia, represented in Graphs 3, 4 and 5, reveals a dramatically opposite finding. Even since the late 1930s, average deposits of banks in North Carolina have been higher than their counterparts in Virginia. The differences in these deposits have been growing ever since, a trend that has been magnified since the middle 1990s.

The finding of larger total deposits and smaller average deposits in Virginia banks, when compared with those of North Carolina (at least until 1990), can be explained by the fact that the number of banking institutions in Virginia has always been greater than in North Carolina. In 1934, Virginia had 320 banking institutions, compared with 237 in North Carolina. Even though the number of banking institutions has declined over time, both in Virginia and North Carolina, Virginia still had more banking institutions than did its neighbor to the south. By 1990, Virginia had 178 banking institutions, compared with only 78 in North Carolina. The existence of larger, though fewer, banking institutions in North Carolina as compared to Virginia since the late 1930s can be traced to the differences in banking laws and regulations in these two states.

# Some History Of Banking Regulations

Until passage of the McFadden Act in 1927, branching of national banks was prohibited. The McFadden Act permitted establishment of new branches by member banks of the Federal Reserve System only within their head-office city. Further, these banks were required to conform to the branching regulations in the state of their location. Essentially, this act put national banks and

**GRAPH 3**
**AVERAGE DEPOSITS PER COMMERCIAL BANKING INSTITUTION**
**BY LOCATION OF HEADQUARTERS**
**1934 - 1960**




**Source: FDIC**

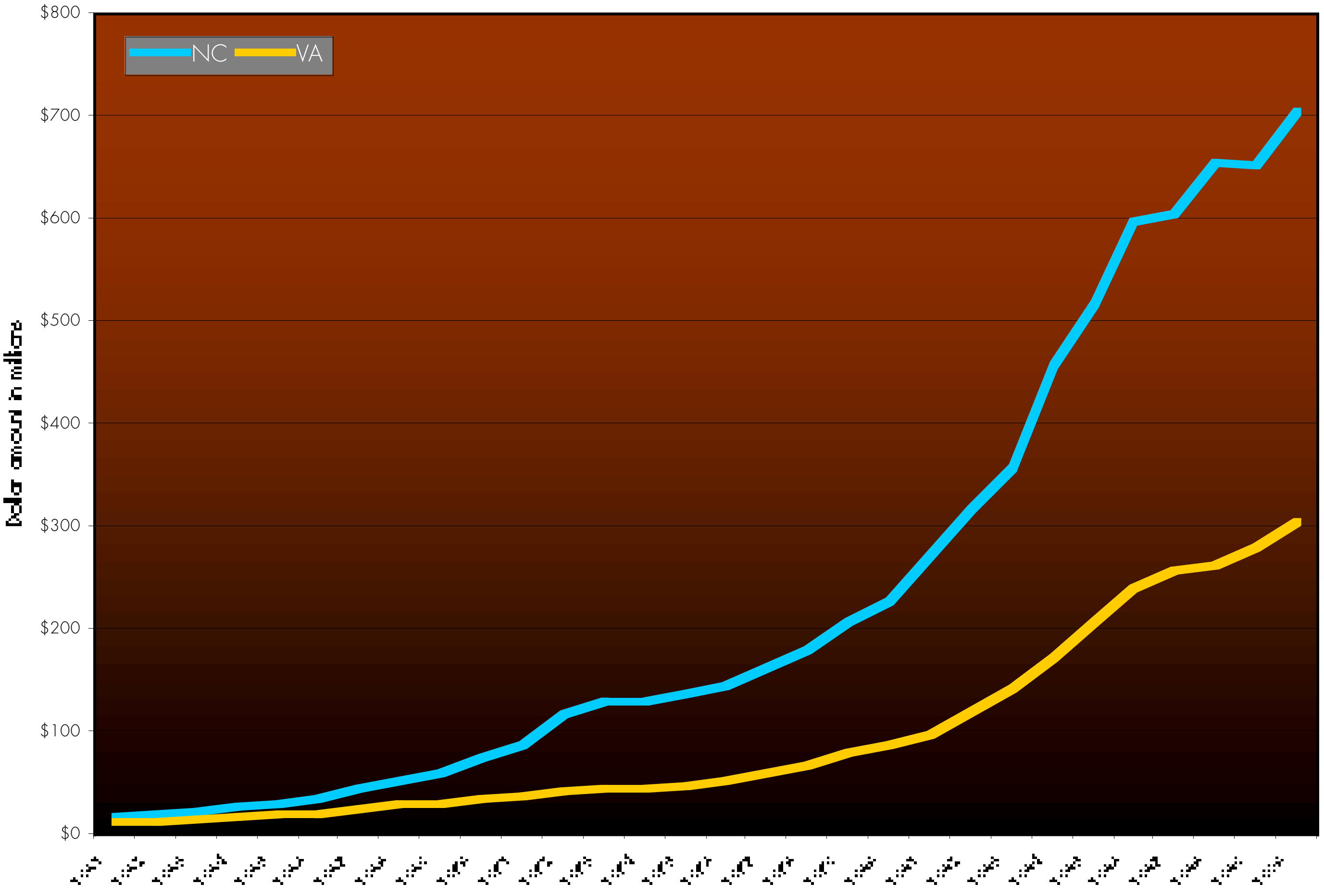
state banks on equal footing by effectively prohibiting banks from branching out across state lines. The National Banking Act of 1933 made national banks subject to the same location restrictions imposed on state banks by state legislation.

Virginia banking legislation from 1928 through 1961 authorized additional *de novo* (new) branches only in the parent-bank city, town or county. The legislation also permitted mergers, or purchases, in the same or adjoining county as the parent bank. Up until 1962, only one state banking organization, the Bank of Virginia, participated in statewide branching, and it was allowed to do so due to a grandfather clause in the legislation.

Bank holding companies, however, were not regulated under the Virginia Banking Code. A holding company could acquire a bank as an affiliate and avoid state branching restrictions. The affiliate remained a separate unit of the holding company under federal laws and under the supervision of the Federal Reserve System. The First Virginia Corp. (1949), a bank holding company in Arlington, and Financial General (1925), a holding company in Washington, D.C., operated affiliates in several communities in Northern Virginia. Nonetheless, Virginia remained primarily a unit banking state until 1962.

This is in sharp contrast to banking practices in North Carolina and Maryland, where statewide branching has been permitted since the 1930s. Banks in North Carolina wishing to expand had a distinct advantage over their counterparts in Virginia, at least until 1962, as the latter faced more restrictive legislation when it came to expansion.

**GRAPH 4**
**AVERAGE DEPOSITS PER COMMERCIAL BANKING INSTITUTION**
**BY LOCATION OF HEADQUARTERS**
**1961 - 1990**




**Source: FDIC**

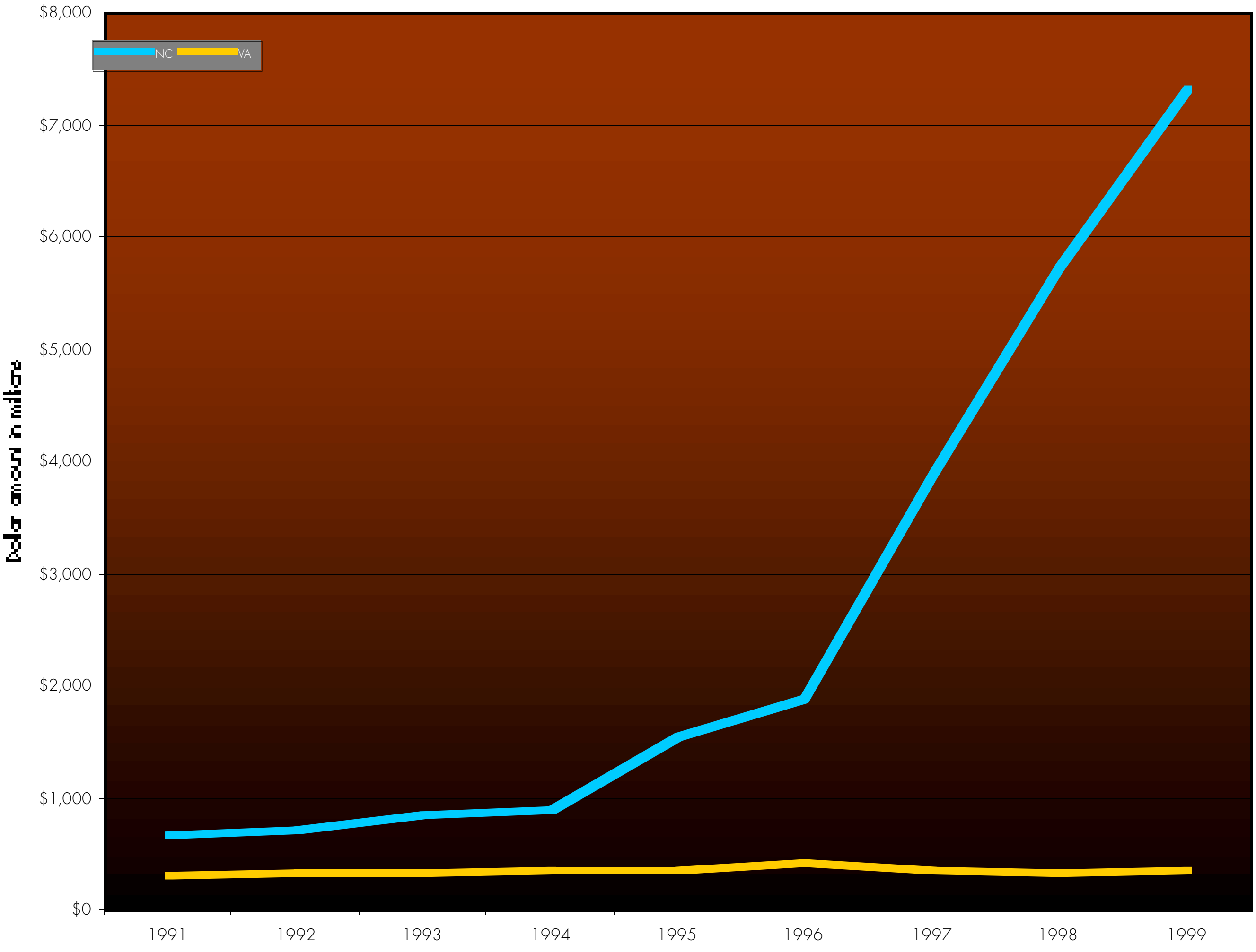
In the early 1960s, banks in North Carolina, Maryland and the District of Columbia were larger than banks in Virginia. For example, in 1962, the biggest bank in Virginia could offer a credit line of only $1.55 million. Richmond had four of the six largest banks in the state, yet all four combined could offer a single entity no more than $4.95 million. By contrast, in any of 15 North Carolina cities, an industry could obtain $5 million in loans or a credit line from a single bank.

