

September 2005

Dear Reader:

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

Our State of the Region reports always have maintained the goal of stimulating thought and discussions that ultimately will make Hampton Roads an even better place to live. We are proud of our region's many successes, but realize it is possible to improve our performance. In order to do so, we must have accurate information about "where we are" and a sound understanding of the policy options available to us.

The 2005 report is divided into seven parts:

- **The Hampton Roads Economy Midway Through the Decade:** Our regional economy continues to perform better than the Commonwealth of Virginia and the nation. The 2000-2004 time period is the best five year time period our region has experienced since 1969. Employment increased four times as rapidly as national employment and we experienced significant job growth in scientific, technical and information technology occupations—something that has largely eluded us in the past. Defense expenditures increasingly dominate the region's economy and account for about 75 percent of all recent growth. However, the BRAC process could throw a huge wrench into this prosperity. If all BRAC recommendations, including the closure of Oceana, were adopted, and nothing took the place of these activities, then the region would lose about 2.6 percent of its jobs and a roughly equivalent amount of its gross regional product.
- **Is There a Housing Price Bubble in Hampton Roads?** While housing prices increased 40 percent in Hampton Roads (after inflation) during the past decade, most of this increase can be attributed to improved economic fundamentals such as lower interest rates, increased incomes, Department of Defense housing incentives and more cautious building policies by area developers. Hence, we do not have the kind of housing price bubble that currently exists in cities such as San Diego, San Francisco and Boston, and the state of Florida. We may face some future price adjustments, but they are not likely to be wrenching.
- **Richard Florida and the Creative Classes of Hampton Roads:** Professor Florida argues that highly mobile, creative individuals are the kingpins of modern economic growth. They are especially attracted to regions that offer diverse demographics, cultural opportunities, living styles and residential areas, as well as a tolerance of the uncommon. Hampton Roads does not fare well when measured against several of Florida's variables. However, we test his hypotheses empirically and find they have only limited validity.
- **The Wheels of Justice: Our Regional Circuit Courts:** We trace what happens to parties that enter our Circuit Court system as a plaintiff or defendant. In 2003, the nine Circuits that are wholly or partially located within Hampton Roads dealt with 81,008 cases (35 percent civil and 65 percent criminal). Large proportions of these cases are dismissed or settled before they come to trial and very few cases are heard by a jury. We examine a variety of efficiency measures relating to the region's Circuit Courts and conclude they are operating rather well.
- **Our Art Galleries and Museums: Will They Survive?** Led by the Chrysler Museum of Art, Hampton Roads is blessed with several excellent art galleries and museums. These valuable institutions, however, are struggling to maintain their collections, programs and hours because of financial strains. It's apparent that the region's decision makers have not placed a high priority on the aesthetic sensibilities of the region's citizens.
- **Unrealized Potential: High Technology in Hampton Roads:** On the face of it, Hampton Roads ought to be a technological powerhouse because of the high-level federal research facilities and defense installations located in the area, plus a higher education community of considerable size. Yet, while we can claim the second-greatest technological development of any region in the Commonwealth, we are a very distant second to Northern Virginia and have never realized our potential. Future prosperity in technology is tied to developing the modeling and simulation industry that has sprouted primarily in Suffolk, stimulating Eastern Virginia Medical School's potential in conjunction with Old Dominion University and vastly increasing support for the sciences and engineering at several institutions, but especially Old Dominion. It's not clear whether these developments will occur.

■ **The Race to the Bottom of the Bay: Boat Taxes in Hampton Roads:** Over the past decade, the region's cities and counties have diminished the taxes they assess on boats so much that in several cities (for example, Virginia Beach), boat taxes in essence no longer exist. We show that all jurisdictions in Hampton Roads have suffered due to the reduced tax revenue and that the low-tax strategy has not attracted more boats from other regions, as intended. While boat taxes are unpopular and difficult to collect, Hampton Roads appears to have shot itself in the foot.

Old Dominion University, via the president's office, and the College of Business and Public Administration, via the dean's office, continue to be generous supporters of the State of the Region report. However, the report would not appear without the vital backing of the private donors whose names are listed below. These munificent individuals believe in Hampton Roads and in the power of rational discussion to improve our circumstances. They deserve kudos for their generosity and foresight. As is the case with the university, however, they are not responsible for the views expressed in the report.

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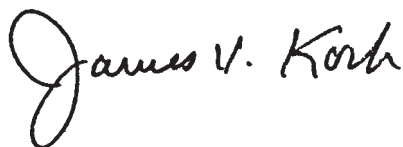
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Additional recognition is merited for Vinod Agarwal and Gilbert Yochum of the Old Dominion University Economic Forecasting Project, which Professor Yochum directs. They are hard-working, perceptive colleagues who generate superb work on a very tight time schedule, and I am indebted to them. Their penetrating analyses of the economies of the region and the Commonwealth have become legendary and now constitute the baseline by which numerous economic activities are measured.

My hope is that you, the reader, will be stimulated by this report and will use it as a vehicle to promote productive discussions about our future. Do not hesitate to contact me at jkoch@odu.edu or 757-683-3458 should you have any questions.

Note that each of the five previous State of the Region reports (2000 through 2004) may be found on the Internet at www.odu.edu/forecasting.

Sincerely,



James V. Koch
Board of Visitors Professor of Economics
and President Emeritus Old Dominion University