**The 1962 Virginia legislation, the Buck-Holland Bill, opened a new era for banking in the Commonwealth. Virginia bankers were now permitted to expand by merger or purchase by a holding company, or by a combination of the two methods in any county, city or town within the state. However, merger or purchase were the only ways to accomplish rapid growth, for the same act prohibited establishment of additional *de novo* branches outside the area of the parent bank.**

Under the 1962 legislation, holding companies had obtained a distinct advantage in branching. This legislation restricted *de novo* branches to the immediate area of an existing bank, while mergers were authorized on a statewide basis. As a result of this, a bank merging into another community could not branch *de novo* in the area of the bank with which it merged. By contrast, a holding company could acquire a bank as an affiliate and the affiliate, which remained a separate bank, could continue to branch *de novo* in its community.

The regulations restricting branching promoted the development of bank holding companies. They allowed these companies to circumvent restrictive branching regulations, because the holding company could own a controlling interest in several banks even if branching was not permitted. A bank holding company also could engage in other activities related to banking, such as the provision of investment advice, data processing and transmission services, leasing, credit card services and servicing of loans in

**GRAPH 5**
**AVERAGE DEPOSITS PER COMMERCIAL BANKING INSTITUTION**
**BY LOCATION OF HEADQUARTERS**
**1991 - 1999**




**Source: FDIC**

other states. Further, the holding company could also issue commercial paper, allowing the bank to tap into other nondeposit sources of funds.

The disparity in branching opportunities under the Buck-Holland Bill was eliminated by a change to the Virginia Banking Code in 1978. Now, merged banks as well as banks affiliated with holding companies were permitted to open new branches. This change in legislation also provided an impetus for the creation of single-bank holding companies. The single-bank holding company formation enabled the banking organization to consolidate its operations and improve operating efficiency and management control.

Thus, at least until 1978, because of restricted branching opportunities, banking institutions in Virginia remained relatively small. Even though holding companies were allowed to acquire additional banks as affiliates, the affiliates remained separate banks. An affiliate was permitted to branch *de novo* only in its community, and therefore remained relatively small in size. In contrast, banking institutions in North Carolina, which had been able to branch out statewide since the 1930s, continued to grow larger and larger, as measured by their deposits. As a result, the disparity in size among banks in Virginia and North Carolina continued to widen.

Another advantage of bank holding companies was that many states allowed bank holding companies headquartered in other states to purchase banks in their states. In 1975, Maine enacted the first interstate banking legislation that allowed out-of-state bank holding companies to purchase banks in that state. In 1982, Massachusetts enacted a regional compact with other New England states to allow interstate banking. In addition, starting in 1982, bank holding companies were permitted to purchase out-of-state banks that were failing. For example, bank holding companies headquartered in New York, Ohio, North Carolina, Michigan and California gained entry into Texas by purchasing failing institutions in that state.

In 1985, the U.S. Supreme Court ruled that interstate acquisitions by holding companies were legal. In Northeast Bancorp vs. Board of Governors, 472 U.S. 159 (1985), the Supreme Court upheld the right of a state to authorize acquisitions of banks within its boundaries by bank holding companies headquartered in another state with which it had reciprocal legislative arrangements. Virginia joined with 12 southeastern states, Maryland and District of Columbia to permit such acquisitions within their compact. The 12 southeastern states were Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia. As a result, three Virginia banks, United Virginia, Signet and Sovran, began expanding beyond Virginia's borders for the first time. Out-of-state banks located in this "compact" region were also in a position to expand their activities in Virginia. By the early 1990s, all states allowed some form of interstate banking.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 extended the regional compacts to the entire nation and overturned the McFadden Act and the Douglas Amendment's prohibition of interstate banking. Not only did this act allow bank holding companies to acquire banks in any other state, notwithstanding any state laws to the contrary, but it also allowed bank holding companies to merge the banks they owned into one bank with branches in different states.

Although interstate banking was accomplished previously by the out-of-state purchase of banks by bank holding companies, up until 1994 interstate branching was virtually nonexistent because very few states had enacted interstate branching legislation. Now, nationwide banks are beginning to emerge. The merger of Bank of America and NationsBank in 1998 created the first bank with branches on both coasts.

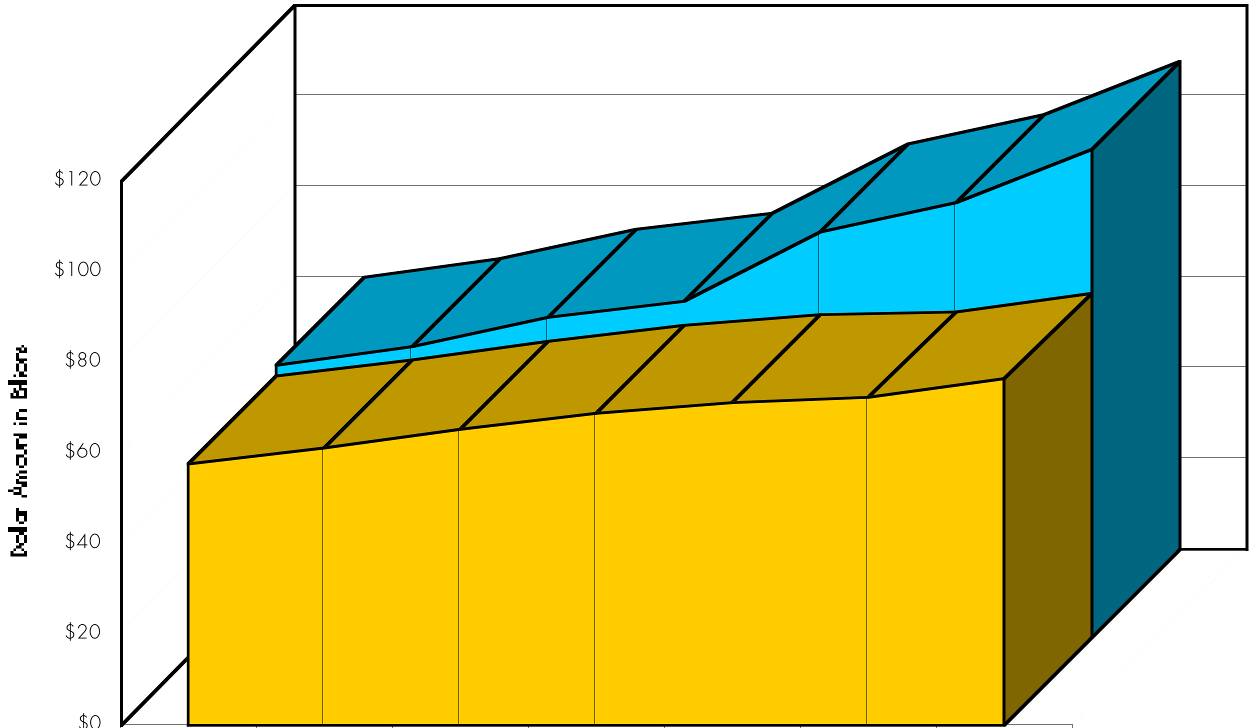
## The Impact Of The 1994 Act On Bank Deposits In Virginia And North Carolina

**An examination of deposits of commercial banking offices, including branches and head offices, reveals significant increases in deposits from 1994 to 2000 for both Virginia and North Carolina. However, these deposits increased at a much faster rate in North Carolina than in Virginia. In 1994, deposits of commercial banking offices located in North Carolina, as displayed in Graph 6, were $60.19 billion compared with $57.55 billion in Virginia, a difference of only 4.6 percent. By 2000, deposits in North Carolina exceeded those in Virginia by 41.8 percent, and while deposits in Virginia increased to $76.06 billion, those in North Carolina climbed to $107.82 billion.**

The significant increase in deposits in North Carolina since 1997 is primarily due to the fact that large accounts typically get reported by the head office regardless of the location of the office where the actual deposits are made. For example, in 1998 NationsBank, based in Charlotte, merged with Bank of America, headquartered in San Francisco, but the headquarters of the new merged bank moved to Charlotte. This led to an increase in deposits reported by the main office in Charlotte from $.70 billion in 1997 to $13.88 billion in 1998, and later to $22.42 billion in 2000. The acquisition of banks in many other states by North Carolina banks, through holding companies since the late 1980s, had prepared these companies to take full advantage of interstate branching possibilities provided by the 1994 act. This act led to the emergence of the so-called "super-regional" banks based in North Carolina. Large deposits of headquarters of their bank holding companies located in other states and previously accounted in those states now began to be reported in North Carolina.

Graph 7 shows the distribution of deposits of commercial banking offices by location of their headquarters. In Virginia, deposits of commercial banking offices headquartered in Virginia actually declined from $57.55 billion in 1994 to $34.75 billion in 2000. In North Carolina, on the other hand, deposits increased from $60.19 billion to $106.44 billion during the same period. **Banking offices headquartered in Virginia accounted for 100 percent of all Virginia deposits in 1994, but this percentage declined to 45.68 percent in 2000. That is, in the space of six years, more than half of all banking deposits in Virginia were acquired by out-of-state banks.**

**GRAPH 6**
**TOTAL DEPOSITS OF COMMERCIAL BANKING OFFICES**
**1994 - 2000**



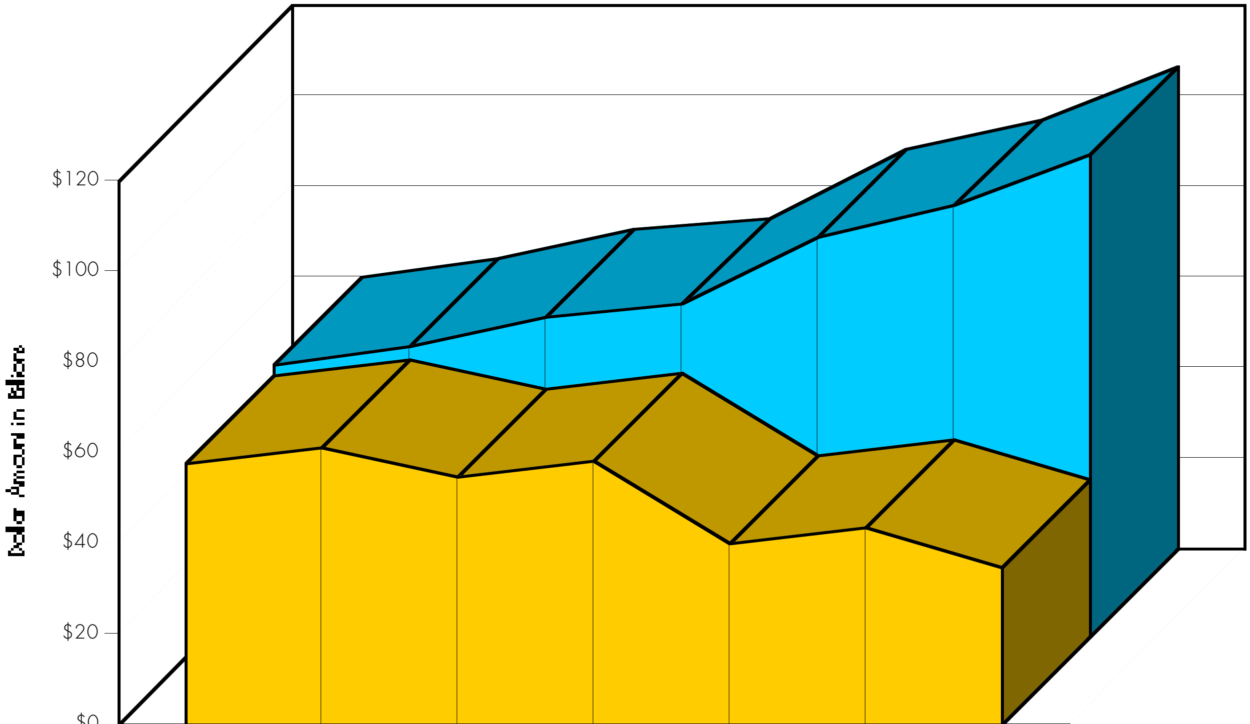

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|
| Virginia | 57.55 | 61.21 | 65.06 | 68.56 | 71.32 | 72.05 | 76.06 |
| North Carolina | 60.19 | 64.23 | 70.58 | 74.27 | 89.47 | 96.07 | 107.82 |

**Source: FDIC**

Comparable figures for North Carolina for the same years are 100 percent and 98.71 percent, respectively. Hence, banks headquartered in that state control nearly all banking deposits in North Carolina. The interstate branching possibilities provided by the 1994 act and the fact that several major North Carolina Bank holding companies had already acquired banks in other states, including Virginia, were responsible for the sharp decrease in the deposits of commercial bank offices headquartered in Virginia.

This does not necessarily imply that the availability of banking services in Virginia declined from 1994 to 2000. During this period, as described above, total deposits of banking offices in Virginia increased from $57.55 billion to $76.06 billion, or by one-third. Moreover, the number of banking offices in Virginia increased from 2,067 in 1994 to 2,278 in 2000, or roughly by 10 percent. The number of banking offices in North Carolina increased from 2,281 to 2,290 for the same period. The number of banking facilities in Virginia is now comparable to that of North Carolina.

**GRAPH 7**
**TOTAL DEPOSITS OF COMMERCIAL BANKING OFFICES HEADQUARTERED IN STATE**
**1994 - 2000**




| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|
| Virginia | 57.55 | 61.19 | 54.78 | 58.00 | 39.83 | 43.46 | 34.75 |
| North Carolina | 60.19 | 64.23 | 70.58 | 73.41 | 88.56 | 95.15 | 106.44 |

**Source: FDIC**

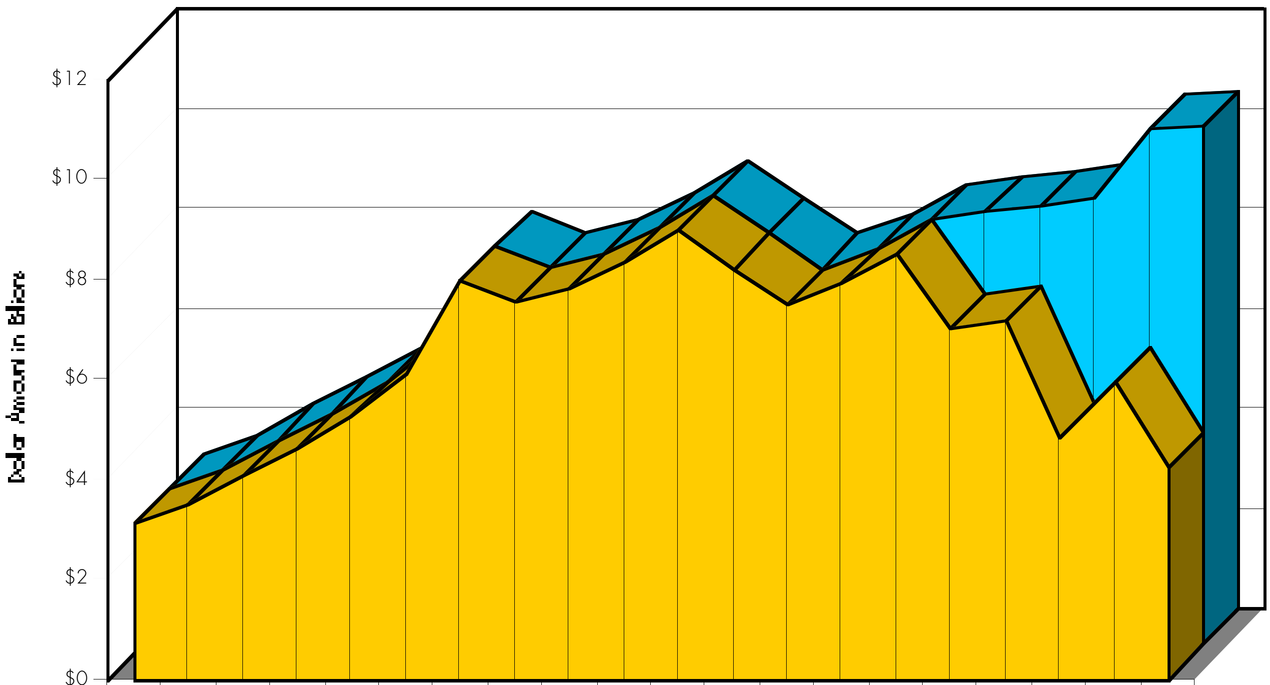
# Bank Deposits In Hampton Roads, 1981 To 2000

Total deposits in Hampton Roads, exclusive of Currituck County in North Carolina, are displayed in Graph 8. They increased from $3.13 billion in 1981 to $10.35 billion in 2000, or more than 330 percent in 20 years. The number of banking offices for the same period also increased from 288 to 373. Of particular interest are the declines in deposits from 1991 to 1993, but a substantial increase in deposits from 1998 to 1999.

These deposits declined from $8.98 billion in 1991 to $8.22 billion in 1992 and declined further to $7.52 billion in 1993 before reversing this trend the following year. The primary reason for this decline was the acquisition of C&S/Sovran Bank, headquartered in Norfolk and Atlanta, by North Carolina National Bank. The new merged bank was called NationsBank and its headquarters were located in Charlotte; the Virginia banking operations became known as NationsBank of Virginia N.A. Thus, large deposits, which used to be reported out of the Norfolk office were being reported out of the Richmond office until September 1995 and out of the Charlotte office thereafter.

Total deposits increased from $8.94 billion in 1998 to $10.33 billion in 1999, a jump of $1.37 billion in only one year. Most of this can be attributed to the acquisition of two thrift institutions, First Coastal Bank and Life Savings Bank, by Centura Bank and Branch Banking and Trust Co. of Virginia, respectively. The deposits of these two thrift institutions in 1999 were $1.11 billion. Finally, total deposits in 2000 would have increased by another $480 million if CENIT Bank, a thrift institution, had not acquired Cenit Bank, a commercial bank, in 2000. These deposits will appear again for Hampton Roads in 2002 after SouthTrust, an Alabama-based bank, completes its acquisition of CENIT in late 2001.

**GRAPH 8**
**DEPOSITS OF COMMERCIAL BANKING INSTITUTIONS IN HAMPTON ROADS**
**BY LOCATION OF OFFICES AND HEADQUARTERS**
**1981 - 2000**



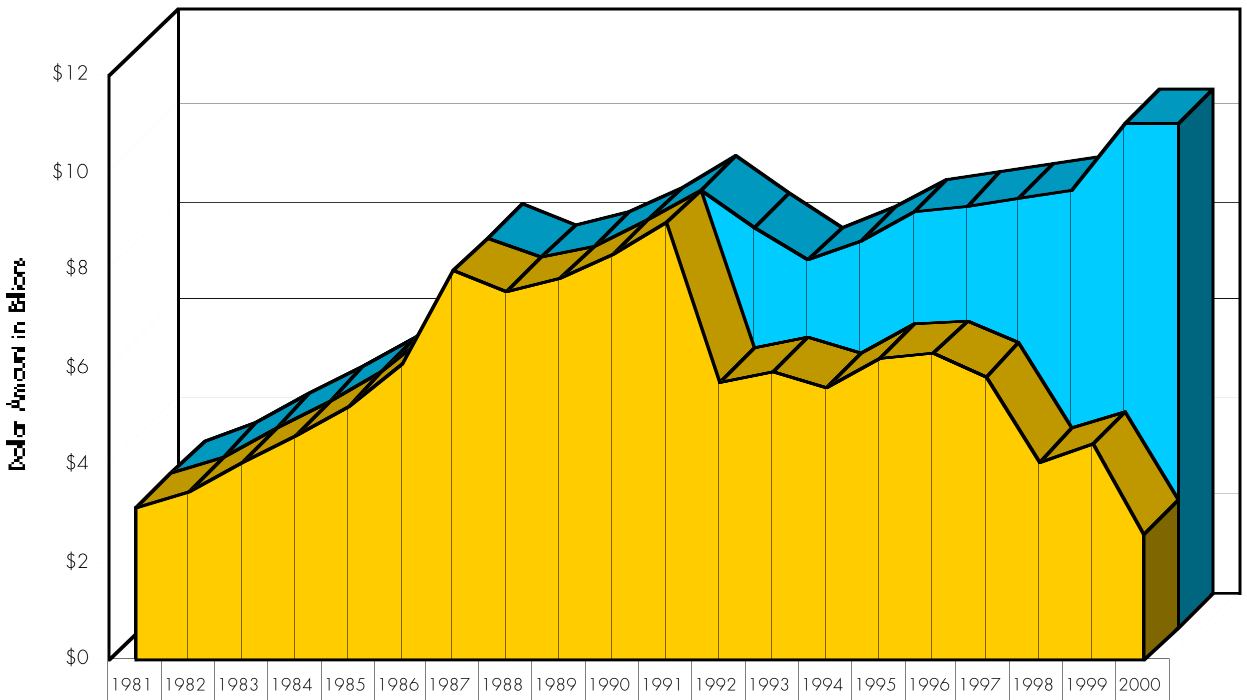

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Headquartered in Virginia | 3.13 | 3.47 | 4.10 | 4.64 | 5.24 | 6.09 | 7.99 | 7.57 | 7.83 | 8.34 | 8.98 | 8.22 | 7.52 | 7.92 | 8.49 | 7.04 | 7.18 | 4.81 | 5.95 | 4.22 |
| Total Deposits | 3.13 | 3.47 | 4.10 | 4.64 | 5.24 | 6.09 | 7.99 | 7.57 | 7.83 | 8.34 | 8.98 | 8.22 | 7.52 | 7.92 | 8.49 | 8.65 | 8.78 | 8.94 | 10.33 | 10.35 |

**Source: FDIC**

Although interstate banking was accomplished previously by the out-of-state purchase of banks by bank holding companies, up until 1994 interstate branching was virtually nonexistent. Graph 8 also shows deposits of banking institutions headquartered in Virginia. It appears from this graph that out-of-state banks started to enter the Hampton Roads market only after 1995. Prior to 1996, deposits of banks headquartered in Virginia were identical to their total deposits. The deposits of banks headquartered in Virginia began to decline beginning in 1996. Banking institutions headquartered in Virginia accounted for 81.4 percent of total deposits in 1996, and their share fell to 40.8 percent in 2000.

However, out-of-state bank holding companies began to enter Virginia in the mid-1980s and Hampton Roads in the 1990s. For example, NationsBank of Virginia was formed in 1992 and its parent organization was in Charlotte. Likewise, even though First Union's subsidiary in Virginia was formed in 1984, it entered Hampton Roads in 1994 and Branch Banking and Trust Co. of Virginia came into existence in 1997. Graph 9 shows total banking deposits in Hampton Roads as well as deposits of parent organizations based in Virginia. Deposits of these institutions began to decline after 1991. In 1992, their share of total deposits in Hampton Roads was 69.8 percent, a share that had declined to 25.2 percent by 2000.

**GRAPH 9**
**DEPOSITS OF COMMERCIAL BANKING INSTITUTIONS IN HAMPTON ROADS**
**BY LOCATION OF OFFICES AND PARENT ORGANIZATION**
**1981 - 2000**




| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Parent Organization in Virginia | 3.13 | 3.47 | 4.10 | 4.64 | 5.24 | 6.09 | 7.99 | 7.57 | 7.83 | 8.34 | 8.98 | 5.74 | 5.94 | 5.63 | 6.19 | 6.30 | 5.83 | 4.08 | 4.43 | 2.61 |
| Total Deposits | 3.13 | 3.47 | 4.10 | 4.64 | 5.24 | 6.09 | 7.99 | 7.57 | 7.83 | 8.34 | 8.98 | 8.22 | 7.52 | 7.92 | 8.49 | 8.65 | 8.78 | 8.94 | 10.33 | 10.35 |

**Source: FDIC**

# So What? What Difference Has It Made?

What have we found thus far? The total deposits of banking offices located in Hampton Roads and the Commonwealth of Virginia, as well as the number of banking offices available to Virginia residents, have increased substantially since the 1980s. However, at least since 1992, deposits of banking organizations based in Virginia have declined significantly in Hampton Roads. Further, deposits of commercial banks headquartered in Virginia have declined both in Hampton Roads and the state since 1996. What difference has this made? We now will examine banking employment, banking wages and banking service to find the answer.

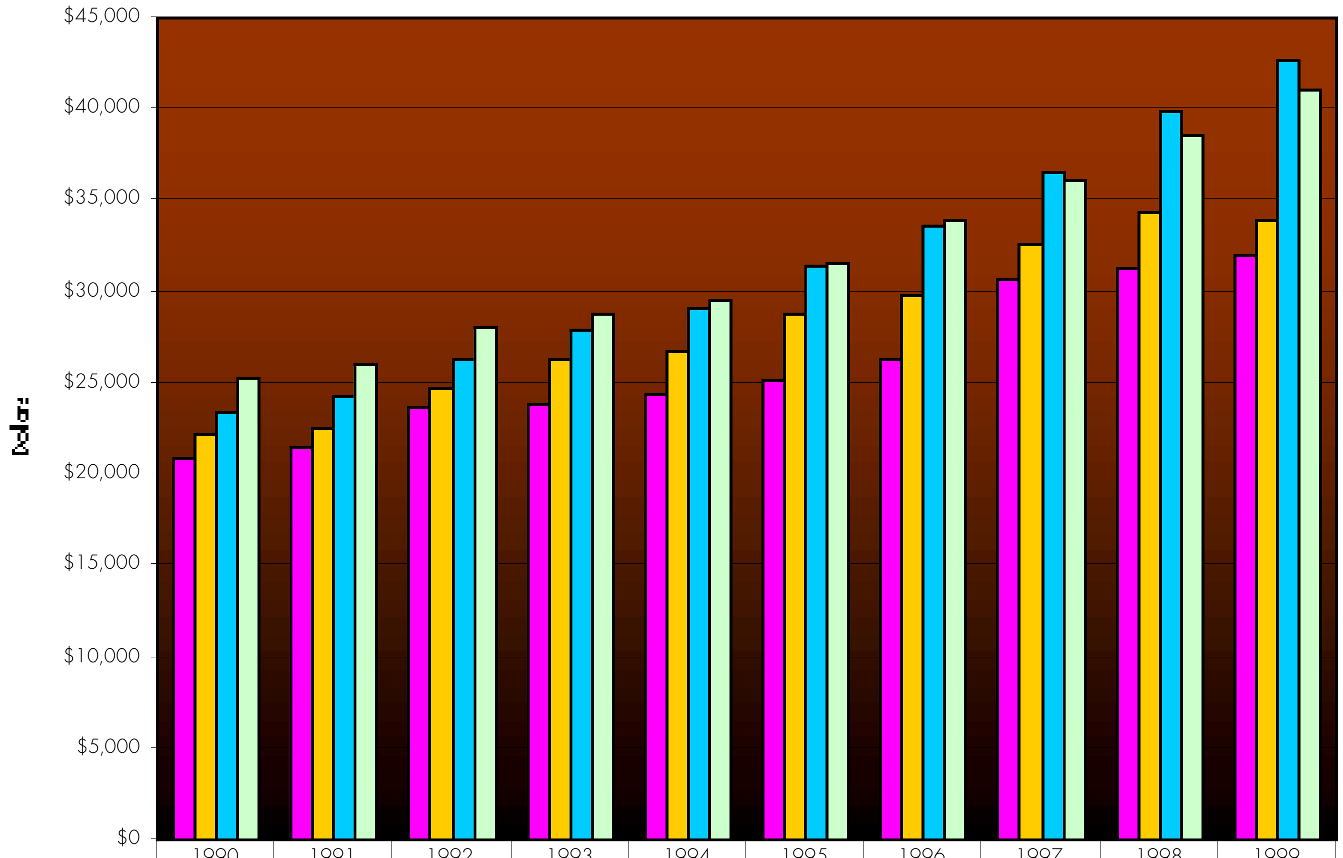
## BANKING EMPLOYMENT, WAGES AND SALARIES

Data on banking industry employment and wages (available only for 1990 to 1999) indicate that total employment in banking institutions in Hampton Roads increased from 6,766 in 1990 to 7,139 in 1999, or 5.51 percent. However, banking employment in Virginia during the same period actually declined from 39,401 to 38,329, or 2.72 percent. Interestingly, during the same time period, banking employment in North Carolina increased by 48.79 percent – from 34,628 in 1990 to 55,106 in 1999. Nationally, during the same time period, banking employment declined by 6.28 percent.

What does this tell us? First, the declines in banking employment in Virginia and nationally reflect the wave of banking mergers that apparently created economies of scale in banking operations (especially those depending on information technology) such that fewer banking employees were needed to handle even larger amounts of banking business. Second, Hampton Roads did not do badly in this situation, at least in terms of employment, though a possible reason banking employment did not decline in Hampton Roads is its banks were undersized and relatively less efficient than those elsewhere. Some observers view this good employment news as bad news, indicative of inefficient bank sizes. Third, North Carolina conquered all of these trends and experienced a solid gain in banking employment.

Given that banking employment was stagnant or falling in Virginia and Hampton Roads during the 1990s, what was happening to the wages and salaries paid to banking employees? Graph 10 displays average annual wages and salaries in the banking industry from 1990 to 1999 for Hampton Roads, Virginia, North Carolina and the United States. Wages and salaries in banking grew in all four areas during this period. However, one can see that the rate of growth in wages varied substantially among the areas. For example, banking wages and salaries increased by roughly 53 percent in Hampton Roads and Virginia during this period. For the entire country, however, the wages and salaries increased by 62.5 percent, and in North Carolina by an astounding 82.3 percent. **It is apparent in Graph 10 that average banking wages and salaries in North Carolina first began to exceed U.S. average wages for the first time in 1997, and the differences have accelerated since then. Of course, this was coincident with the wave of banking mergers and consolidations that made Charlotte one of the most important banking centers in the United States.**

**GRAPH 10**
**AVERAGE ANNUAL WAGES**
**IN COMMERCIAL BANKING ESTABLISHMENTS**
**1990 - 1999**




| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| Hampton Roads | 20919 | 21469 | 23618 | 23794 | 24431 | 25165 | 26338 | 30637 | 31213 | 32036 |
| Virginia | 22191 | 22538 | 24709 | 26318 | 26762 | 28716 | 29869 | 32600 | 34272 | 33871 |
| North Carolina | 23431 | 24294 | 26342 | 27889 | 29043 | 31485 | 33572 | 36521 | 39906 | 42721 |
| U.S. | 25223 | 25996 | 28090 | 28767 | 29446 | 31551 | 33903 | 36058 | 38558 | 40984 |

**Sources: Virginia Employment Commission and Bureau of Labor Statistics**

The impact upon the Commonwealth and Hampton Roads has been large, and negative. In 1990, annual banking wages and salaries at commercial banking institutions in Virginia were 12 percent lower than those nationally. By 1999, Virginia trailed the rest of the country by 17.4 percent. In Hampton Roads, banking wages and salaries fell from 82.9 percent of the U.S. average to 78.2 percent for the same time period. By contrast, banking wages and salaries in North Carolina increased from 92.9 percent of the national average to 104.2 percent of the national average in 1999.

**Thus, during the 1990s, banking has not been a growth leader in Virginia or Hampton Roads. Rather than accumulating attractive banking jobs paying relatively high salaries, Virginia and Hampton Roads have trailed the nation, and especially their neighbor, North Carolina. If there is a winner in the wave of banking mergers and consolidations that has occurred nationally, it is the Tar Heel State. North Carolina has utilized commercial banking as a growth industry and has made substantial gains in this arena compared to the nation, Virginia and Hampton Roads. Most of the gains can be attributed to the development and growth of the so-called "super-regional" banks based in North Carolina.** However, it must be noted that the banks in North Carolina had been larger in size, not just in the 1990s, but ever since 1930s. Through the acquisition of banks in many other states since late 1980s, these institutions already were larger and hence were well prepared to take full advantage of interstate branching possibilities provided by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994.

### BANKING SERVICES

Banking service, as defined here, refers not only to whether banking employees are courteous and facilities easy to use, but also to the range of products offered and the competitiveness of the prices of these products. The large, national, banks now located in Hampton Roads presumably offer a wider range of banking products (accounts, trust, loans, brokerage, etc.) than their smaller predecessors in Hampton Roads did. The large national banks also offer a wider variety of investment opportunities and trust services than most smaller banks do and presumably have access to larger pools of capital. Thus, they can offer larger loans and arguably can be more competitive in terms of interest rates. Whether they actually do offer more attractive interest rates, of course, is an empirical question, and one to which the answer is not clear. There is mixed evidence nationally concerning the interest rates large banks offer on loans and savings vs. the rates offered by smaller banks.

What does seem relatively more clear, however, is that the Commonwealth and Hampton Roads suffered for many decades from banking policies that discouraged branching and diminished the size of individual banks. Consequently, banks in Virginia and Hampton Roads were unable to offer the range of products that banks in other states could offer. It is not abundantly clear that this had a negative effect on economic growth in the 1980s and 1990s, though it hardly could have been positive. Consequently, Virginia and Hampton Roads fell prey to larger, acquisition-minded banks in other states that could tell stockholders their shares would be worth more after merger, and assure customers that the range of products available to them would improve at the same time. While some of the customers of the newly merged national banks have taken their business to smaller, regional and local banks – and there always will be a niche for such banks – the concentration of banking deposits, even at the retail consumer level, remains at these large, national banks, and deposits continue to increase. There is no groundswell of bank customers leaving the national banks that no longer are headquartered in Hampton Roads. Hence, few individuals are willing to argue that the former banking structure of Virginia and Hampton Roads was more efficient because the market appears to be delivering opposite signals. The national banks may not always offer the personalized service of the community banks, but more and more customers now do their banking via ATMs and over the Internet, and therefore personalized service is less of a concern to them.

## Summary

Deposits of banking offices located in Hampton Roads and the Commonwealth of Virginia (whether or not they are headquartered here) have increased substantially since the 1980s. Further, banking facilities available to Virginia residents, as measured by the number of banking offices, have also increased over time. But, deposits of banking organizations based in Virginia have declined significantly both in Hampton Roads and Virginia. The result has been a very modest growth in employment for Hampton Roads and a slight decline in employment for the state. In addition, increases in wages have been much slower in Hampton Roads or Virginia when compared with North Carolina.

**It appears that the era of very large, regional banks headquartered in Virginia is over. Both Hampton Roads and the Commonwealth of Virginia are likely to have super-regional banks headquartered outside of Virginia while at the same time have several community banks serving the needs of Virginia residents. The major negative impact of this arrangement is upon banking employment and banking wages and salaries, both of which have stagnated when compared to North Carolina.** Some individuals believe public-policy choices make little difference in their lives. However, the information presented here is visible evidence that this is not so. Virginia chose a specific path in banking many decades ago, and now is paying the price.

# K-12 PRIVATE SCHOOLS

# A Look At The Alternative: Private And Independent K-12 Schools

Private and independent K-12 schools are a vital and major component of American education, both in Hampton Roads and throughout the nation. Of the more than 115,000 schools in the United States, 27,223 (or approximately 24 percent) are "private" (a label often used as a shorthand for private and independent). Of the nation's approximately 53 million students, 6 million (about 11 percent) attend private schools. According to the Projections of Education Statistics to 2010 released by the National Center for Education Statistics in August 2000, total K-12 enrollment is expected to increase to 53.5 million in 2005 and then start a slow movement downward. Assuming that future private-school enrollment patterns will mirror those of public schools, this suggests private-elementary enrollment has just about reached its peak. Secondary enrollment, however, is projected to jump 8 percent between 2000 and 2006.

**Hampton Roads is home to 167 private secondary schools that complement public schools in the region by providing a wide variety of K-12 educational opportunities. In addition to the students in these schools, a growing number of students are being schooled at home.**

The data reported here are based on the Private School Universe Study, produced by the U.S. Department of Education, National Center for Education Statistics (NCES), and a survey of 63 schools in the region that are members of the Virginia Council for Private Education (VCPE). The VCPE is an amalgamation of 13 separate associations, with each association representing a distinctive type of private school; one example would be church-affiliated schools. All VCPE members must be nonprofit and have a racially nondiscriminatory membership policy. While there are certainly excellent schools that are not members, VCPE is the only organization that has recognition from the Virginia Board of Education and it supervises the critical task of overseeing the accreditation of private elementary and secondary schools in Virginia.

## The Schools

The term "private school" is often used to describe all nonpublic schools, and the two terms can be used interchangeably. Within these broader categories are parochial/religious schools (Catholic and other religious schools); independent schools (those that are independently governed and receive no funding from churches or other organizations); and schools affiliated with other organizations. Most private schools are nonprofit organizations, but some are proprietary, or "for profit." Schools are further differentiated by program, with most offering traditional programs, but some provide special-emphasis programs, such as Montessori, and others emphasize particular facilities such as special-education accommodations.

According to the NCES Private School Universe Study, of the 27,223 private elementary and secondary schools in the United States in the fall of 1999, 22 percent were nonsectarian, 30 percent were Catholic and 48 percent were other religious schools (Baptist, Lutheran and the like). The South, reflecting its history of racial segregation, is the region with the most private schools – 30 percent of the total.

In Virginia, 606 private schools were reported in the NCES study, representing 24 percent of the Commonwealth's 2,540 schools. In Hampton Roads, however, private schools represent 30 percent of the total. The following table compares numbers of public and private schools in Hampton Roads, enrollment by city/county and numbers of students educated at home.

**TABLE 1**

**Public and Private Schools and Enrollment in Hampton Roads**

| | Number of Public Schools | Number of Private Schools | Total Schools | Enrollment in Public Schools K-12 | Enrollment in Private Schools K-12 | Home-Educated Students K-12* | Total Students |
|---|---|---|---|---|---|---|---|
| Chesapeake | 44 | 17 | 61 | 36,436 | 2,842 | 490 | 39,768 |
| Franklin | 3 | 2 | 5 | 7,023 | 179 | 31 | 7,233 |
| Gloucester | 10 | 2 | 12 | 6,576 | 201 | 103 | 6,880 |
| Hampton | 47 | 19 | 66 | 23,293 | 2,069 | 267 | 25,629 |
| Isle of Wight | 8 | 2 | 10 | 4,873 | 631 | 139 | 5,643 |
| Mathews | 3 | na | 3 | 1,292 | 0 | 4 | 1,296 |
| Newport News | 44 | 27 | 71 | 30,646 | 3,727 | 203 | 34,576 |
| Norfolk | 61 | 31 | 92 | 35,586 | 5,146 | 318 | 41,050 |
| Poquoson | 4 | 1 | 5 | 2,483 | 12 | 27 | 2,522 |
| Portsmouth | 29 | 10 | 39 | 16,187 | 1,384 | 138 | 17,709 |
| Southampton | 7 | 1 | 8 | 2,791 | 355 | 37 | 3,183 |
| Suffolk | 18 | 2 | 20 | 11,304 | 1,076 | 150 | 12,530 |
| Surry | 3 | na | 3 | 1,187 | 0 | 28 | 1,215 |
| Virginia Beach | 83 | 40 | 123 | 77,221 | 5,492 | 665 | 83,378 |
| Williamsburg/ James City County | 10 | 7 | 17 | 8,091 | 1,144 | 134 | 9,369 |
| York | 19 | 6 | 25 | 11,618 | 314 | 124 | 12,056 |
| Total | 393 | 167 | 560 | 276,607 | 24,572 | 2,858 | 304,037 |

**Source: NCES Private School Universe Survey, 1999; NCES Public School Universe Study, 1999: Virginia Department of Education Report of Fall Membership, 1999; Virginia Home Education Association Fall 2000 Virginia Home Education Statistics; and, 2001 Survey of VCPE Schools in Hampton Roads. All data are for 1999 except the data for home-educated students, which are from 2000.**

# The Students

In 1999, approximately 5.2 million students were enrolled in private schools in the United States, representing 10 percent of the total elementary, middle and secondary school students. Nationally, more students were enrolled in Catholic schools (49 percent) than in other religious schools (36 percent). Sixteen percent of the students enrolled in private schools attended nonsectarian schools. Thirty-one percent of all private-school students were in the South.

**In Virginia, 88,581 students attended 606 private schools, accounting for 7 percent of the 221,797 students enrolled in K-12 schools in 1999. In Hampton Roads, private-school students comprised 8 percent of the total number of enrolled students. Since 30 percent of all schools in Hampton Roads are private, this reveals that the typical private school is substantially smaller in size than the typical public school.**

Of the VCPE schools offering classes through the 12th grade, 92 percent of their students in the class of 2001 were college-bound, with 85 percent matriculating at a four-year college or university, and 7 percent planning to attend a two-year college.

Minority students comprised 22 percent of the fall 1999 enrollment in private schools nationwide as reported in the NCES survey. Table 2 compares minority enrollment nationally, in the South and in Hampton Roads.

**TABLE 2**

**Fall 1999 Minority Enrollment in Private Schools**

| | United States | Southern United States | Hampton Roads |
|---|---|---|---|
| White, Non-Hispanic | 78.2 percent | 80 percent | 81.3 percent |
| Black, Non-Hispanic | 9 percent | 9.8 percent | 10.5 percent |
| Hispanic | 7.8 percent | 7.2 percent | 2.3 percent |
| American Indian/ Alaskan Native | 0.5 percent | 0.3 percent | 0.3 percent |
| Asian/Pacific Islander | 4.5 percent | 2.6 percent | 5.5 percent |
| Total Minority | 21.8 percent | 20 percent | 18.6 percent |

**Source: (NCES) Private School Universe Study, 1999**

# School Programs

**Private schools actively help shape the area's educational agenda. They are a microcosm of the diversity of beliefs and varieties of education philosophies, and reflect the remarkable pluralism of options in American education. Approximately 66 percent of Hampton Roads private schools have a religious orientation, with the largest group composed of those affiliated with the Baptist church.** The diversity of private-school options in Hampton Roads is seen in the wide variety of the religious schools, including other Christian, Jewish and Islamic schools. Thirty-four percent are nonsectarian, including "independent" schools. The schools encompass different missions and different governance structures. Some are recently founded; the oldest traces its history to 1728.

It is very difficult to generalize about the programs of private schools in Hampton Roads. Suffice to say, there is more diversity and variability in the programming of private schools in Hampton Roads than in the public schools. This stands to reason, because specific private schools often were created as a means to establish alternatives to public education. Programs available for nonpublic-school students vary depending on the type of school, and from school to school. Some offer a more traditional curriculum than one currently sees in public education, while others are highly experimental. Some offer a highly competitive academic atmosphere with strong emphasis on grades and class standing, while others provide a more nurturing environment.

Technology has a significant impact on budgets, curriculum and professional-development activities. Of the schools responding to the VCPE survey, the ratio of students to computers is 8:1, and 50 percent of the classrooms have at least one Internet-connected computer. Public schools nationwide reported a 5:1 ratio of students to computers, and 77 percent of classrooms with at least one Internet-connected classroom in a 2000 technology survey conducted by NCES. Thus, the typical private school has less technology available than the typical public school. This underlines the "nonstandard" approach of private schools to K-12 education. Some deliberately choose to avoid reliance upon technology in the teaching-learning process.

According to a survey of VCPE schools in Hampton Roads, advanced placement (AP) courses are offered by 60 percent of private secondary schools, with 9.2 being the median number of courses offered. Some schools offer as many as 18 AP courses. One independent school in the region intends to offer the highly rigorous International Baccalaureate Program.

Athletics are an important part of middle and secondary school programs, and the same sports played in public schools (and sometimes others) are offered in most private secondary schools. The schools compete against each other in several private-school leagues, and on occasion they also compete against their public-school counterparts.

# Teachers

Teacher education requirements for nonpublic schools are not prescribed by the state or localities in Virginia, and may vary from school to school. However, the associations that accredit their member schools develop their own standards and the Virginia State Board of Education recognizes these standards through the school and association membership in VCPE. Thus, private schools have great flexibility in selecting their roster of teachers and are more likely than public schools to employ people with considerable experience in a specific disciplinary area (for example, music) who may not be certified to teach in a public school. Most observers view this as a plus.

The Virginia State Board of Education does offer state licensure to qualified nonpublic-school teachers, and several schools in Hampton Roads require their teachers and other professional staff to be licensed by the state. Teacher qualifications developed by accrediting associations are often similar to the state standards. Associations generally accept state licensure – in some cases with additional qualifications that must be met as well – as meeting the association's requirement for teachers in its member schools.

**Contrary to the notion that private-school teachers are paid more than their public-school counterparts, such is not usually the case. While some private schools pay their professional staffs salaries equivalent to public-school salaries, many pay significantly less.** Table 3 displays 2000 public-school teacher salary ranges in Hampton Roads cities listed by the Virginia Education Association, compared with the ranges reported by VCPE schools.

Table 4 contains faculty experience/average salary information from the VCPE survey of private schools in Hampton Roads. Two of every five private-school teachers have five or fewer years of experience and their average level of experience is 10.5 years. Their mean annual salary level is slightly less than $29,000. Thus, private-school teachers are about as experienced as public-school teachers, but (on average) earn substantially less. The VCPE survey also indicates that 40.7 percent of all private-school teachers hold a graduate degree. This is less than the comparable percentage for public schools, where salary schedules place a premium on master's degree attainment.

**Table 5 reports students-to-teacher ratios in Hampton Roads schools. In 13 of 14 cases where data are available, the ratios in private schools are smaller than those for the public schools in the same city. For example, in the region's largest school district, Virginia Beach, the private-school students-to-teacher ratio is 11.9, whereas it is 14.7 in the city's public schools. These data are consistent with the notion that small class sizes and individual student attention are among the most important reasons why parents choose to send their children to private schools.**

**TABLE 3**

**2000-2001 Public- and Private-School Teacher Salary Ranges**

| Hampton Roads Communities | | Minimum Salaries | Maximum Salaries | Average Salaries |
|---|---|---|---|---|
| Chesapeake | Public | $29,790 | $61,891 | $39,800 |
| | Private | 18,000 | 38,712 | 23,600 |
| Franklin | Public | 30,589 | 48,933 | 36,572 |
| | Private | na | na | na |
| Gloucester | Public | 28,112 | 48,893 | 35,466 |
| | Private | na | na | na |
| Hampton | Public | 29250 | 50,689 | 37,264 |
| | Private | 22,887 | 27,432 | 24,300 |
| Isle of Wight | Public | 27,815 | 53,887 | 39,481 |
| | Private | na | na | na |
| Mathews | Public | 27,515 | 40,515 | 31,713 |
| | Private | na | na | na |
| Newport News | Public | 29,178 | 56,727 | 36,753 |
| | Private | 17,900 | 48,451 | 30,400 |
| Norfolk | Public | 30,000 | 51,100 | 37,663 |
| | Private | 18,000 | 66,994 | 37,000 |
| Poquoson | Public | 26,997 | 52,804 | 39,591 |
| | Private | na | na | na |
| Portsmouth | Public | 28,877 | 61,464 | 36.599 |
| | Private | 18,500 | 24,000 | 30,900 |
| Southampton | Public | 27,800 | 49,699 | 35,201 |
| | Private | na | na | na |
| Suffolk | Public | 29,318 | 48,714 | 36,961 |
| | Private | 24,300 | 48,599 | 33,100 |
| Surry | Public | 30,000 | 51,398 | 38,738 |
| | Private | na | na | na |
| Williamsburg/ James City County | Public | 28,500 | 59,097 | 39,215 |
| | Private | na | na | na |
| Virginia Beach | Public | 29,750 | 53.910 | 40,351 |
| | Private | 21,500 | 49,356 | 29,700 |
| York | Public | 29,018 | 49,137 | 38,050 |
| | Private | na | na | na |
| Private Schools in Hampton Roads | | 17,900 | 66,994 | 28,300 |
| Public Schools in Virginia | | 23,372 | 62,993 | 40,399 |

**Source: 2001 Survey of VCPE Schools; Virginia Education Association: 2000-2001 Salary Schedules for Teachers; Virginia Department of Education 2000-2001 Teacher Salary Survey Results.**

**TABLE 4**

**2000 Private-School Experience/Salary**

| Experience | Percentage of Full-Time Teachers | Mean Salary of Teachers in the Group |
|---|---|---|
| 1-5 years | 40.9% | $24,200 |
| 6-10 years | 20.3% | $29,300 |
| 1-15 years | 13.5% | $29,800 |
| 16-20 years | 10.6% | $32,500 |
| 21 + years | 14.7% | $38,200 |

**Source: 2001 Survey of VCPE Schools**

**TABLE 5**

**Students-to-Teacher Ratios in Hampton Roads Schools**

| | Private Schools | Public Schools |
|---|---|---|
| Chesapeake | 11.4 | 15.1 |
| Franklin | 10.6 | 12.1 |
| Gloucester | 13.0 | 14.3 |
| Hampton | 11.4 | 13.9 |
| Isle of Wight | 12.5 | 14.2 |
| Mathews | — | 13.4 |
| Newport News | 12.3 | 14.8 |
| Norfolk | 9.6 | 13.7 |
| Poquoson | 7.5 | 15.3 |
| Portsmouth | 9.3 | 13.4 |
| Southampton | 12.9 | 12.7 |
| Suffolk | 9.9 | 14.2 |
| Surry | — | 12.9 |
| Virginia Beach | 11.9 | 14.7 |
| Williamsburg/James City County | 14.5 | 13.9 |
| York | 20.6 | 15.6 |

**Source: (NCES) Private School Universe Survey, 1999; 1999-2000 Salary Schedule for Teachers, Virginia Education Association, February 2000**

# Funding And Programatic Information

Studies of public perceptions of private schools indicate that the public perceives private-school students to be from financially affluent families. However, according to the report on Social and Economic Characteristics of Students released in October 1998 by the U.S. Bureau of the Census, 81 percent of K-12 students from families with annual incomes of $75,000 or more attend public schools. That is, only 19 percent of these students from more affluent families attend private schools. **Among all private-school students, less than a third are from families with incomes at or above $75,000. These data may surprise some; however, it should be remembered that private schools, especially those sponsored by *religious* denominations in large cities, tend to enroll many students who come from lower-income families.** Note that this does not necessarily imply the typical student attending an *independent* private school has a similar financial background.

Most schools provide some need-based financial aid to their students. The National Association of Independent Schools reports that member schools provided need-based aid to more than 16 percent of their students in 1999, with the average grant being over $7,000. In Hampton Roads, 90 percent of the schools responding to the survey question grant financial aid. Ten schools in Hampton Roads, which are members of the Virginia Association of Independent Schools, provided a total $3.36 million in need-based aid in the 2000-01 school year.

While school-funding formulae vary by type of school and from school to school, most private schools depend on tuition revenue to fund the bulk of school operations. Some parochial schools receive funding from the religious organizations with which they are affiliated. However, private schools are tuition-driven and hence their ability to attract and retain students is critical to their survival and prosperity. Contrast this to the typical public-school district, where the financial impact of losing a student is not as immediate, and generally is smaller in magnitude in any case.

Tuition rates vary widely in Hampton Roads private schools, as they do nationally. As Table 6 illustrates, tuition is higher in high schools than in elementary and elementary/middle schools. It also is true that tuition is generally higher in the independent schools than in the church-related schools.

**TABLE 6**

**Average Tuition Rates in Hampton Roads Private Schools, 2000-2001**

| Grades | K-3 | 4-6 | 7-8 | 9-10 | 11-12 |
|---|---|---|---|---|---|
| Rates | $4,410 | $4,840 | $5,300 | $6,120 | $6,370 |

**Source: 2001 Survey of VCPE School Hampton Roads Schools**

Some federal programs allocate funds, usually channeled through state or local governments, to nonpublic schools for specific purposes, with funding usually based on the number of students. This funding is an infinitesimal percentage of the total school budget, and some private schools will not accept the funding because of a concern that accepting any government funding, no matter how small, could lead to government involvement in the operation of the school.

While Hampton Roads has not seen the appearance of publicly funded private schools, there is a growing national tendency to do so, as reported in a draft study on accreditation being conducted by the National Association of Independent Schools:

> "Current and contemplated state actions challenge traditional relationships between the public and private educational communities. New publicly funded educational initiatives are blurring the lines between public and private schooling as, for example, states are creating magnet boarding public schools and chartering mission-driven schools deriving funding support from (both) public and private sources. Legislative bodies are expanding the scope of public oversight in education with an inevitable diminishment of the autonomy and independence granted to even nonpublic schools."

**Of course, public support of private schools, especially those sponsored by religious groups, poses significant constitutional questions. It is an issue that provokes emotional responses, not the least because that support frequently has been postulated in the form of tuition vouchers. There appears to be considerable public support, especially among minority citizens and in large cities, for some form of tuition voucher system. Such a system would help parents pay to send their children to private schools and introduce additional competition into K-12 education. However, public-teacher unions and their political confederates have come to regard this issue worthy of a fight to the bitter end.**

Private schools typically engage in a variety of fund-raising activities to provide financial and in-kind support to supplement tuition revenue and help keep the cost of tuition lower. Some schools report that as much as 15 percent of operational expenses are met by contributions realized from fund raising.

Capital improvements – specifically new construction, modernization of buildings, purchase and replacement of major equipment and maintaining endowments – are funded by capital fund-raising efforts. Tuition revenue is rarely sufficient for capital improvements, and funds are raised primarily from constituents of the school – parents, alumni, relatives and friends of the school – and from endowments. As in the case of funding for operations, some schools get money from churches or affiliated organizations, and there are private foundations and corporations that provide some resources for capital improvements. Constituents, however, provide the bulk of the resources.

**Private schools have significant impacts on the local economy. One such impact relates to the costs private schools enable taxpayers to avoid. In Hampton Roads, school divisions do not have to build, maintain and operate schools for the region's 27,430 nonpublic-school students. One way to measure the magnitude of this contribution is to examine private-school operating budgets. In 2000-01, the private schools in the region had an estimated total operating budget of more than $130 million, of which an estimated $80 million was payroll. It is reasonable to assume that taxpayers would have to bear all of these costs (or more) if no private schools existed.**

Further, 31 regional private schools reported having spent $66 million on construction and capital improvements in the past three years. And, 31 schools indicated they plan to spend $50 million on construction and capital improvements over the next three to five years. To some considerable extent, these capital expenditures would have to be financed by taxpayers were there no private schools in Hampton Roads and all private-school students began to attend public schools.

# Accountability

Accountability remains a high-interest topic in education, no less so as applied to private schools. Typically, parents invest significant time and energy in identifying and applying to a private school and back their decision with tuition checks. Hence, accountability is a daily, crucial concern for private schools. Since parents and students who are not satisfied with the school may choose to withdraw their support, private schools that are not successful in meeting the needs of their constituency fail. While nearly all private schools are nonprofit in nature, they face the same bottom-line financial test as any for-profit business. Revenue must cover expenditures, or the enterprise will fail.

Standardized tests are one means of holding schools accountable. The Standards of Learning (SOL) tests are the "high visibility" standardized test in Virginia and Hampton Roads. Virginia public schools are required by legislative mandate to administer SOL tests, but private schools do not participate in SOL testing. However, the survey of VCPE schools reveals extensive use of nationally normed standardized tests to assess the progress of students. Among those frequently used are the Educational Records Bureau Tests, the Stanford Achievement Tests, Terra Nova, Assessment of Catholic Religious Education Tests, the Metropolitan Readiness Test, Brigance, and the Iowa Tests of Basic Skills. Many schools also place emphasis upon the Preliminary Scholastic Aptitude Test, given annually throughout the country to college-bound students in October. Others focus upon the annual national language exams in Latin, French, Spanish and German. Still others encourage students to take the College Board Advanced Placement Exams. Private-school parents pay close attention to such scores and often shop around to find the school they believe is most likely to produce superior scores for their children. Shopping in response to test scores, then, is much more common in private schools than in public schools.

Accreditation by state, regional and national organizations is another way private schools are held accountable to their constituents and to the accrediting associations to which they belong. Accreditation allows schools to maintain their independence, while providing credibility and accountability by complying with demanding standards for all aspects of instruction, administration and governance. The Virginia Board of Education recognizes private schools that are accredited by one or more of the accrediting associations that are members of the Virginia Council of Private Education.

# Reasons For Choosing A Private School

**The 1999 Public Opinion Poll conducted by the National Association of Independent Schools revealed that 77 percent of the Virginia respondents rated the quality of local public schools overall as "excellent" or "good," with only 3 percent rating the quality of public schools as "poor." Similarly, the poll found that when respondents were asked about educational preferences without regard to cost or proximity, 49 percent would send their children to public schools even if the costs or proximity were not factors in deterring attendance at a private school.**

The reasons why parents and students choose private school are varied. When asked about educational preferences without regard to cost or proximity, 58 percent of the respondents in the National Public Opinion Poll indicated they would send their children to private schools. Of these, 28 percent said they would choose a parochial school, and 30 percent an independent school without religious affiliation. The principal reason for the choice of those who selected parochial options was a clear preference for attention to religious and moral issues (41 percent). The key reason cited for choosing independent schools was small classes and individual attention (35 percent). For respondents choosing public schools, the most frequently cited reason was a perceived lack of diversity at independent schools (20 percent). Twelve percent felt that independent schools do not offer education that is noticeably better than what is available at public school.

The poll highlighted different public perceptions of public and private schools. In many areas, poll respondents saw relatively little difference in the student performances generated by public and independent schools. However, there were some areas where differences in the perceptions of the two school categories were seen. Public schools were perceived as outperforming independent schools in the following areas:

- Having students from a range of cultures, races and income groups
- Having students involved in athletics and sports
- Being visible in the community
- Attending to the needs of children with learning disabilities.

On the other hand, private/independent schools were seen doing a better job in the following categories:

- Maintaining discipline
- Keeping class sizes small
- Encouraging moral and spiritual development
- Teaching values and manners
- Maintaining bonds with graduates.

The 1999 poll also revealed that the public believes the words "structured," "safe," "selective, "personalized" and "caring" are descriptive of independent schools. The words "affordable" and "diverse" were not words the public associates with independent schools.

# Looking Ahead

Respondents to the Hampton Roads Survey of Private Schools shared a panoply of concerns for the future. Leading the list in the minds of private-school leaders were funding issues: how to deal with rising operating costs and keep tuition affordable, the increasing need to rely on fund raising, and the desire to seek federal funding for textbooks and transportation. Of special concern was faculty compensation; repeatedly, the respondents cited the need for increased faculty salaries and benefits. We already have seen that the salaries of private-school faculty lag those of their public-school counterparts. Consequently, attracting and retaining excellent teachers was seen as an ongoing challenge, particularly in light of the current teacher shortage. Technology was seen as presenting additional major challenges. Finding the ways and means to support technology-driven instruction was a serious concern for most private-school leaders, though some regard technology as overemphasized and not strongly related to actual learning. The schools' desire to enroll a diverse student body was another frequently cited concern, as was improving support for special-needs students.

When all is said and done, these are concerns and challenges that differ little from those of public K-12 education. In this sense, private and public schools have much in common. Where differences do exist, they relate primarily to how these institutions choose to deal with these concerns and challenges. That is, there is much greater diversity in how private schools choose to organize their academic lives, find revenues and expend their funds. The choices that Cape Henry Collegiate in Virginia Beach or Trinity Lutheran School in Norfolk make are quite different from those made by Denbigh High School in Newport News or Dr. Hugo Owens School in Chesapeake.

**Several of the private schools in Hampton Roads were founded as a means to avoid racial integration. To some extent, this perception continues to plague the region's private schools today, even though private-school student bodies have become much more racially diverse. While this motive may still be present in some cases, the overriding reasons why parents choose private schools for their children today relate to perceptions of educational quality.** In particular, parents believe (correctly) that private-school class sizes typically are smaller than those in public schools and consequently that their children will receive more individual attention in a private school. Further, they hope their children will go to school with other children from highly motivated families. The result, they believe, will be a superior education.

From a financial standpoint, the existence of private schools enables taxpayers to avoid millions of dollars of annual expenditures upon public K-12 education. A rough approximation is $150 million to $200 million per year. In addition, private schools provide competition to public schools that presumably keeps them on their toes.

It is worth noting that early in the history of the United States, there was relatively little public K-12 education, as private schools dominated the scene. This changed dramatically early in the 19th century. Given the dissatisfaction of some with public K-12 education today, we may be witnessing a partial return to the country's private-school roots. Whether this is a good or bad development can be debated, but the winds of change are blowing, and K-12 education in Hampton Roads has not been exempt from this trend. Private and independent schools in the region likely will become increasingly attractive as more parents and students seek alternatives to public education.